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CPAS & ADVISORS



Navigating Changes in Michigan's Minimum Wage and Sick Time Regulations

PREPARE FOR 2025: A GUIDE FOR EMPLOYERS

LET'S THRIVE



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REV. 10/2024

NAVIGATING THE REINSTATED LAWS

The Michigan Supreme Court's decision on July 1, 2024, to fully restore the state's original minimum wage and paid sick leave laws marks a pivotal moment for workers and employers alike. This decision, stemming from the case of *Mothering Justice v. Attorney General*, overturns the legislature's previous amendments and restores the Improved Workforce Opportunity Wage Act (IWOWA) and the Earned Sick Time Act (ESTA) to their initial forms.

Effective February 21, 2025, the reinstated laws will significantly increase the minimum wage and expand paid sick leave benefits, impacting nearly all Michigan employers.

For businesses and organizations, this ruling necessitates substantial adjustments in payroll, budgeting, and human resources policies to comply with the new standards. While the changes aim to enhance worker protections and benefits, they also present challenges for employers who must navigate the increased financial and administrative burdens.

Yeo & Yeo has developed this comprehensive guide to assist employers in navigating the reinstated Michigan minimum wage and paid sick leave laws, helping to ensure understanding of the rules and compliance with the new regulations.

Yeo & Yeo continues to follow the developments of these new rulings and will update this guide as new information becomes available.



Michigan Salary & Minimum Wage Ruling

The U.S. Department of Labor final rule (*Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales, and Computer Employees*) took effect on July 1, 2024. **On January 1, 2025, the rule's new methodology takes effect, resulting in additional increase.**

DO YOU HAVE EXEMPT SALARY EMPLOYEES?

New salary thresholds are determined by the Federal Department of Labor (DOL) Wage and Hour Division (WHD).

For exempt employees to remain exempt from overtime, all three of the following criteria must be met:

1. Salary basis test (**no change**): Be paid a salary, meaning that they are paid a predetermined and fixed amount that is not subject to reduction because of variations in the quality or quantity of work performed; and
2. Duties test (**no change**): Primarily perform executive, administrative, or professional duties; and
3. Salary level test (**change**): Be paid at least a specified weekly salary.
 - On January 1, 2025, the salary level will rise from \$844 per week to \$1,128 (equivalent to \$58,656 per year). Highly compensated employees will increase from \$132,964 to \$151,164.
 - Future updates to the salary levels will occur every three years. The next three-year update will take place on July 1, 2027.
 - Non-discretionary bonuses and incentive payments (including commissions) can be used up to 10% of the standard salary test requirements. Such payments cannot be used to satisfy the weekly standard salary level portion of the highly compensated test.



Impact

Employers have a range of options for responding to the updated thresholds established in this rule. For each employee who is affected by the increased earnings threshold, an employer may use one or some combination the possible options below.

Salary Increase: Increase the salary of the employee to at least the new salary level to retain their exempt status: more likely an option if an employee regularly works more than 40 hours per week and earns slightly below the new salary level.

OT Premium Pay: Pay an overtime premium of one-and-a-half times the employee's regular rate of pay for any overtime hours worked: change employee to non-exempt status for employees who rarely work overtime hours.

OT Reduction: Reduce or eliminate overtime hours: leave current salary and change employee to nonexempt status.

Pay Reduction: Reduce the amount of pay allocated to the employee's base salary (provided that the employee still earns at least the applicable hourly minimum wage) to offset new overtime pay.

