



FAQ

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By law, employees must be paid a minimum hourly wage for every 7-day workweek. If an employee's adjusted hourly rate is less than the minimum wage, the difference must be made up in tips.

The formula used to determine this (assuming minimum wage is \$5.85/hr) is: **$((\text{Regular Hourly Rate} * \text{Shift Hours}) + \text{Service Charges} + \text{Total Tips Received}) / \text{Shift Hours} = \5.85** an hour.

For example, a server gets paid a base hourly rate (a cash wage) of \$2.13, has \$25 in service charges and works 40 hours in a week. To make an effective rate of \$5.85 an hour, that server must receive at least \$123.80 in tips for the week.

Using the formula above, this comes out to: **$((\$2.13 * 40) + \$25 + \$123.80) / 40 = \5.85** an hour.

If a tipped employee does not earn enough tips to bring his rate up to the minimum wage, Compeat Labor automatically adjusts his hourly rate.

Using the example above again, suppose the server only made \$100 in tips that week. That would mean the effective hourly rate was: $((\$2.13 * 40) + \$25 + \$100) / 40 = \5.26 an hour.

Since \$5.26 is below the minimum wage, Compeat Labor would adjust the hourly rate for that week.

To determine the rate needed to bring an employee up to minimum wage, Labor uses this formula: **$((\text{Minimum Wage} * \text{Hours Worked}) - \text{Service Charges} - \text{Total Tips Received}) / \text{Hours Worked} = \text{New Rate}$** or, for this example, $((\$5.85 * 40) - \$25 - \$100) / 40 = \2.73 an hour.

With this new rate, the employee earns $((\$2.73 * 40) + \$25 + \$100) / 40 = \5.85 an hour.

It is important to note that this calculation is made on a weekly basis. If you pay your hourly employees bi-weekly, it is entirely possible that a server may need a sub-minimum wage adjustment for the first week, but not for the second.

This also means you should be careful to enter the tips and service charges your employees receive in the week that they earn them. If you have bi-weekly pay periods and you enter all tips on the last day of the period, Compeat Labor assumes they received no tips in the first week. This would cause all tipped employees to have their hourly rate adjusted to the entity's minimum wage for the first week.

Compeat Labor determines the weekly periods by looking at the *First Day of Week* established in the Labor Definitions record for the entity and counts in 7-day increments.

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yes

no

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