

Exclude Overtime Wages from Gross Wages for Alabama Overtime Exemption

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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 Withholding Tax.



Important Note: This information is a guide to calculating tax exempt overtime in CenterPoint Payroll. Different organizations may have different needs depending on factors such as out of state employees, daily overtime, part time or seasonal employees that may require additional adjustments or earning codes. Please refer to the [Alabama Department of Revenue](#) and your accountant to verify you are in compliance with all state and federal labor laws. The overtime tax exemption is currently set to expire on June 30, 2025. Any earning codes set to be excluded from taxes will need to be set back to taxable at that time to avoid under reporting taxable wages.

Follow the steps below to exclude overtime wages from gross wages for Alabama Withholding Tax:

[Simple or Manual Overtime](#)

[Advanced Overtime](#)

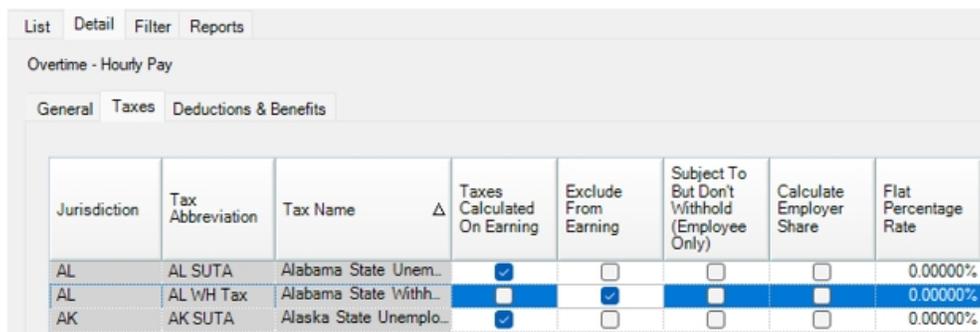
[Setup Earnings](#)

[Pay Employees](#)

Simple or Manual Overtime

If you use the simple overtime calculations (one overtime rate for any hours over a threshold, for example time and a half for any hours worked over 40 per week) or manually enter overtime hours into an overtime earning code, the only necessary change is to make your overtime earning(s) exempt for the state withholding tax. For more information about the simple overtime method, see the Simple Overtime [topic](#) or the [video](#).

1. Select **Setup > Payroll Details > Earnings**.
2. Edit your **Overtime** earning.
3. Select the **Taxes** tab.
4. For **Alabama State Withholding (AL WH Tax)** select the check box in the **Exclude From Earning** column.
5. Click **Save**.



Jurisdiction	Tax Abbreviation	Tax Name	Taxes Calculated On Earning	Exclude From Earning	Subject To But Don't Withhold (Employee Only)	Calculate Employer Share	Flat Percentage Rate
AL	AL SUTA	Alabama State Unem...	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%
AL	AL WH Tax	Alabama State Withh...	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%
AK	AK SUTA	Alaska State Unemplo...	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%

6. Repeat steps 1-5 for any other overtime earning codes you may have.

Advanced Overtime

Advanced overtime (also referred to as calculated overtime) is a flexible process that handles a variety of overtime calculations, for example multiple overtime rates, average wage calculations, daily and weekly/bi-weekly overtime, or overtime periods that do not align with pay periods. For more information about the advanced overtime method, see the [Advanced Overtime topic](#) or the [video](#).

The calculated overtime process pays only the differential, and not the full pay over 40 hours, in the overtime earning code, so it is not possible to only make the overtime earning exempt like with the simple overtime process. Some manual entry is required to adjust the regular pay to correct the taxable wages.

If you are using calculated overtime but do not require average wage calculations, daily overtime, or do not have overtime periods that do not align with your pay periods, consider using simple overtime instead. For more information, see the [Simple Overtime topic](#) or the [video](#).

If you do require the more complicated calculated overtime calculations, additional earning codes can be created that allow you to adjust the calculated overtime and correct taxable wages. Manual entry is required, but CenterPoint will still calculate the hours and average wage.

Follow the steps below if you require the more complicated calculated overtime calculations to exclude overtime wages from gross wages for Alabama Withholding Tax:

Setup Earnings (One Time Setup)

CenterPoint will calculate the differential as calculated overtime which can be set as exempt from the Alabama Withholding Tax. Then a manual entry can be entered to remove the overtime portion of the regular earnings from the taxable wages, and replace them with nontaxable overtime wages. This requires three earnings:

- » **Calculated Overtime** (Non-taxable)
- » **Overtime Adjustment** (Taxable)
- » **Manual Overtime** (Non-taxable)

1. Modify your **Calculated Overtime Earning(s)** so it is exempt from Alabama Withholding Tax (AL WH Tax):
 - a. Select **Setup > Payroll Details > Earnings**.
 - b. Select your **Calculated Overtime Earning** and click **Edit**.
 - c. Select the **Taxes** tab.
 - d. For **Alabama State Withholding (AL WH Tax)** select the check box in the **Exclude From Earning** column.
 - e. Click **Save**.

