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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	De La Cruz/Hernandez/Gurrola	**ORIGINAL DATE**	1/28/25
SHORT TITLE	Prohibit Credit Card Fee Tip Deductions	**BILL NUMBER**	House Bill 22/ec
		ANALYST	Graeser

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Combined CIT & PIT	Up to ($20.0)	Up to ($20.0)	Up to ($20.0)	Up to ($20.0)	Up to ($20.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.

Sources of Information
LFC Files

Agency Analysis Received From
Tourism Department (TD)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)
Economic Development Department (EDD)
Department of Finance & Administration (DFA)

SUMMARY

Synopsis of House Bill 22

House Bill 22 prohibits employers of tipped employees from deducting credit card processing fees from the amount of the tips paid to the tipped employee.

This bill contains an emergency clause and would become effective immediately on signature by the governor.

FISCAL IMPLICATIONS

The provisions of this HB22 would have minimal impact on the general fund.

The federal Fair Labor Standards Act (FLSA) allows employers to deduct credit card processing fees from employee tips, but only for the tip portion, not the entire restaurant bill. The provisions of this bill would prohibit even that limited deduction.

The Taxation and Revenue Department reports $3.2 billion in gross receipts from full-service restaurants and bars between October 1, 2023, and September 31, 2024. The fiscal impact of this bill assumes 14 percent of this $3.2 billion is from credit card tips.

If 20 percent of tips are reduced for processing fees and the average credit card processing fee is 3.5 percent, then restaurant profits would decrease by about $3 million annually and tipped worker's income would increase by the same amount. Many restaurants are organized as LLC pass-through entities. Marginal tax rates, either personal income tax (PIT) or corporate income tax (CIT) average about 5.4 percent, while average server's income tax marginal rate averages about 4.7 percent. The net impact of this proposal will be no more than an annual $20 thousand decrease to general fund revenues.

This change is approximately a shift of $17 a week for servers whose employers are currently deducting credit card fees from employee tips.

SIGNIFICANT ISSUES

California, Maine, and Massachusetts prohibit processing fee deductions from tips.

Inflation since 2020 has caused most restaurant costs to rise far faster than their prices or net income. Many restaurants use cost-reducing strategies such as cutting hours rather than laying off servers and kitchen staff. Deducting credit card fees from employee tips is a small added strategy used by some employers to help control costs.

LG/hj/SL2