



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.¹ 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.² 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.³ The average manufacturing worker in Wisconsin earns \$21.76 an hour⁴ 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 wages⁵. North Carolina has pending legislation that would provide the same relief in perpetuity.⁶

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

¹ 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>

² 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/>

³ Bureau of Labor Statistics. *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>

⁴ Bls.gov. *May 2022 State Occupational Employment and Wage Estimates, Wisconsin.* https://www.bls.gov/oes/current/oes_wi.htm#51-0000

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

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



Helping the Middle Class

According to DWD, in September of 2023 there were 480,900 workers employed in the manufacturing industry in Wisconsin.⁷ Based on BLS data, we can estimate that this industry alone would see over \$155 million in annual savings.

Inflation has hit the middle class hard. All of life's necessities have risen in price - groceries, gas, energy, and transportation. As of September 2023, inflation was still at 3.7%⁸, almost two points higher than the Federal Reserve target rate of 2%.⁹ Months of high inflation have taken a real toll on Wisconsin family budgets. Wisconsin's median household salary of \$67,080 has lost 16% of its buying power since January of 2020.¹⁰ \$67,080 in January of 2020 is now worth \$56,222 as of September 2023.¹¹

It's not just private sector employees that will benefit from the elimination of income taxes on overtime wages. There are many public sector employees that will see a savings too; public safety employees will keep more of their hard-earned wages when they work longer hours keeping our communities safe.

Middle class workers and families need tax relief and exempting their overtime pay from state income taxes is a good start. By allowing workers to keep more of their overtime wages will help struggling families cope with increased prices. A shift in policy could also help to solve the worker shortage in Wisconsin, by incentivizing workers to take on additional hours. In fact, when polled in April of this year, 64% of Wisconsinites thought that eliminating income tax on overtime pay would help solve the worker shortage.¹²

What's Next

Earlier this year, the legislature passed a historic \$3.5 billion tax cut. Unfortunately, 95% of this tax cut was vetoed by the Governor. The legislature has since proposed alternative cuts, but they have sent a new bill to the Governor's desk. The legislature has until spring of next year to pass meaningful tax reform before the current legislative session is over.

Manufacturing Industry Workers Savings	
Average Annual Savings:	\$323.84
Number of Employees in Industry:	480,900
Total Industry Worker Savings:	\$155,734,656

⁷ Department of Workforce Development. Press Release, October 19, 2023. *BLS Data: State Reaches Record Number of Jobs for Third Month in Row*. <https://dwd.wi.gov/press/unemployment/2023/231019-september-state.pdf>

⁸ Bureau of Labor Statistics. *12-month percentage change, Consumer Price Index, selected categories*. September 2023. <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category.htm>

⁹ Federal Reserve. *Why does the Federal Reserve aim for inflation of 2% over the longer run?*. Accessed October 24, 2023.

https://www.federalreserve.gov/faqs/economy_14400.htm#:~:text=The%20Federal%20Open%20Market%20Committee,maximum%20employment%20and%20price%20stability.

¹⁰ United States Census Bureau. *Quick Facts: Wisconsin, 2022*. <https://www.census.gov/quickfacts/fact/table/WI#>

¹¹ Bureau of Labor Statistics. *CPI Inflation Calculator*. <https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=67080&year1=202309&year2=202001>

¹² Morning Consult Polling. April 2023.