Press Release

No Tax on Overtime: Winners and Losers

ALLIE WATSON | APRIL 29, 2025

President Trump's call to alter federal tax law to exempt overtime compensation from taxation has gained steam: several bills have been introduced in Congress and the proposal may be included in the upcoming reconciliation bill. In a new insight, Labor Policy Analyst Emmet Bowling walks through the unintended consequences of a "no-tax-on-overtime" policy.

He concludes:

> *When holding economic behavior constant, it appears that a "no-tax-on-overtime" policy benefits overtime workers at no cost to other workers. A more dynamic analysis of the policy, one that accounts for economic behavior, however, shows that the tax deduction would result in a decrease in the average market wage, making some workers – most often higher-skilled and more autonomous – better off and others – most often less skilled and less autonomous – worse off.*
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> *In sum, while a "no-tax-on-overtime" policy is intended to give hard-working individuals tax relief, it would create unintended consequences that incentivize certain economic behaviors that distort labor markets and create winners and losers.*
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> *Congress should instead look to design tax policy that is pro-growth, minimizes market distortions, and does not penalize nor give preferential treatment to certain types of work.*

Read the analysis.