Alabama OT Setup: Payroll and isolved Time

Author: Michael Kolby

Effective January 1, 2024, a new Alabama law, [Act 2023-421](#), excludes wages received by hourly employees for hours worked above 40 in any given week from gross income.

Alabama Department of Revenue has posted [Guidance and FAQ](#). A few FAQ to note:

- Beginning January 1, 2024, through June 30, 2025, overtime pay received by hourly employees as compensation for hours worked in excess of 40 hours in a week qualifies as exempt.
- For withholding tax purposes, only wages subject to Alabama withholding are used in calculating when the 40-hour weekly threshold has been exceeded.
- This applies to employees who are residents of Alabama and to employees who are non-residents.
- For an Alabama resident, wages earned in other states that are subject to the other state's withholding tax are not subject to Alabama withholding tax; therefore, they are not used in the calculation determining the 40-hour threshold for Alabama withholding purposes.
- Only wages subject to Alabama withholding above 40 hours are used in the withholding tax determination for non-residents.
- Multiple weeks cannot be averaged to determine what wages are exempt.

The complete Overtime Pay Exemption Reporting Guidance and FAQs can be found [here](#).

Setup Payroll Only (not using isolved Time)

The setup requires overtime earnings that are exempt from Alabama SIT Withholding and that post the total earning in Box 14.

> New Vertex Comp ID 901 Alabama Overtime SIT Exemption

Service Bureau administrators:

- Create new system overtime earnings for Alabama Overtime
    - Vertex Code 901
    - Add Year End Designation W-2 Box 14
- Add these new earnings to any companies paying overtime wages in Alabama.

If employees work between states, they will post Alabama Overtime to the new separate overtime earnings. All other states will continue to post overtime to existing overtime earnings.

Setup (isolved Time users)

Setup requires overtime earnings that are exempt from Alabama SIT Withholding and that post the total earning in Box 14.

> New Vertex Comp ID 901 Alabama Overtime SIT Exemption

Service Bureau administrators:

- Create new system overtime earnings for Alabama Overtime
  - Vertex Code 901
  - Add Year End Designation W-2 Box 14
- These new overtime earnings should be added to any companies paying overtime wages in Alabama.

If employees work between states, the following setup is recommended:

To separate overtime worked in Alabama and overtime worked in other states, additional earnings must be created. Earnings have been set up for this example:
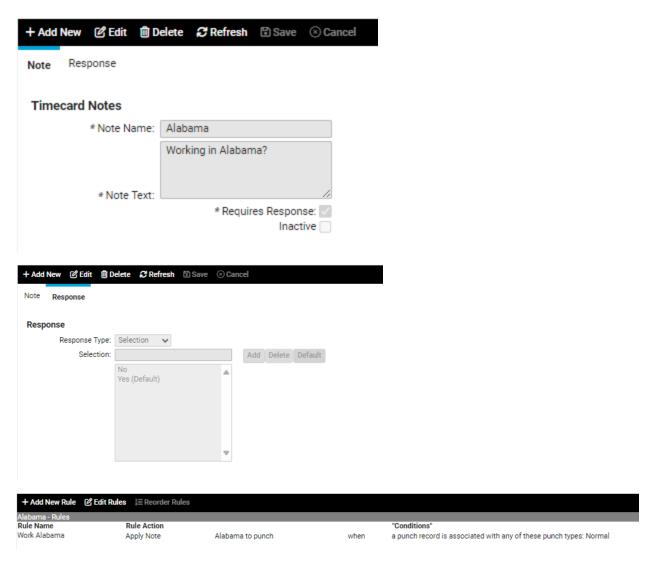
- Regular
- Regular AL
- Overtime
- Exempt OT

To trigger hours worked in Alabama and hours worked in other states, a labor table is created:

- Labor Table Name: Alabama
- Labor Values
  - 1: Yes
  - 2: No

To make location punching easier for employees, a note rule can be implemented to ask the employee if they are working in Alabama.

Timecard Notes

* Note Name: Alabama

* Note Text: Working in Alabama?

