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Are You Ready for Next Months Change in the State Minimum Wage?

On August 1, 2014, Minnesota's new minimum wage law takes effect. The new law changes the states minimum wage requirements in several ways, including new definitions of large and small employers, progressively increasing rates over time, and indexing to inflation.

Minnesota sets its minimum wage based on the size of the employer as determined by gross sales. Under the new law, a large employer is one that has gross sales over \$500,000 in annual business. Small employers are defined to have gross sales under \$500,000 in annual business. Prior to the change, the gross sales amount for a large employer was \$625,000. As a result, more employers will be considered large employers under the statute.

For large employers, the minimum wage will increase to \$8 per hour on August 1, 2014. The large employer rate will increase, again, to \$9 per hour on August 1, 2015 and then go to \$9.50 on August 1, 2016. For small employers, the minimum wage will be \$6.50 per hour on August 1, 2014. The small employer rate will increase to \$7.25 on August 1, 2015, and then to \$7.75 on August 1, 2016.

For large employers, the new state rates are significantly higher than the federal minimum wage of \$7.25 per hour. For small employers, the rate will remain lower than the federal rate for one more year. Employees are entitled to the higher of the two minimum wages when both the state and federal law apply.

Starting on January 1, 2018, the state minimum wage will include an inflation index that will be used to increase the minimum wage in relation to inflation. The inflationary increase is capped at 2.5% per year. The inflation index will not be used to reduce the minimum wage in any year with negative inflation.

Employers should act now to determine if they are large or small employers under the state law changes. Small employers should carefully analyze whether the federal law is applicable. Those employers who have been small employers in the past and will be large employers under the new definition should take steps to adjust rates in a timely manner.