



Employment Law Note

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Seattle Adopts New Uniform Minimum Wage Rate



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Effective January 1, 2025, Seattle will raise its minimum wage to \$20.76 per hour for all employers. Additionally, as of the same date, small businesses will no longer be able to make up any part of the minimum wage with customer tips or payments toward medical benefits for their employees. The new minimum wage will serve as a significant increase, particularly for small businesses who previously relied on the tip or medical expense credit and therefore paid a lower minimum wage. Seattle has the highest minimum wage of any major city in the United States. The new ordinance ensures that Seattle will continue to have one of the highest minimum wages in the country in 2025.

Background

Seattle's current minimum wage rate for employers with more than 500 employees is \$19.97 per hour. This rate also applies to businesses with fewer than 500 employees where the business does not pay the equivalent of at least \$2.76 an hour in medical benefits or where the employee does not earn an average of at least \$2.76 an hour in tips. Businesses with fewer than 500 employees that pay employees the equivalent of \$2.76 an hour in benefits, or where the employee receives the same rate in tips ("tip credit"), pay a smaller minimum wage rate of \$17.75 per hour.

The tip credit, which has been in effect since 2014, ensured that many small businesses in Seattle could pay a lower minimum wage than their larger counterparts. This tip credit especially aided restaurants where a significant number of employees earn tips as part of their compensation. The tip credit also ensured smaller businesses could operate in Seattle by ensuring the minimum wage did not put too much pressure on these companies that may otherwise buckle under the high

costs of doing business in the City. In contrast, Washington State law does not allow employers to use a tip credit to calculate wages, but local ordinances may circumvent the ban as long as businesses still comply with State minimum wage requirements (currently set at \$16.28 per hour). Seattle's two-tiered minimum wage system, however, is now coming to an end. Mayor Bruce Harrell and the Seattle Office of Labor Standards (OLS) have announced their intention to allow the tip credit to expire at the beginning of 2025.

The New Minimum Wage

On January 1, 2025, *all* employers are subject to the same minimum wage rate of \$20.76 per hour for all employees working within city limits. The number of employees and whether an employee earns tips will no longer be factors in what minimum wage rate an employer must satisfy. For businesses that previously benefitted from the tip credit, the change will equal a minimum wage increase of \$3.01 an hour. Such an increase far exceeds the more modest statewide thirty-eight-cent increase in 2025—from \$16.28 to \$16.66 per hour. Meanwhile, the federal minimum wage has remained constant at \$7.25 an hour since 2009.

State and local restaurant industries have lobbied to "re-up" the tip credit, but lawmakers in Seattle have not yielded. This marks a departure from what is happening across the country. Although several cities, such as Chicago and Washington DC, will also phase out similar tip credits, lobby groups succeeded in many cities and towns to keep some form of a tip credit intact.

Reason for the Change

Seattle was one of the first cities in the country to adopt a \$15.00 minimum wage in 2014. The goal was that all employees would be paid \$15.00 per hour adjusted for inflation. Aside from helping small businesses deal with

increasing costs, the tip credit and medical expense reduction existed to give small employers more time to prepare for the higher minimum wage rate that their larger counterparts already paid. But it was always meant to be temporary. Effective January 1, 2025, the “phase-in” period will conclude.

Bracing for the New Rate

Mayor Harrell, who played a vital role in developing Seattle’s minimum wage legislation over the last decade, labeled the change a positive for “wage fairness” but also acknowledged the challenges small businesses in the City will face. The mayor promised to pursue different avenues to relieve the pressures that will face small businesses moving forward. In a statement issued on October 4 regarding the 2025 minimum wage increase, Mayor Harrell expressed that his office is “committed to aggressively addressing many of the pressures facing small restaurants moving forward – from public safety to inflation, insurance, and a wide array of other cost pressures, including best practices in addressing the absence of a tip credit.”

What Employers Need to Know

The new rule will have far-reaching implications for businesses, especially small businesses, who operate in Seattle. There are important steps employers can take to ease the shock of the higher minimum wage rate that goes into effect next year.

1. Do not wait. Make sure all internal payment systems and databases are ready before the new year. There will be no grace period and failing to timely pay employees all wages owed can lead to expensive fines and litigation. The new law will also

affect pay for overtime and voluntarily skipped meal breaks.

2. Ensure employee handbooks are updated with a procedure for employees to follow if they believe they have not received all owed wages.
3. Ensure that if a business operates in Seattle, its Seattle-based employees satisfy the City’s minimum wage requirement. Employees fall under this law even if the employer is headquartered elsewhere. As there is a federal minimum wage, state minimum wage, and local minimum wage, mistakes can happen when trying to ensure employees are paid all owed wages. If an employee works in Seattle, the employee falls under Seattle’s wage ordinance and is entitled to the new \$20.76 per hour minimum wage.
4. Utilize the OLS telephone service or email address, which provides businesses with free with assistance in complying with the new ordinance.

Businesses can avoid wage-related litigation by understanding city and state compensation requirements and how the different rules affect them. Employers outside Seattle city limits can look forward to increased labor costs as well. For example, unincorporated King County passed a new ordinance in May of this year increasing the minimum wage to \$20.29 per hour effective January 1, 2025, with a phase-in period for certain employers. Although Seattle lawmakers have promised future relief, they have made clear they will not try to halt the minimum wage increase next year.

Employers with questions about Seattle’s new minimum wage rate or other wage and hour questions should call Matt Coughlan at 425-460-2292 or email him at mcoughlan@sbj.law.

For more information about this month’s Employment Law Note contact us at 425-454-4233

