



New Alabama Overtime Tax Exemption and Employer Reporting Obligations Coming in January 2024

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Alabama employers should be aware of the new state tax exemptions that take effect for certain overtime payments beginning on January 1, 2024. Alabama has temporarily modified its tax code to exempt from state tax amounts received by a full-time hourly employee for work performed in excess of 40 hours in a workweek. The state tax exemption will end for payments received after June 30, 2025, unless the legislature extends the period.

The law also places new mandatory reporting requirements on Alabama employers. First, employers are required to report for the tax year beginning January 1, 2023, the total amount received by full-time hourly wage-paid employees as compensation for work performed in excess of 40 hours in a week and the total number of employees for which it was paid. **Employers are required to report this information to the Alabama Department of Revenue by January 31, 2024.** Second, starting with the tax year beginning on January 1, 2024, Alabama employers must supplement their initial report on either a monthly or quarterly basis.

The Alabama Department of Revenue has the authority to adopt rules for the administration of the new law, and the Department has already provided answers to some nuances. For example, only hours physically worked qualify for the exemption. So, paid time off and commissions are not exempt from state tax obligations. Also, because the exemption only applies to hourly employees, overtime earned by salaried non-exempt employees (under the Fair Labor Standards Act) is not exempt from Alabama state taxes.

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To ensure compliance with the upcoming obligations and payroll changes, Alabama employers should familiarize themselves with the Alabama Department of Revenue's guidance, stay alert for new information from the Department, and contact their legal counsel for guidance.