



419 Occidental Ave. S.
Suite 206
Seattle, WA 98104
206.625.9790 x11
www.budgetandpolicy.org

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New Federal Estate Tax Bill Would Lower the Washington Minimum Wage for Many Workers

The Facts:

- Tipped workers would see their wages decrease by up to \$5 an hour
- Nearly a trillion dollars in federal revenue would be lost by the estate tax cut
- Fewer than 250 estates in Washington state would be taxed under current law
- Federal Government would restrict States ability to set minimum wage policy

Introduction

It has been ten years this month since the last time Congress passed a federal minimum wage increase, despite perennial proposals to do so. The result is that the purchasing power of a minimum wage paycheck has fallen by 20 percent. Last week the House of Representatives passed a minimum wage increase and this week the Senate is expected to vote as well. However, rather than the simple two-page bill to raise wages for working families that has been proposed in the past, the current minimum wage proposal is being used as a sweetener to encourage votes for dismantling the federal estate tax. In other words, a vote to raise the minimum wage is a vote to cut taxes for the wealthiest Americans at significant cost to the federal deficit.

This so-called sweetener has a sour taste for many workers in Washington and six other states. The bill contains an addition that would actually reduce wages for workers who rely on tips.

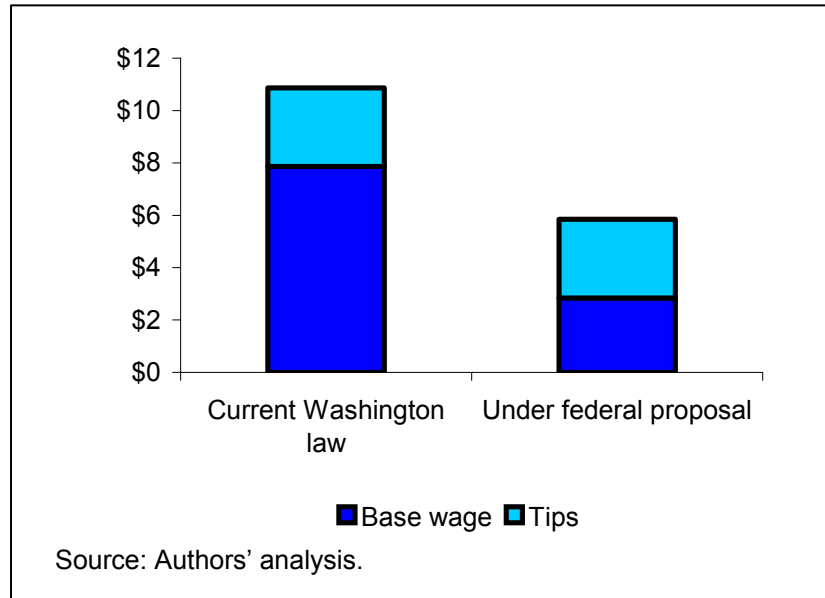
The sour sweetener

Washington state voters overwhelmingly passed a groundbreaking minimum wage law in 1998, a move that kicked off a nationwide movement to raise state minimum wages. The key provision of the initiative provided modest annual adjustments to the minimum rate in order to keep up with the rising cost of living.

The Washington law also requires employers to pay their employees the full minimum wage regardless of gratuities paid by customers wanting to recognize excellent service. This differs from the federal law, which allows employers to pay as little as \$2.13 as long as the employee receives enough money in tips to reach the federal minimum wage of \$5.15.

Under the estate tax/minimum wage bill before the senate this week, Washington state would no longer be allowed to enforce this provision. The employer's minimum

**Figure 1:
Federal estate tax bill would lower hourly earnings of some
Washington workers by over \$5.00**



obligation for workers receiving tips would fall from the Washington minimum to \$2.13, a reduction of over \$5 dollars. In addition, because of language in the bill, the total wage required for tipped employees would fall to the federal rate (\$5.85 in 2007, instead of an estimated \$7.86 under the state law).

Figure 1 shows the result of this law for a Washington worker earning \$3.00 an hour in tips in 2007. This worker's hourly earnings would fall from \$10.86 to \$5.85. Because the state minimum wage is already higher than the federal proposal, no Washington workers' wages will rise as result of this bill.

This proposal would mark the first time the federal government has acted to restrict state minimum wage policies, rather than establish a minimum upon which states can build according to local needs.

The aftertaste

While a federal minimum wage increase is long overdue, it does not need to come at the cost of the federal estate tax. The estate tax proposal under consideration would cut the taxes of only about 8,000 beneficiaries, who would receive an average of \$1.3

million.¹ The Washington state Department of Revenue estimates that fewer than 250 estates will be taxed federally under the current law. This tax break to the nation's wealthiest heirs would come with a trillion dollar price tag over the first ten full years of implementation.²

Endnotes:

¹ Friedman, Joel, and Aviva Aron-Dine, Comparing the House Minimum Wage and Estate Tax Proposals: Who Benefits and By How Much?, August 1, 2006, Center on Budget and Policy Priorities.

² Friedman, Joel, and Aviva Aron-Dine, House Estate Tax Proposal Has Essentially the Same Large Long-Term Cost as Earlier Version, July 28, 2006, Center on Budget and Policy Priorities.