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Congress has passed the first increase in the federal minimum wage in a decade. Beginning in July, the minimum wage will increase in stages to \$7.25 over the next two years.

First Minimum Wage Increase in a Decade Signed Into Law

By Joseph P. Harkins and Katherine E. Bierma Pregel

Legislation providing the first increase in a decade in the federal minimum wage was passed by Congress on May 24, 2007. It was signed into law by President George W. Bush on May 25.

As a result, the current minimum wage of \$5.15 per hour will increase to \$7.25 in three steps over two years. The first increase, to \$5.85 per hour, will take effect 60 days after enactment (July 24, 2007). The minimum wage will increase again to \$6.55 per hour a year later (July 24, 2008), with the final increase occurring two years after enactment (July 24, 2009).

Since the last minimum wage increase in 1997, the effects of inflation have reduced the value of the minimum wage to its lowest level in half a century. According to the Bureau of Labor Statistics, approximately 1.7 million employees, or 2 percent of the nation's hourly workforce, earned no more than the minimum wage in 2006. Almost 75 percent of those employees were employed in food preparation or other service occupations. A full-time minimum wage earner makes \$10,712 per year, which is below the current poverty line for a family of three. However, many minimum wage earners live in households with other employed family members. The increase to \$7.25 will boost such an earner's annual income to over \$15,000.

Supporters of the new law estimate that 10 percent of the workforce will receive an increase in their hourly wage rate due to the increase in the minimum wage, including the four percent of employees who currently earn less than \$7.25 per hour. The other six percent earning slightly above the new minimum are expected to benefit from an increase due

to "spillover effects" of the change.

Opponents of the measure have predicted that the increase will lead to layoffs and stalled hiring, citing the effects of previous increases. For example, the restaurant industry asserts that the last minimum wage increase led to a reduction of almost 150,000 jobs in the industry and postponed the hiring of more than 100,000 additional workers.

The law marks a success for congressional Democrats who promised the increase during last November's elections. The increase in the minimum wage is the first major Democratic campaign pledge to be signed into law.

Although the measure had been the subject of heated partisan bickering for months, it passed into law with little fanfare as Congress headed off for a Memorial Day recess. The bill passed the House of Representatives 348-73 and the Senate 80-14. Republican leaders, small business owners and the restaurant industry had opposed the measure due to concerns that the wage increase would force small businesses and restaurants to raise prices, lay off employees, and limit hiring and benefits. To address these issues, Republicans sought significant tax cuts for small businesses. Democrats opposed such tax breaks, but ultimately broke the deadlock by attaching the bill to the Republicans' must-pass Iraq war appropriation. As passed, the law includes a compromise tax cut package for small businesses, including specific breaks for restaurants.

In total, the final law includes \$4.84 billion in tax relief over ten years. More than half of these breaks will pay for an expansion of a tax credit program for employers that hire

employees from certain targeted groups, such as former welfare recipients and at-risk youths. The law also raises the amount that small businesses may deduct for equipment purchases to \$125,000. Finally, the measure includes tax incentives for rebuilding areas affected by Hurricane Katrina.

Democratic Rep. Charles Rangel of New York, chairman of the House Ways and Means Committee, described the final bill as a “responsible package that provides the first wage increase in a decade and targets tax relief to small businesses.” President Bush signed the law, despite the White House’s contention that it was “not sufficiently focused on the economic concerns of small businesses who will be most negatively affected by the minimum-wage hike.” The macroeconomic effect of the minimum wage increase in a generally strong economy with a historically low unemployment rate remains to be seen.

In the meantime, employers need to coordinate with payroll managers and providers for the July increase for minimum wage employees, check state law minimum wages, which may be higher or may increase if tied to the federal minimum wage, and study the tax benefits of the legislation for applicability to their businesses.

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