



House Bill 11: No Tax on Tips, Overtime, Bonus Pay

Helps higher earners at the expense of long-standing labor goals

HB 11 Summary: Allows a taxpayer to deduct from their adjusted gross income: 1) any amount received as overtime compensation; 2) any bonus pay up to \$2,500; and 3) any amount received as tips.

Won't reach the workforce that needs the boost to low earnings

- Eliminating the income tax on tips would affect very few workers (just 5% of people earning less than \$25 per hour work in tipped occupations), would reduce income eligibility for refundable tax credits like the Earned Income Tax Credit, and would narrowly benefit workers who get large tips, like workers in high-end restaurants.¹
- Eliminating the income tax on overtime and bonuses is more likely to benefit workers with higher incomes, those without care responsibilities that limit their ability to take on extra hours, and those in industries where bonus pay is more common.²

The labor movement is fighting for better policies that help low-wage workers

Eliminating tipped wages and raising the minimum wage are better ways to support workers.

Encourages employers to move more workers to tipped pay and could be exploited to shield high earners from taxation

- Employers could move more workers to tipped wages, which are a highly volatile income source and subject to high levels of discrimination.
- Highly paid workers like lawyers could designate their fees as tips to avoid taxes, while employers could shift more pay to unpredictable bonuses in place of raising wages.
- Overtime pay was established to put a check on employers requiring excessive work hours. Eliminating taxes on overtime could incentivize reclassifying workers to save on labor costs without addressing overwork or increasing workers' after-tax pay.

Depletes public funds when the state is facing a steep decline in revenue

- An income tax exemption just for overtime pay in Alabama was initially estimated to reduce revenue by about \$34 million in its first year, but in only nine months, it cost the state \$230 million.³
- While benefits may accrue to employers and higher income workers, everyone will pay in the form of fewer public dollars for the workforce training, transportation infrastructure, and other public services that help working people get ahead.

¹ www.epi.org/blog/no-tax-on-tips-will-harm-more-workers-than-it-helps-proposals-in-congress-and-now-20-states-could-encourage-harmful-employer-practices-and-lead-to-tip-requests-in-virtually-every-co/

² <https://www.epi.org/blog/no-tax-on-overtime-is-another-gimmick-that-would-do-more-harm-than-good/>

³ www.al.com/news/2024/12/alabamas-popular-overtime-tax-exemption-costs-schools-230-million-in-9-months-what-will-lawmakers-do.html