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BILL ANALYSIS

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Senate Bill 8 (as reported without amendment)
Sponsor: Senator Kevin Hertel
Committee: Regulatory Affairs

CONTENT

The bill would amend the Improved Workforce Opportunity Wage Act to prescribe annual minimum wage rates for employees in the State. Generally, the Act prescribes minimum hourly wage rates in the State and requires the State Treasurer to annually adjust the rates by the rate of inflation. Beginning in 2019, the Act prescribes a minimum hourly wage rate of $10 that increases every year to a rate of $12 in 2022. Under the bill, the minimum wage would increase annually, reaching $15 by 2027.

For service employees that receive tips, the Act reduces its minimum hourly wage rates by specified percentages, such as 48% of the minimum hourly wage rate established in 2019 and increasing every year until 2024, when it reaches 100%. The bill would increase the percentage by a smaller rate every year, reaching 60% of the minimum hourly wage by 2035.

MCL 408.934 et al.

BRIEF RATIONALE

In 2017, the One Fair Wage Michigan coalition began a petition drive to initiate the Improved Workforce Opportunity Wage Act. The proposed legislation increased the State's minimum wage each year. The Legislature adopted the Act as Public Act (PA) 337 of 2018 and then enacted PA 368 of 2018, which amended the Act to increase the minimum wage over a longer period of time and at a lower rate. According to testimony, the Legislature's actions in 2018 circumvented the State Constitution's petition process. Some believe that the petition should have been put before the residents of the State for a vote, instead of being enacted and then amended. Accordingly, it was suggested that the Act be amended to align with the petition's original language.

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill likely would increase State and local revenue by an unknown and likely minimal amount beginning in Fiscal Year 2025-26, depending on the number of affected employees and the number of hours they work.

Under the terms of the MSC's ruling in *Mothering Justice v. Nessel*, ___ Mich ___ (2024) (No. SC 165325), Michigan's minimum wage will increase from $10.56 per hour to $12.48 per hour, effective February 21, 2025. Subsequent changes will occur every February 21 in later years, raising the minimum hourly wage rate to $13.29 in 2026, $14.16 in 2027, and $14.97 in 2028. After the 2028 increase, the hourly minimum wage will continue to increase based on inflation.

The bill would implement a new progression for the minimum wage, keeping the 2025 changes, but raising the minimum hourly wage every January 1 thereafter to levels higher than would occur under the Court ruling, with the wage rising to $13.73 in 2026, $15.00 in 2027, and adjusting for inflation beginning in 2028. The bill's fiscal impact would reflect the differences between the rates under the Court decision (as opposed to the current minimum wage) and those created under the bill.

The number of employees affected by the bill likely would be relatively small and remain so even as the minimum hourly wage rate rose in future years. The Federal minimum wage is currently $7.25 per hour and, in 2023, the Bureau of Labor Statistics (BLS) reported that approximately 1% of workers paid at hourly rates (about 60% of all wage and salary employment), were paid less than the Federal minimum wage. The BLS also reports that for Michigan, the 10th percentile for wages in 2023 (the level where only 10% of workers made less) was $13.88 per hour. Without accounting for any wage gains since 2023, these figures suggest a small percentage of hourly workers make less than the current Michigan minimum wage (including those who are exempt from minimum wage provisions) and that relatively few employees would be affected by the bill.

Higher wages would increase State income tax revenue and, to the degree some of the increased earnings were spent on taxable items, sales tax revenue; however, any revenue increases would be minimal and indistinguishable from the normal variation that occurs in revenue collections. Under the bill, a worker affected by minimum wage provisions would make approximately 44 cents per hour more in 2026, and 84 cents per hour more in 2027. If such a worker averaged 40 hours per week, the maximum increase in the worker's income tax liability would be $39 in 2026 and $74 in 2027. As such, the total change in individual income tax revenue would be less than 0.1%, and to the extent hourly workers that work less than 40 hours per week or a meaningful number of low-wage hourly employees were exempt from the provisions of the bill, the revenue impact would be even less. Similarly, given that less than 40% of personal income is spent on items subject to sales and use taxes, any revenue impact on sales and use taxes would be even less than the impact on income taxes. For local units that levy income taxes, the bill would have similar relative impacts, although local income tax rates are less than the State's tax rate.

The bill could affect business income tax liabilities, although between the increased number of factors that affect business tax liabilities, the minimal impact the bill likely would have on workers' income taxes, and the relative size of business tax liabilities relative to personal income tax liabilities would suggest any change in business tax liabilities would be negligible.

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