

Alabama Exempt Overtime Pay

The state of Alabama has passed an overtime exemption from state income tax starting on state wages paid between January 1, 2024 and June 30, 2025.

“For the tax year beginning on or after January 1, 2024, overtime pay received by a full-time hourly wage paid employee for hours worked above 40 in any given week are excluded from gross income and therefore exempt from Alabama state income tax. Tied with this exemption are employer reporting requirements to ALDOR. Employers are required to report the total aggregate amount of overtime paid and the total number employees who received overtime pay.”

For more information from ALDOR on what types of wages will be exempt for different types of employees, please refer to the state link:

<https://www.revenue.alabama.gov/individual-corporate/overtime-exemption/>

There are currently no other states and/or federal type wages that have this type of exemption. In addition, your company’s overtime payment methods may or may not always match the ALDOR rules for their overtime pay exemption. The ALDOR also will require employers to track and report the exemption wages. In order to handle all the requirements for this exemption, you will need to set up a special payroll code to handle all of these criteria and then use this code during payroll data entry for all qualified Alabama overtime-exempt wages.

CertiflexDimension Payroll (Live Payroll)

Set up Special Tax Code for Alabama Overtime Exemption:

To set up the new special code, click > **Maintain Lists**, > **Payroll** and then > **Payroll Codes**. From the Maintain Payroll Codes application, click > **Special Tax Codes** Tab and then click > **New**. From the new code setup wizard, leave the selection at **Custom** and click > **Ok**. Set the options as presented below:

Add Special Tax Code

Payroll Code Status: Active Inactive

Tracking No. 0000000040

Description: AL OT Wage Exemption

Abbreviation: EX OT WAG

G/L Account: N/A

W2 Code: Other 1

Print YTD Amount on Check Stub

Always Negative (reimbursement/wage reduction)

