



## Middle Class Tax Reform: Exempting Overtime Pay

### The Problem

Middle class families across Wisconsin have been suffering since the waning days of the pandemic. Inflation has driven up the cost of everyday necessities like gas, energy, and groceries - putting pressure on family budgets. On average, American families are now spending \$709 per month more than they were just two years ago.<sup>1</sup> Families have been forced to make hard choices - whether it's cutting other parts of their monthly budget or picking up extra hours at work. At the same time, Wisconsin is facing a worker shortage in almost all sectors of the economy.<sup>2</sup> Employers cannot find enough workers to fill vacant positions.

### The Solution

Wisconsin should let hard working Wisconsinites keep the money they earn by eliminating the income tax on wages for overtime work and on bonuses up to \$2,500. This will help families struggling with the effects of inflation, provide an incentive for workers to keep the economy moving, and reward those who are putting in the extra hours.

### The Details

According to the Bureau of Labor Statistics, the average manufacturing worker works roughly 3.6 hours of overtime per week.<sup>3</sup> The average manufacturing worker in Wisconsin earns \$21.76 an hour<sup>4</sup> and \$32.64 an hour for any work in excess of 40 hours in a given week. Eliminating the state income tax on overtime pay would save the average Wisconsin worker over \$320 annually.

Other states have already done this and some are currently considering legislation. This year, Alabama passed bipartisan legislation with the backing of the House Minority Leader and the Speaker of the House that eliminated income tax on overtime wages<sup>5</sup>. North Carolina has pending legislation that would provide the same relief in perpetuity.<sup>6</sup>

Giving workers a chance to keep the fruits of their overtime labor will ease the burden of current economic conditions - directly benefiting middle class working families.

| Breakdown of Tax Savings<br><i>Married Filing Jointly</i> |                 |
|---|-----------------|
| <b>Base Pay:</b> (\$21.76/hr x 2080 hours)                | \$45,260.80     |
| <b>State Income Tax Liability on Base Pay:</b>            | \$1901.48       |
| <b>Overtime Pay:</b> (\$32.64/hr x 187.2 hours)           | \$6,110.21      |
| <b>Total Earnings:</b>                                    | \$51,371.01     |
| <b>Total Income Tax Liability:</b>                        | \$2,225.32      |
| <b>Total Savings: (\$2,225.32 - \$1901.48)</b>            | <b>\$323.84</b> |

<sup>1</sup> Egan, Matt. CNN. *US inflation means families are spending \$709 more per month than two years ago.* August 11, 2023. <https://www.cnn.com/2023/08/11/economy/inflation-rate-spending/index.html>

<sup>2</sup> Denzin, Nathan. PBS. *Fast Facts: Wisconsin employers want more workers.* July 27, 2022. <https://pbswisconsin.org/news-item/fast-facts-wisconsin-employers-want-more-workers/>

<sup>3</sup> Bls.gov. *Average weekly hours and overtime of production and nonsupervisory employees on private nonfarm payrolls by industry sector, seasonally adjusted.* September 2023 <https://www.bls.gov/news.release/empsit.t23.htm>

<sup>4</sup> Bls.gov. *May 2022 State Occupational Employment and Wage Estimates, Wisconsin.* [https://www.bls.gov/oes/current/oes\\_wi.htm#51-0000](https://www.bls.gov/oes/current/oes_wi.htm#51-0000)

<sup>5</sup> Alabama Policy Institute. *Overtime Tax.* <https://alabamapolicy.org/overtime-tax/>

<sup>6</sup> North Carolina General Assembly. House Bill 490. <https://www.ncleg.gov/BillLookup/2023/H490>