Jurisdiction	Tax Abbreviation	Tax Name	Taxes Calculated On Earning	Exclude From Earning	Subject To But Don't Withhold (Employee Only)	Calculate Employer Share	Flat Percentage Rate
AL	AL SUTA	Alabama State Unemployment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%
AL	AL WH Tax	Alabama State Withholding Tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%
AK	AK SUTA	Alaska State Unemployment T	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0.00000%

2. Create an **Overtime Adjustment** earning:
 - a. Select **Setup > Payroll Details > Earnings**.
 - b. Click **New**.
 - c. Enter an **Abbreviation** and **Name**.
 - d. In the **Method** box, select **Hourly**.
 - e. Verify that the **Include in Calculated Overtime** check box is **NOT** checked.
 - f. Click **Save**.
 - g. At the **Add Earnings to Employees** message, click **Yes**.

- h. Select the employees who earn overtime and move them to the right.
- i. Click **Add**, and then click **Yes**.

3. Create a Manual Overtime Earning
 - a. Select **Setup > Payroll Details > Earnings**.
 - b. Click **New**.
 - c. Enter a **Name** and an **Abbreviation**.
 - d. In the **Type** box, select **Regular Pay**.
 - e. In the **Method** box, select **Hourly**.
 - f. Select the **Taxes** tab.
 - g. For **Alabama State Withholding** select the check box in the **Exclude from Earnings** column.
 - h. Click **Save**.
 - i. At the *Add Earnings to Employees* message, click **Yes**.
 - j. Select the employees who earn overtime and move them to the right.
 - k. Click **Add**, and then click **Yes**.

Pay Employees

When paying employees, employees who have overtime calculated will need to have manual entries to move the regular overtime hours to an earning that is not taxable for Alabama Withholding.

1. Select **Processes > Pay Employees**.
2. Create the pay run and enter time like usual.
3. For any employee who has over time calculated:

 Note: It may be helpful to add the Hours column to the Employee list on the Enter Pay tab (right-click in the grid and select Add/Remove Columns) to help determine who has over 40 hours.

- a. Note the **Gross Earnings**, **Net Pay**, and **Total Hours** for the employee.
- b. Expand the Overtime Earnings section by clicking the + and note the **Average Rate** and total **OT Hours** for each **OT Period**.
- c. In the **Overtime Adjustment** earning, enter the **OT hours** as a **negative**, with the **Average Rate** as the rate for each **OT Period** where overtime was calculated.
- d. In the **Manual Overtime** earning, enter the **OT hours** as a **positive**, with the **Average Rate** as the rate, for each **OT Period** where overtime was calculated.

- e. This should result in the same **Gross Pay**, **Net Pay**, and **Total Hours** as before the adjustment was entered (noted instep 3a). The adjustment is removing the regular pay as taxable and adding it back in as non-taxable overtime pay.

Weeks Worked	1							
Gross Earnings	1,375.00	Total Hours	50.00	Total Offered	0.00			
Regular Earnings	1,250.00							
OT Period	Earning	Δ	Hours	Rate	Amount	Detail		
11/05 - 11/11	Hourly Pay		25.00	20.00	500.00			
11/05 - 11/11	Hourly Pay		25.00	30.00	750.00			
	Overtime - Adjust		-10.00	25.00	-250.00			
	Overtime - Hourly		10.00	25.00	250.00			
Time Sheet Earnings	0.00							
Overtime Earnings	125.00							
OT Period	OT Type	Work Date	Hours	Average Rate	OT Hours	Multiplier	OT Rate	OT Pay
11/05 - 11/11	Period		50.00	25.00	10.00	1.50	12.50	125.00
Deductions	0.00							
Employee Taxes	330.64							
Employer Benefits	0.00							
Employer Taxes	124.69							

- Repeat steps 1-3 for each employee with overtime.
- Post the pay run and print checks/advices as usual.

Note: The pay stubs for these pay runs will look different, as the adjustments will show as separate earnings and the overtime will be split between the calculated differential and the manual overtime earning. The Gross Pay, Net Pay, Regular Hours, and Overtime Hours will all be correct.

Hourly Alabama	SSN XXX-XX-0486	ID AL2								
Mar Status Single	Allowances 0	Dept								
Pay Date 11/03/2023	Period For 10/22/2023	To 10/28/2023								
Earnings	Rate	Hours	Amount	YTD Hours	YTD Amount	Deductions	Amount	YTD Amount	Benefit	YTD Amount
Hourly Pay	20.00	25.00	500.00	50.00	1,250.00	Fed W/H	190.05	190.05		
Hourly Pay	30.00	25.00	750.00			Soc Sec	85.25	85.25		
OT - Calc	12.50		125.00			125.00 Medicare	19.94	19.94		
OT Adj	25.00	-10.00	(250.00)	-10.00	(250.00)	AL WH Tax	35.40	35.40		
OT-Hourly	25.00	10.00	250.00	10.00	250.00					
Hours		Gross Pay		Deductions		Benefits				
Reg Hours	OT Hours	Hrs. Total	Amount	YTD Amount	Amount	YTD Amount	Amount	YTD Amount	Amount	YTD Amount
40.00	10.00	50.00	1,375.00	1,375.00	330.64	330.64				
			Net Pay		YTD Net Pay		1,044.36	1,044.36		