Allow on Special (bonus) Checks

Include as Wages in % of Gross Pay Calculations

Include Earning in O. T. Calculations

Include Amount in Net Pay

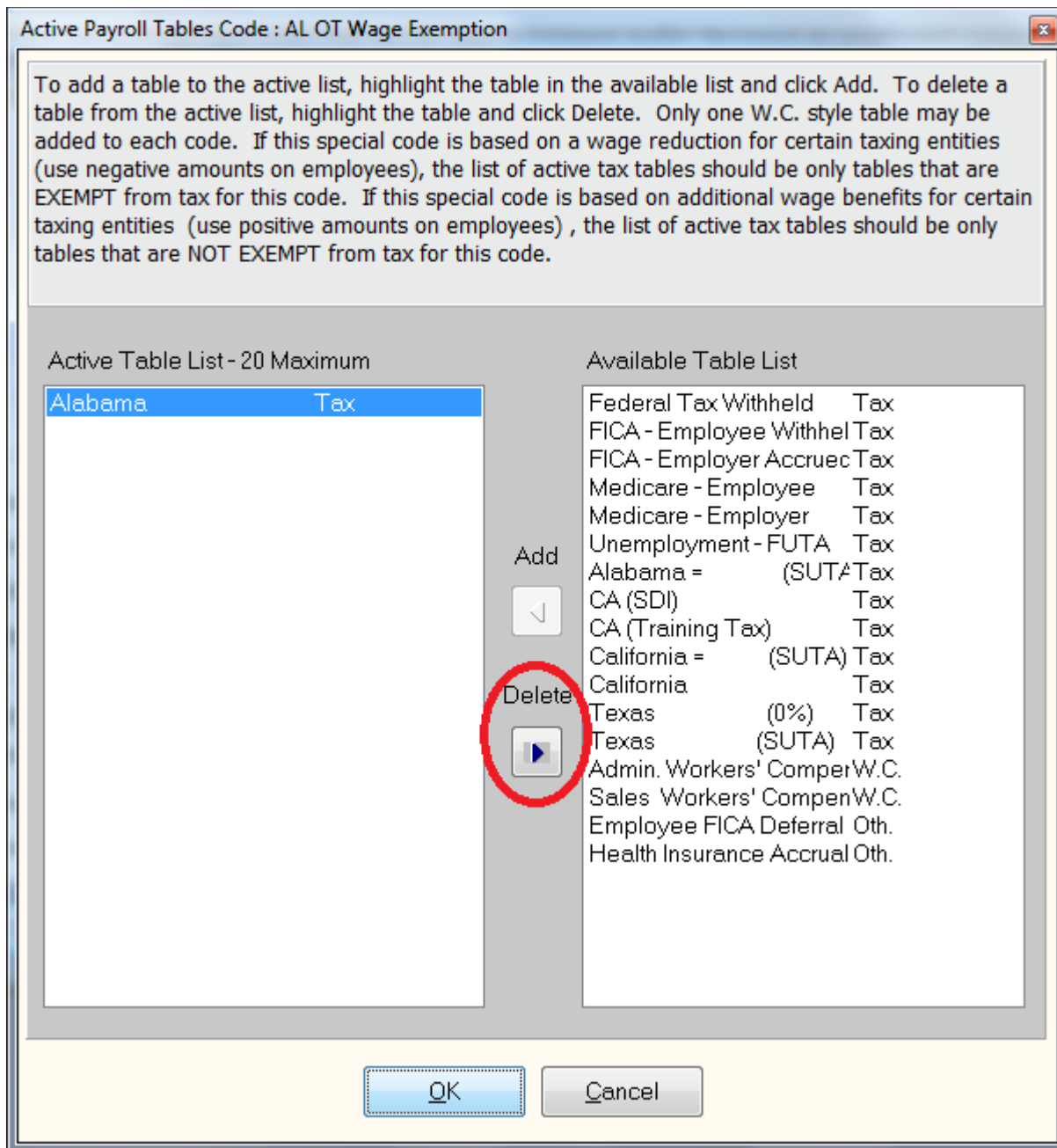
Treat as Earning Code

Treat as Deduction for Employee Check Stub

WH-347 - Voluntary Wage Reduction

Active P/R Tables... Save Cancel

Next click > **Active P/R Tables**. Since the AL overtime exemption code is going to be used as a wage reduction code (Always Negative) for only Alabama State Wages, you will use the **Delete** option to move all your payroll tables **EXCEPT** the “Alabama Tax” to the Right Side of the “Available Table List”. Once all your tables are on the right side except for the Alabama Tax”, click > **Ok** and then Click >**Save** to add your new special tax code. See the example screen of the “Active Payroll Tables Code” below for your convenience:



It is very important that you make sure that the **Alabama Tax** is the only active table for this wage reduction type code and in addition, that you make sure that the option “**Include Amount in Net Pay**” on the main page is **NOT** checked. Normal pre-tax wage reductions, such as 401Ks or Cafeteria Plans, reduce multiple taxable wages and withholding and they are in addition, subtracted from the employee’s net check since the amounts are deposited elsewhere by the employer. On the other hand, the Alabama overtime exemption code amount should only reduce the Alabama taxable wages and withholding amount (SIT). The special code amount should **not** be included (subtracted) from the employee’s net check.

Record Pay Data - Using the special code for Alabama overtime exemption during Pay Data entry:

To correctly record the overtime exemption amount, record the employee's pay data as normal, and if the employee has overtime pay that is exempt from Alabama State income and withholding, use the Special Tax Code option to add the **AL OT Exemption Code** with the amount that is exempt from OT before validating their pay. Example – a weekly paid employee has worked 40 standard hours and 5 hours of traditional (1.5) overtime at a base pay rate of \$20 per hour with no additional pre-tax wage reductions, earnings or deductions. Their normal pay data would be:

40 hrs x \$20 = \$800.00 and 5 hrs x \$30 = \$150.00 for a total pay of \$950.00.

If all of the employee's overtime was classified as Alabama overtime exempt, then you would add the new **AL OT Exemption Code** tax code for \$150.00 and the system would change the amount to be \$-150.00 since the code is set up to always be negative. You can check your setup at the validation screen by clicking > **Edit Tax** and then >**Employer Accruals**. All of your normal wages - FIT, FICA, Medicare and FUTA and SUTA should reflect taxable wages based on \$950.00 in wages while the Alabama SIT table will only show \$800.00 in taxable wages.

Payroll Updating/ Reporting:

Upon updating Payroll, the system will record for each employee the Alabama wages adjusted by any overtime exemption used and the actual amount of the wage reduction within the special code. These amounts are then available in standard **Payroll** reports, worksheets and year-end W2 forms.

CertiflexDimension Client Write-up (After-the-fact Payroll)

Simply set up an "Other Comp. Code" using the option **Maintain Tax Tables and Codes**. Under the section **Tax Tables Affected by Code** – check only the SIT Table that you are using for Alabama State. When recording batch Payroll transaction, enter in the wage amount of the overtime exemption as a negative amount. Upon batch updating, the system will record for each employee the Alabama wages adjusted by any overtime exemption used and the actual amount of the wage reduction within the special code. These amounts are then available in standard **Client Write-Up** reports, worksheets and year-end W2 forms.