



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 194** HLS 25RS 471
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.: **REVISED**

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| Date: May 4, 2025 3:41 PM | Author: BAYHAM |
| Dept./Agy.: Department of Revenue | Analyst: Noah O'Dell |
| Subject: Income Tax Deduction: Overtime Compensation | |

TAX/INCOME-INDIV/EXEMPT OR DECREASE GF RV See Note Page 1 of 1
Authorizes an income tax deduction for certain taxpayers' overtime compensation

Proposed law authorizes an individual income tax deduction to certain taxpayers in the amount of overtime compensation received by an individual, not to exceed 20% of his other wages from the same employer for the taxable year. Overtime compensation is defined pursuant to Section 7 of the Fair Labor Standards Act of 1938, which limits the population whoare mandated to receive it. Eligibility for the deduction is further restricted to resident taxpayers with an adjusted gross income less than or equal to the following thresholds: \$200,000 (married filing jointly or surviving spouse), \$150,000 (head of household), and \$100,000 (single or married filing separately).

Effective January 1, 2026 and applicable to tax years beginning on or after January 1, 2026.

| EXPENDITURES | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5 -YEAR TOTAL |
|----------------|---------|-----------|----------|----------|-----------|---------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | \$0 | \$146,067 | \$96,116 | \$99,000 | \$101,970 | \$443,153 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | \$146,067 | \$96,116 | \$99,000 | \$101,970 | \$443,153 |

| REVENUES | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5 -YEAR TOTAL |
|----------------|---------|----------|----------|----------|----------|---------------|
| State Gen. Fd. | \$0 | DECREASE | DECREASE | DECREASE | DECREASE | \$0 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | | | | | \$0 |

EXPENDITURE EXPLANATION
The bill is anticipated to increase SGR* spending by \$146,067 from adding 1 position in the Department of Revenue (LDR) in FY27. One time costs of \$52,750 are expected in FY27 related to computer system development, modification, and testing. LDR reports one Revenue Tax Specialist 1 with salary and related benefits of \$93,317 (growing by 3%) will be necessary beginning in FY27 to review and process returns claiming the proposed deduction.


REVENUE EXPLANATION
The bill is estimated to decrease SGF revenue beginning in FY27 when 2026 returns are filed. The bill offers certain taxpayers a deduction in the amount of overtime compensation earned, not to exceed 20% of other wages from the employer. Calculating the exact revenue loss associated with the bill is complicated by a lack of recent data or any state level data on overtime income received by taxpayers.

Data provided by the LDR indicates approximately 1.25M filers have the adjusted gross income requirements set forth in the bill. The aggregate AGI of these filers is \$77.4B. Federal tax return data for Louisiana residents indicates that about 67% of AGI is salaries and wages, or \$51.9B. It is estimated that about 8% of hourly workers and 4% of salaried workers work FLSA-qualified overtime on a regular basis, according to “No Tax on Overtime” report by the Budget Lab at Yale. For the purposes of this analysis, LFO assumes an average of 6% of employees work overtime. The only readily available data from the Bureau of Labor Statistics on overtime hours worked in Louisiana is reported for manufacturing workers who work an average of 2.9 hours each week (see Table B-2, February 2025), which can be used as a proxy for other occupations that receive overtime pay under FSLA. This number of hours can be converted to 11.3% of employee pay, using the appropriate weight of pay per hour and the average weekly hours worked.

\$51.9B x 6% of employees x 11.3% of employee pay x 3% income tax rate = **\$10.5 M in estimated revenue loss, with varied assumptions, any of which could substantially alter the calculation.**

This estimate assumes no growth path for wages in future years and, perhaps most importantly, **this estimate assumes no change in patterns of overtime pay in eligible occupations.** LFO can envision a scenario in which certain occupations may react to the deduction since workers may prefer receiving their pay in the form of tax-advantaged overtime rather than taxable wages or salaries, which may result in additional tax revenue loss associated with the bill.

* The SGR impact may originate as the LDR retention of 1% of income tax collections initially classified as SGR but ultimately reverted to the SGF for use in the budget. Should LDR reversions be reduced, this would become a SGF impact.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |  |
| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | | Deborah Vivien |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | | Chief Economist |