* Requires Response: ☑
Inactive ☐

Response

Response Type: Selection ▼
Selection: [_____]   Add Delete Default

No
Yes (Default)

Alabama - Rules

Rule Name	Rule Action			"Conditions"
Work Alabama	Apply Note	Alabama to punch	when	a punch record is associated with any of these punch types: Normal

The note rule can then be mapped to labor through the hours allocation engine.

- 'Apply Labor to Notes' Rule
  - Apply Labor 'Alabama:1-Yes'
  - Apply Earning 'Regular AL'
  - Target All 'Regular' earnings
  - When an hour contains a punch with a note response of 'Alabama: Yes'
- If note responses weren't used during punching/editing, need to map labor to the earning. 'Reg AL' rule:
  - Apply earning 'Regular AL'
  - Target All 'Regular' earnings
  - When an hour matches labor 'Alabama:1-Yes'
- Separate Alabama Overtime 'AL OT' rule:
  - Apply earning 'Exempt OT'

- Target hours with earning 'Regular AL' that exceed 40 hours in an overtime period
    - When hours match earning 'Regular AL' (earnings that count toward threshold)
- Non-exempt overtime 'OT' rule
    - Apply Earning 'Overtime'
    - Target hours with earnings 'Regular' and 'Regular AL' that exceed 40 hours
    - When hours match earnings 'Regular' and 'Regular AL' (both will count towards non-exempt OT threshold)

Examples

I work 41 hours in Alabama – 1 hour of OT is exempt, and these wages would be in Box 14.

I work 41 hours with 21 in Alabama and 20 hours in Florida – 1 hour of OT is not exempt, and these wages would not be in Box 14.

< 6 of 15 >

Bill Lumbergh
Employee #: 105 Status: Active Hire Date: 6/6/2005

Pay Group: Weekly

Auto Hourly 13.4500
Work Location: SLC

Department: 550 - General Management

Client: 2222 - Initech
Company: Initech (Kolby's Company Don't ...

Analyze Rules ▾ | ⏱ Request Time Off | ☰ View Scheduler | 📄 Time Card Report | 📅 Schedule Report | 📋 Preview Check | ⚠ Alert Detail

Calendar | Spreadsheet

< 🔒 Sun 09/24/2023 - Sat 09/30/2023 📅 >

Day | Week | Pay Period

	Sun 9/24 ▾	Mon 9/25 ▾	Tue 9/26 ▾	Wed 9/27 ▾	Thu 9/28 ▾	Fri 9/29 ▾	Sat 9/30 ▾	Total
12:00 AM	-						-	
1:00 AM	-						-	
2:00 AM	-						-	
3:00 AM	-						-	
4:00 AM	-						-	
5:00 AM	-						-	
6:00 AM	-						-	
7:00 AM	-	7:00 AM-3:00 PM 8.00 hrs	7:00 AM-3:00 PM 8.00 hrs	7:00 AM-12:00 PM 5.00 hrs	7:00 AM-3:00 PM 8.00 hrs	7:00 AM-4:00 PM 9.00 hrs	-	
8:00 AM	-						-	
9:00 AM	-						-	
10:00 AM	-						-	
11:00 AM	-						-	
12:00 PM	-			12:00 PM-3:00 PM 3.00 hrs			-	
1:00 PM	-						-	
2:00 PM	-						-	
3:00 PM	-						-	
4:00 PM	-	-	-	-	-	-	-	
5:00 PM	-	-	-	-	-	-	-	
6:00 PM	-	-	-	-	-	-	-	
7:00 PM	-	-	-	-	-	-	-	
8:00 PM	-	-	-	-	-	-	-	
9:00 PM	-	-	-	-	-	-	-	
10:00 PM	-	-	-	-	-	-	-	
11:00 PM	-	-	-	-	-	-	-	

	Sun 9/24	Mon 9/25	Tue 9/26	Wed 9/27	Thu 9/28	Fri 9/29	Sat 9/30	Total
Total Hours		8.00	8.00	8.00	8.00	9.00		41.00
Earning Summary								
Regular				3.00	8.00	8.00		19.00
Regular AL		8.00	8.00	5.00				21.00
Overtime						1.00		1.00
Labor Summary								
Depart... Alabama								
550 1		8.00	8.00	5.00				21.00
550 2				3.00	8.00	9.00		20.00