For example:

An exempt employee currently receives a salary of **\$45,000** (works an average of 45 hours a week for 52 weeks = 2,340):

\$18.25 per hour x 2080 hours = \$37,960
\$27.38 OVT per hour x 260 hours = \$7,119
Annual income = **\$45,079**



Resources

Federal Department of Labor

- The WHD toll-free information and helpline at: 1-866-4US-WAGE (1-866-487-9243)
- Visit the WHD homepages at: <https://www.dol.gov/agencies/whd/overtime/rulemaking/faqs>

Yeo & Yeo Can Help

- **Employee Assessment:** Evaluate current employees to determine if any meet the exempt requirements and develop/update job descriptions
- **Impact Analysis:** Analyze cost and impact to increase wages
- **Operational Issue Identification:** Determine if there will be operational issues if you reduce hours worked by non-exempt salary
- **Notice to Employees:** We can help develop a plan to notify affected employees and address wage compression.
- **Time Clock System:** We can help implement a time clock system



DO YOU HAVE MICHIGAN HOURLY EMPLOYEES?

Effective January 1 through February, 20, 2025

- The minimum hourly wage will increase from \$10.33 to \$10.56 per hour.
- The 85% rate for minors under the age of 18 will increase from \$8.78 to \$8.98 per hour.
- The tipped employee rate of hourly pay increases from \$3.93 to \$4.01 per hour.



Minimum Wage Increase Schedule Effective February 21, 2025

Effective February 21, 2025, the minimum hourly wage will increase to \$12.48. Thereafter, the State Treasurer is to identify the amounts based on inflation adjustments, using July 31, 2024, as the endpoint for that calculation.

Adjustment Year	Minimum Hourly Wage Rate
February 21, 2025	\$12.48 plus inflation adjustment
February 21, 2026	\$13.29 plus inflation adjustment
February 21, 2027	\$14.16 plus inflation adjustment
February 21, 2028	\$14.97 plus inflation adjustment
February 21, 2029	State treasurer shall calculate the inflation adjusted minimum wage as set forth in 2018 PA 337, § 4(2)

Next three-year update will take place on July 1, 2027

Impact

- Increased operating costs due to higher payroll expenses
- Possible pricing adjustments to offset higher expenses
- Staffing strategies to manage costs
- Employee retention and recruitment
- Improving operation efficiencies can help to mitigate impact
- Wage compression: Existing employees might expect wage increases to maintain pay differentials, leading to further payroll adjustments.

Resources

- LEO: <https://www.michigan.gov/leo/bureaus-agencies/ber/wage-and-hour/min-wage>
- The LEO toll-free information and helpline at: 1-855-4MI-WAGE (1-855-464-9243)

Yeo & Yeo Can Help

- **Impact Analysis:** Calculate increased labor costs and budget adjustments.
- **Business Strategy and Planning:** Help identify areas where costs can be reduced to offset higher wages. Advise on potential price adjustments for products or services to maintain profitability.
- **Cash Flow Management:** Provide cash flow forecasts or suggest strategies to maintain liquidity.
- **Notice to Employees:** We can help develop a plan to notify affected employees and address wage compression.



ARE YOU A RESTAURANT OWNER?

The Michigan Supreme Court's reinstatement of the original minimum wage laws, effective February 21, 2025, will significantly impact restaurant owners, particularly regarding tipped workers. The ruling phases out the lower tipped wage, requiring restaurant owners to pay all employees the full minimum wage.



Minimum Wage Increases and Tip Credit Phase-out Schedule Effective February 21, 2025

Effective February 21, 2025, the minimum hourly wage will increase to \$12.48. Thereafter, the State Treasurer is to identify the amounts based on inflation adjustments, using July 31, 2024, as the endpoint for that calculation.

Adjustment Year	Minimum Hourly Wage Rate	Tip Credit
February 21, 2025	\$12.48 plus inflation adjustment	48% of minimum wage
February 21, 2026	\$13.29 plus inflation adjustment	60% of minimum wage
February 21, 2027	\$14.16 plus inflation adjustment	70% of minimum wage
February 21, 2028	\$14.97 plus inflation adjustment	80% of minimum wage
February 21, 2029	State treasurer shall calculate the inflation adjusted minimum wage as set forth in 2018 PA 337, § 4(2)	Tip credit will no longer exist
<i>Next three-year update will take place on July 1, 2027</i>		

Impact

- **Increased labor costs:** Wage increase will cause higher payroll expenses and potentially impact profitability.
- **Menu pricing adjustments:** Higher menu prices can help offset increased labor costs but could affect customer demand and competitiveness and could lead to customer dissatisfaction.
- **Staffing adjustments:** Reduction of hours could impact service and employee morale. Investment in automation and technology to reduce reliance on manual labor might become more attractive.
- **Wage compression:** Existing employees might expect wage increases to maintain pay differentials, leading to further payroll adjustments.

