LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 414** HLS 25RS 438

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.: **w/ PROP HSE COMM AMD**

Sub. Bill For.: **REVISED**

Date: May 4, 2025 3:49 PM

Author: DEWITT

Dept./Agy.: Department of Revenue

Subject: Income Tax Deduction: Overtime & Tip Income

Analyst: Noah O'Dell

TAX/INCOME TAX OR DECREASE GF RV See Note

Exempts certain overtime compensation and income earned from tips from state income taxation

Proposed law authorizes two individual income tax deductions for resident taxpayers in the amounts of (1) tip income earned, limited to $25,000, per taxable year and (2) overtime compensation earned, limited to $25,000 per taxable year. Tip income is defined as the sum of social security tips and allocated tips reported on the taxpayer's IRS form W-2, in addition to the amount of cash and charge tips received less the amount of cash and charge tips reported to all employers on the taxpayer's IRS Form 4137. Overtime income is defined as wages for time worked by the employee in excess of a 40 hour workweek. Taxpayers claiming the deduction shall maintain records and, if requested, provide them to the Dept. of Revenue (LDR) when filing. LDR may promulgate rules necessary to implement the deductions.

Effective January 1, 2026 and applicable to tax years beginning on or after January 1, 2026. Amendment Set # 2046

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	**$239,383**	**$192,232**	**$197,999**	**$203,939**	**$833,553**
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**	**$239,383**	**$192,232**	**$197,999**	**$203,939**	**$833,553**

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 $239,383 for 2 positions at LDR in FY27. One time costs of $52,750 are expected in FY27 related to computer system development, modification, and testing and two Revenue Tax Specialists with salary and related benefits of $93,317 each (growing at 3% annually) will be necessary beginning in FY27 to review and process returns claiming the proposed deductions. LDR reports the ability to absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.

REVENUE EXPLANATION

The bill is anticipated to decrease SGF revenue by an indeterminable amount, likely to be in the tens of millions, beginning in FY27 when 2026 tax returns are filed. The bill provides resident taxpayers with a deduction in the amount of tip income earned and another deduction for overtime compensation earned; each deduction is limited to $25,000 in income. Calculating the exact revenue loss associated with the bill is complicated by a lack of recent data or any state level data on tip income received by taxpayers. The methodology for each estimate can be found on page 2 of the fiscal note.

(1) **LFO estimates the tipped income deduction in the bill is anticipated to decrease SGF revenue by an amount between $6.2M and $15.1M each fiscal year beginning in FY27.**

(2) The bill allows all employees who receive compensation for overtime, defined as wages earned for time worked in excess of a 40 hour workweek. **LFO estimates the overtime deduction for workers currently receiving overtime under the Fair Labor and Standards Act (FLSA) of 1938 is anticipated to decrease SGF revenue by approximately $10.5M each fiscal year.** However, it is not clear if the bill may potentially allow additional employees who are exempt from FLSA overtime to earn the deduction provided. Workers employed in executive, administrative, or professional roles are typically exempt from mandatory overtime pay, but when provided overtime compensation voluntarily by the employer, may be eligible for the deduction. Thus, the exact amount of compensation or the number of workers who may receive the deduction under the bill is unclear. **Data provided by Civil Service indicates overtime compensation for state employees alone may potentially increase the impact of the bill by an additional $64.5M in revenue loss, if they are eligible.**

These estimates assume no growth path for wages in future years and, perhaps most importantly, **the estimates assume no change in the classification of income as tips or in patterns of overtime pay by employers**, both of which could substantially increase the impact of the note. LFO can envision a scenario in which certain occupations may react to the deductions provided in the bill since workers may prefer receiving their pay in the form of tax-advantaged tips or overtime rather than taxable wages or salaries, which may result in additional indeterminable tax revenue loss. LFO also notes the bill

Continued on Page 2

Senate — Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Chief Economist

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CONTINUED EXPLANATION from page one:

has a $25,000 limit on each deduction. This limit may work to decrease the amount of revenue loss associated with certain taxpayers. LFO's methodology applied here was unable to incorporate these particular limits stated in the bill.

Revenue Loss Associated with the Tip Income Deduction

LFO estimates the Tip Income deduction may work to decrease SGF revenue by an amount in the range of $8M to $19.5M each fiscal year, which is calculated based on data reported in "Taxation of Tip Income" by the Congressional Research Service (CRS) and data from Louisiana resident returns filed for tax year 2022. The CRS report indicates in 2018 approximately 3.89% of federal returns included tips. The average tip income reported per return was $6,333 and the median was $2,600. According to the Bureau of Labor Statistics, the average hourly earnings of all employees in the Accommodation and Food Services industry has increased by 44.2% from 2018 to 2025. Applying this increase in wages, the average and mean reported tip income increase to $9,132 and $3,749 respectively. According to LA return data from tax year 2022, approximately 1.83M returns filed. These figures may be used to calculate an expected range of SGF revenue loss from the bill.

1.83M (total LA resident returns) x 3.89% (percentage of effected returns) = 71,085 estimated LA effected returns
For a high end estimate: 71,085 x 9,132 (mean tips) x 3% (income tax rate)= $19.5M revenue loss
For a low end estimate: 71,085 x 3,749 (median tips) x 3% (income tax rate) = $8M revenue loss

It is worth noting these estimates heavily rely upon the self-reported tips provided on the federal tax returns in 2018, which may or may not accurately represent actual tip income today in Louisiana, assumes no growth path for wages in future years and, perhaps most importantly, no change in tipping income in occupations. LFO also notes the bill has a $25,000 tip income limit on the deduction, which may work to mitigate an unknown portion of the estimated revenue loss.

Revenue Loss Associated with a Portion of the Overtime Deduction

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 = $10.5M in estimated revenue loss

This estimate is meant to capture the revenue loss associated with the overtime compensation for workers who are guided by the FLSA of 1938. LFO has no basis for estimating the impact of additional workers who are salaried or hourly who are currently employed more than 40 hours per week.

Data from the Dept. of Civil Service on Overtime for State Employees

For example, the FLSA has an exemption for state/local government that allows the government agency to provide compensatory time off in lieu of monetary overtime compensation that would otherwise be required. The Civil Service Department of Louisiana reports that 37,094 government employees earned $2.15B in overtime pay in FY24, which consists of straight pay and 1.5x pay. If all of this income were subject to the deduction provided in the bill (ignoring the $25,000 limit), this would result in approximately $64.5M in revenue loss.

* The SGR impact may originate as the LDR retention of 1% of income and sales 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.

Senate	Dual Referral Rules	House
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x]	13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}	[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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