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

A GUIDE FOR EMPLOYERS

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NAVIGATING THE REINSTATED LAWS

On Friday, February 21, 2025, Governor Whitmer signed House Bill 4002 (HB 4002), amending the Earned Sick Time Act (ESTA), and Senate Bill 8, amending Michigan's Improved Workforce Opportunity Wage Act (IWOWA). It's important to note that while small employers (1-10 employees) will have a runway of October 1 to plan for ESTA implementation, larger employers (11+ employees) will need to plan for the implementation immediately.

For businesses and organizations, this ruling still 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 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.



Department of Labor Salary Exempt Rule

The U.S. Department of Labor final rule (*Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales, and Computer Employees*) was struck down on November 15, 2024.

This nationwide ruling affects all businesses and nullifies:

- The **July 1, 2024**, increase from \$684 per week to \$844 per week.
- The **January 1, 2025**, planned increase to \$1,128 per week.
- Future automatic increases every three years starting **July 1, 2027**.

What should employers do?

- **Salary Adjustments:** Employers who raised salaries to meet the July 1 threshold or in anticipation of the January 1 increase may revert to previous pay rates but should consider employee morale.
- **Reclassification:** Workers reclassified as nonexempt under the 2024 rule may be switched back to exempt if they meet the duties test, with advance notice where required.

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

1. Salary basis test: 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: Primarily perform executive, administrative, or professional duties; and
3. Salary level test: Be paid at least a specified weekly salary.



Resources

U.S. Department of Labor – Wage and Hour Division

- WHD toll-free information and helpline: 1-866-4US-WAGE (1-866-487-9243)
- Visit the WHD homepages: <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
- **Time Clock System:** We can help implement a time clock system



Michigan Salary & Minimum Wage Ruling

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, minimum wage will rise again on January 1, 2026, to \$13.73. The 2027 increase will also be larger than scheduled, jumping to an hourly rate of \$15.00. Inflationary increases will follow each subsequent year using the Midwest Consumer Price Index (CPI).

Adjustment Year	Minimum Hourly Wage Rate
February 21, 2025	\$12.48
January 1, 2026	\$13.73
January 1, 2027	\$15.00
January 1, 2028	State treasurer shall calculate the inflation-adjusted minimum wage as set forth in 2018 PA 337, § 4(2)

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>
- LEO toll-free information and helpline: 1-855-4MI-WAGE (1-855-464-9243)



ARE YOU A RESTAURANT OWNER?

Senate Bill 8 signed into law on February 21, 2025, will not gradually phase out tip credits, which would have occurred under the state Supreme Court Order. Instead, the tip credit will increase by 2% annually through 2031, when a tipped worker's minimum wage would equal 50% of the full minimum wage.



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

Effective February 21, 2025, employers must ensure that tipped workers receive a minimum rate of \$4.74, which is 38% of the full minimum wage. Note that this is meaningfully lower than what the Order required (\$6.49 per hour, or 48% of the full minimum wage).

Adjustment Year	Minimum Hourly Wage Rate	Tip Credit
February 21, 2025	\$12.48	\$4.74 (38%)
January 1, 2026	\$13.73	\$5.49 (40%)
January 1, 2027	\$15.00	\$6.30 (42%)
January 1, 2028	Inflation-adjusted	44%
January 1, 2029	Inflation-adjusted	46%
January 1, 2030	Inflation-adjusted	48%
January 1, 2031	Inflation-adjusted	50%

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)

On Friday, February 21, Governor Whitmer signed House Bill 4002 (HB 4002), amending the Earned Sick Time Act (ESTA). The amendments under ESTA took effect February 21, 2025. Although these amendments provide employers some relief, employers must still review their existing leave policies to ensure that they comply.

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.

What employers are covered by the act?	<p>All Michigan employers that have one or more employee(s), excluding employees of the United States Government.</p> <ul style="list-style-type: none">• Small business that did not employ an employee on or before February 21, 2022, are not required to comply with this act until 3 years after the date that the employer first employs an employee.
What employees are eligible to receive earned sick time?	<p>Part-time, full-time, exempt, salary, seasonal, variable hour, household employees, union workers, minors with the following exceptions:</p> <ul style="list-style-type: none">• Those employed by the U.S. government,• Unpaid trainees or unpaid interns,• Individuals employed in accordance with the Youth Employee Standards Act 1978 PA 90, and• An individual who works in accordance with a policy of an employer if both of the following conditions are met:<ul style="list-style-type: none">– The policy allows the individual to schedule the individual's own working hours– The policy prohibits the employer from taking adverse personnel action against the individual if the individual does not schedule a minimum number of working hours.
Employees can use sick time for any of these qualifying reasons:	<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 to 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 or 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



ACCRUING RULES BASED ON WORKFORCE SIZE

For small businesses (10 or fewer employees), employees begin to accrue earned sick time starting October 1, 2025, or upon commencement of the employee's employment, whichever is later. For all other employers, accrual begins on February 21, 2025, or upon commencement of the employee's employment, whichever is later.

Are you an employer with 1 to 10 employees?

- Must provide one (1) hour for every 30 hours worked. To begin accruing immediately upon start. Carry over cap can be set at 40 hours annually.
- Employees are allowed to use up to 40 paid sick hours (to the extent leave is accrued).
- There can be a 120-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 two months, they begin accruing at re-hire AND accrued hours in their bank when they left need to be restored.
- Earned sick time may be used in 1-hour increments or the smallest increment that the employer uses to account for absences of use of other time.

Are you an employer with 11 or more employees?

- Must provide one (1) hour for every 30 hours worked. To begin accruing immediately upon start. Carry over cap can be set at 72 hours annually.
- Employees are allowed to use up to 72 paid sick hours (to the extent leave is accrued), per benefit year.
- There can be a 120-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 two months, they begin accruing at re-hire AND accrued hours in their bank when they left needs to be restored.
- Earned sick time may be used in 1-hour increments or the smallest increment that the employer uses to account for absences of use of other time.

***Note:** An employer may frontload earned sick time at the beginning of the benefit year. If an employer adopts this practice, they do not have to allow carry over of unused sick time to the next benefit year, calculate and track employee's accrual, or pay the value of employee's unused sick time.

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.
- Must maintain records for three (3) years of hours worked and leave taken. Failure to maintain records creates presumption that you violated ESTA.
- You can take adverse action against an employee if the employee uses paid earned sick time for a purpose other than a purpose sanctioned by ESTA, or who violates the ESTA's notice requirements.

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 consist 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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