Yeo & Yeo Can Help

- **Financial Impact Analysis:** Calculate increased labor costs and budget adjustments.
- **Business Strategy and Planning:** Help identify areas where costs can be reduced to offset higher wages. Advise on potential price adjustments for products or services to maintain profitability.
- **Cash Flow Management:** Provide cash flow forecasts or suggest strategies to maintain liquidity.
- **Notice to Employees:** We can help develop a plan to notify affected employees and address wage compression.



Michigan Earned Sick Time Act (ESTA)

The new mandate for the Michigan Earned Sick Time Act (ESTA), effective February 21, 2025, requires all employers in Michigan to provide paid sick time to all employees, regardless of their employment status (full-time, part-time, seasonal, or temporary). **By this date, all covered employers must either amend their existing paid leave policies or implement new ones to comply with the ESTA.**

ARE YOU AN EMPLOYER WITH MICHIGAN EMPLOYEES?

Employers must provide paid leave based on the number of employees and for specific purposes under ESTA guidelines.

<p>All employers</p>	<p>Person, firm, business, educational institution, nonprofit agency, corporation, LLC government entity that employees 1 or more individuals. <i>Exceptions:</i></p> <ul style="list-style-type: none"> • Employees that are employed directly by the federal government such as a postal worker • Employees who work outside of Michigan • Independent contractors/vendors
<p>All employees</p>	<p>Part-time, full-time, exempt, salary, seasonal, variable hour, household employees, union workers, minors</p>
<p>Employees can use sick time for any of these qualifying reasons:</p>	<ul style="list-style-type: none"> • Mental or physical illness or injury of employee or employee's family member • Medical diagnosis or treatment of illness or injury of employee or employee's family member • Preventative medical care of employee or employee's family member • Matters arising from employee or employee's family member being a victim of domestic violence or sexual assault • If employee's place of business is closed due a public health emergency • If employee's child's school or place of care is closed due to public health emergency and employee needs to care for child • If public official of healthcare provider determines that the health of others may be jeopardized because of employee or employee's family member's exposure to a communicable disease • Meetings at child's school or place of care related to child's health or disability, or the effects of domestic violence or sexual assault on child
<p>Employees can use for any of these people:</p>	<ul style="list-style-type: none"> • Child (biological, step, foster, legal ward, in loco parentis, child of domestic partner) • Grandchild • Spouse or Domestic partner • Parent (biological, foster, step, adoptive, legal guardian) • Grandparent • Sibling (biological, foster, adopted, step-sibling) • Any other individual related by blood or affinity whose close association with employee is equivalent to a family relationship



ACCRUING RULES BASED ON WORKFORCE SIZE

There are specific accruing rules based on the size of employer. To get the employee count:

- 10 or more employees in the last 20 weeks or in the prior year.
- The 20 workweeks need not be consecutive
- Once an employer meets the 10 or more employee threshold, the employer remains covered through the remainder of the current and following calendar year

Are you an employer with 1 to 9 employees?

- Must provide one (1) hour for every 30 hours worked. To begin accruing immediately upon start. No accrual/carry over limits (only usage limits).
- Employees are allowed to use up to 40 paid sick hours (to the extent leave is accrued), plus 32 hours of unpaid sick time, per benefit year.
- There can be a 90-day waiting period for new hires to start USING their bank.
- If an employee terminates, no payout of bank.
- If an employee terminates and is re-hired within six months, they begin accruing at re-hire AND accrued hours in their bank when they left needs to be restored.
- Employees can use in smallest increments that your payroll system allows, but not greater than one hour.

