



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.

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.

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.](#)