

Employer Cost Comparison

There are multiple State and Federal taxes and fees employers must pay, which are based upon the amount of an employee's wages. These include:

- **Federal Unemployment (FUTA):** The Department of Labor oversees state programs that provide unemployment benefits to workers who become unemployed because of an incident out of their control. FUTA is 3% on the first \$7,000 of an employee's wages.
- **California Unemployment (SUTA):** A state-sponsored insurance program, provides benefits to unemployed workers, the disabled, and those on paid family leave. Range is 1.5 – 8.2 % on the first \$7,000 depending on various factors. 4% used in calculations below.
- **California Employment Training Tax (ETT):** Provides funds to train employees in targeted industries. Employers must pay 0.1% on the first \$7,000.
- **Social Security (SS):** is a federal insurance program that provides benefits to retired employees and the disabled. Employers must pay 6.2 % of taxable wages on the first 132,900.
- **Medicare (MED):** is a federal system of health insurance for people over 65 and younger people with disabilities. Employers must pay 1.45 % on all of an employee's wages.

When these required taxes and costs are added to the base hourly rate, a one dollar increase in the hourly rate equates to approximately \$1.77 – \$2.21 an hour more on a business's cost structure.

| Pay Rate | Hours per Week | Gross Pay | FUTA | SUTA | ETT | SS | Med | Gross Pay + Required Taxes | Actual Cost per hour |
|----------|----------------|-----------|---------|---------|--------|---------|--------|----------------------------|----------------------|
| \$12.00 | 40 | \$480.00 | \$14.40 | \$19.20 | \$0.48 | \$29.76 | \$6.96 | \$550.80 | \$13.77 |
| \$13.00 | 40 | \$520.00 | \$15.60 | \$20.80 | \$0.52 | \$32.24 | \$7.54 | \$596.70 | \$14.92 |
| \$15.00 | 40 | \$600.00 | \$18.00 | \$24.00 | \$0.60 | \$37.20 | \$8.70 | \$688.50 | \$17.21 |

The table below provides an overview of a typical small to medium size restaurant with an average employee count of 13 full time employees and the costs associated with the increase in minimum wage from \$12.00 per hour to \$15.00 per hour. There is a 25% increase that occurs for the \$3.00 an hour increase in gross pay to the employee.

| Gross Pay Rate | Gross Pay + Required Taxes | Employees Count | Hours per Week | Total Weekly Cost | Total Yearly Cost | % increase |
|----------------|----------------------------|-----------------|----------------|-------------------|-------------------|------------|
| \$12.00 | \$13.77 | 13 | 40 | \$7160.40 | \$373,340.80 | |
| \$15.00 | \$17.21 | 13 | 40 | \$8,949.20 | \$465,358.40 | 25% |

The table below provides two calculations for a business that has to now pay the required \$15.00 but is looking to hold costs of employees at the \$12.00 rate due to not being able to increase prices for customers.

| Yearly Cost | Weekly Cost | Gross Pay + Required Taxes/hr. | Weekly Cost/Pay = Available Hours | Hours per Employee/Week | Number of Employees |
|--------------|-------------|--------------------------------|-----------------------------------|-------------------------|---------------------|
| \$372,340.80 | \$7160.40 | \$17.21 | 416 hours | 40 hours | 10 Employees |
| \$372,340.80 | \$7160.40 | \$17.21 | 416 hours | 32 hours | 13 employees |

If the business is holding labor costs at a constant, then the business must either reduce the number of full-time employees that they have from 13 to 10 or reduce the number of hours the 13 employees have from 40 to 32. In the case of reduced hours, while employees are earning \$15.00 per hour, they would see their paycheck reduced from \$952.60 to \$786.69 due to the reduction in the number of hours worked per pay period. This new amount is a small increase over the paycheck amount of \$772.72 they were previously bringing home when they were paid \$12.00 an hour at 40 hours per week.