Are you an employer with 10 or more employees?

- Must provide one (1) hour for every 30 hours worked. To begin accruing immediately upon start. No accrual/carry over limits (only usage limits).
- Employees are allowed to use up to 72 paid sick hours (to the extent leave is accrued), per benefit year.
- There can be a 90-day waiting period for new hires to start USING their bank.
- If an employee terminates, no payout of bank.
- If an employee terminates and is re-hired within six months, they begin accruing at re-hire AND accrued hours in their bank when they left needs to be restored.
- Employees can use in smallest increments that your payroll system allows, but not greater than one hour.

WHAT YOU CAN AND CAN'T DO

- Can't ask for documentation before three (3) consecutive days have passed.
- Must pay any out-of-pocket costs incurred by your employee in securing documentation (including co-pay, mileage, or whole visit if no insurance).
- May not require that the documentation explain the nature of the illness or details of violence.
- Cannot delay commencement of the leave based on failure to receive documentation.
- May ask your employee for advance notice if the need for sick time is foreseeable. Not to exceed seven (7) days prior to the date to be used.
- If sick time is not foreseeable, employee is to give notice of the intention as soon as practical.
- Must display posters in both English and Spanish and any other language spoken by 10% of your workforce.
- Must provide a written notice at hire that includes: amount of earned sick time provided; how a "year" is calculated; terms of use; retaliation is prohibited; and their right to privately sue you.
- Must maintain records for three (3) years of hours worked and leave taken. Failure to maintain records creates presumption that you violated ESTA.
- You are prohibited to retaliate in any way against your employees.
- You cannot treat paid leave as an absence in an attendance policy (no point system).

ADDITIONAL RESOURCES

- [LEO Wage and Hour](#)
- [LEO Minimum Wage and Overtime Resources](#)
- [LEO Earned Sick Time Act FAQ](#)
- [Michigan Improved Workforce Opportunity Wage Act required poster](#)



Our solutions.

HR COMPLIANCE

We are here for you, helping to simplify the complexity of HR compliance. We offer access to comprehensive policies, templates, letters, forms, and toolkits to support your needs.

EMPLOYEE RELATIONS

We act as an extended part of your team, providing tailored HR services. Ensuring smooth off-boarding, assisting with disciplinary planning, training and safety, all with compliance and efficiency at the forefront.

STRATEGY & OPERATIONS

Solving your most pressing operational challenges. Whether it's strategy and structure, employee handbooks, benefit programs, employee initiatives, and beyond, we help you along the journey.

PAYROLL SOLUTIONS

Payroll and tax administration is an essential yet complicated and time-consuming function. We stay abreast of the changing rules and regulations and navigate them so you don't have to.

OUTSOURCED ACCOUNTING

Our customizable accounting services are tailored to you. We listen to your needs. We design a solution that allows you to move forward with confidence.

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Rely on Yeo & Yeo's HR Advisory and Payroll Solutions Groups to help.

As the complexities of Michigan's Minimum Wage laws and the Earned Sick Time Act continue to evolve, our team of dedicated HR and Payroll advisors at Yeo & Yeo is here to support your business every step of the way. Our HR and Payroll Solutions Groups consists of Certified Payroll Professionals (CPP), Fundamental Payroll Certified (FPC) specialists, CPAs and consultants who stay on top of the ever-changing requirements so we can help you navigate the challenges and opportunities for your business.

From compliance and regulation guidance to strategic planning, our HR Advisory Solutions and Payroll services are designed to simplify the process and keep your organization on the path to success.

Contact Yeo & Yeo for additional guidance.

Let's thrive.

We're here to help. But first, we're here to listen. No matter the need, we build a right-sized, customized path to help you get there.



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