

# Navigating Wage Compliance:

## *Missouri Minimum Wage Law And Federal Overtime Deductions*

Municipalities across the state of Missouri are facing new challenges in wage compliance as changes to minimum wage and rules on overtime tax deductions reshape how cities must structure employee compensation. For starters, Missouri House Bill 567 recently took effect, requiring all employers, including municipal employers, to pay employees the state required minimum wage at \$13.75 per hour. This raises unique compliance questions for non-exempt salaried employees like firefighters whose irregular schedules and pay structures often do not align with hourly wage requirements. Secondly, the new federal rules on overtime tax deductions place additional responsibility on employers to carefully track and distinguish between overtime hours that qualify for deductions and any more generous overtime benefits provided locally or through collective bargaining agreements. This article aims to examine the compliance issues raised by Missouri's minimum wage law and new federal overtime tax deduction rules and outline how municipalities can comply with these changes.

### Minimum Wage Compliance

Missouri's recent changes to the minimum wage law directly impacts cities and other public employers. House Bill 567, which took effect August 28, 2025, modified Section 290.502 RSMo applying the minimum wage requirements of Proposition A to public employers. This means that cities must pay all employees, as defined under state law<sup>1</sup>, at least \$13.75 per hour and \$15.00 per hour starting January 1, 2026. While the law excludes certain groups from the



definition of employee, such as nonprofit volunteers, short-term seasonal camp staff, and other temporary or casual employment positions, it does not exempt firefighters or other non-exempt salaried employees with shift schedules that are not based on eight hours per day and 40 hours per week.

The new minimum wage requirements as applied to cities create compliance challenges when compensating firefighters and other employees who work 24- and 48-hour shifts and are often paid on a salary basis. Firefighters and other employees who are on duty, even if resting or engaged in personal activities, are considered to be working and are due compensation at least equal to the state minimum wage for all working hours.

Under Missouri regulations, non-exempt employees must be paid at least the minimum wage for all hours *actually worked*, regardless of the frequency of payment or whether the wage is paid as hourly, salary or another basis.<sup>2</sup> Generally, minimum wage and overtime compliance in Missouri is based on a seven-day period; however, in interpreting and enforcing the Missouri Minimum Wage Law, the Missouri Department of Labor and Industrial Relations follows the regulations established by the U.S. Department of Labor under the Fair Labor Standards Act (FLSA).<sup>3</sup> The FLSA allows employers to use a designated work period, rather than a standard workweek to determine overtime hours worked for employees in fire protection and law enforcement, which provides for a calculation of the employee's regular rate of hourly pay.<sup>4</sup> Federal regulations provide that a firefighter's regular rate of pay is computed by converting the annual salary to its work-period equivalent and dividing that amount by the number of hours intended to be worked.<sup>5</sup> Many firefighters who work 24- and 48-hour shifts have their hours calculated on a 28-day work period. Federal regulations provide that the maximum hours that may be worked by a firefighter in a 28-day work period is 212 hours before overtime is due.<sup>6</sup> This equates to 2,756 hours of work at base pay on an annual basis. In practice, however, due to scheduling requirements to ensure that three squads of firefighters provide full coverage throughout a year, municipalities typically schedule firefighters to work 2,912 hours in a year, which constitutes 2,756 regular time hours + 156 scheduled overtime hours.

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In such an instance, cities may calculate a firefighter's hourly rate using the 2,912 hours worked per year, reflecting a salary intended to compensate a 56-hour workweek rather than the 53-hour standard used in the 2,756 hour calculation. The FLSA does not limit the hours that the salary is intended to compensate. Regardless of the method used, employers must still comply with FLSA overtime requirements for all hours worked beyond the statutory maximum of 212 hours in a 28-day work period and must ensure that firefighters, as well as all other non-exempt employees, are paid at least \$13.75 per hour through Dec. 31, 2025, and \$15.00 per hour beginning Jan. 1, 2026.

Here, the primary takeaway is that cities may rely on the U.S. Department of Labor regulations to determine hourly pay rates using a 2,912 hour annual schedule to ensure compliance with state minimum wage requirements.

## Tax Deduction For Overtime Pay

Under the One Big Beautiful Bill Act (OBBA), individuals who receive "qualified overtime compensation" are eligible to take a tax deduction for such pay up to \$12,500 for individual filers and \$25,000 for joint filers.<sup>7</sup> Qualified overtime compensation is compensation required under the FLSA that is in

excess of an individual's regular rate of pay.<sup>8</sup> The FLSA requires employers to pay employees at least time-and-a-half (1.5x) for all hours worked over 40 in a workweek.<sup>9</sup>

Put plainly, under the OBBA, a non-exempt employee entitled to overtime compensation under the FLSA is entitled to a deduction on their tax return for the half (0.5x) of the required time-and-a-half (1.5x) overtime compensation.<sup>10</sup> Any additional overtime required or offered whether due to state law, union contracts, or employer policies does not qualify for the deduction. For instance, employees that receive overtime compensation that would not otherwise be required under the FLSA are not eligible to take deductions for such excess overtime pay, and employees that have more generous overtime compensation under a collective bargaining agreement such as 1.8x are still only eligible to deduct the 0.5x instead of the 0.8x that exceeds their regular compensation.

The table below provides an example of how the OBBA overtime deduction

is applied in practice, showing how an employee earning 1.8x overtime under a collective bargaining agreement (CBA) may only deduct the 0.5x overtime premium required by the FLSA.

Beyond deductions, the OBBA also imposes new reporting obligations on employers. The OBBA requires employers to track and include *qualified* overtime compensation on employee W-2s.<sup>11</sup> While the effective date of the law is retroactive to January 1, 2025, the OBBA includes a transition rule allowing employers to approximate overtime compensation for the 2025 tax year by any method specified by the Secretary of the Treasury.<sup>12</sup> Although, the Internal Revenue Service (IRS) is expected to release transition relief guidance for the 2025 tax year later this year,<sup>13</sup> as of now, no guidance has been released by the IRS, except for a draft of Schedule 1-A (Form 1040) implementing new sections for deductions for tips, car loan interest, seniors, and overtime compensation.<sup>14</sup>

While awaiting IRS guidance, cities should consult with their attorneys or tax professionals and regularly monitor the IRS website for updates. In the meantime, cities should review and update payroll systems to ensure they can accurately track and report qualified overtime compensation for the 2026 tax year. Further, cities should work with their payroll companies or finance directors to calculate or estimate the qualified overtime premium paid to non-exempt employees in 2025. Again, only qualified overtime compensation is reported on employee W-2s as overtime compensation. This means that any additional overtime compensation above the FLSA premium, is only reported on employee W-2s as regular income and should be separately tracked.

Cities should continue to withhold taxes on overtime compensation in accordance with federal and state law

### Based on a workweek with 10 hours of overtime:

Hourly Rate	\$20.00
CBA Overtime Rate (1.8x)	1.8 x \$20.00 = \$36.00
Total Overtime Pay Received	10 hrs x \$36.00 = \$360.00
FLSA Deductible Overtime (0.5x)	0.5 x \$20.00 X 10 hrs = \$100.00
<b>Overtime Eligible for Deduction</b>	<b>\$100.00</b> of the \$360.00 overtime pay



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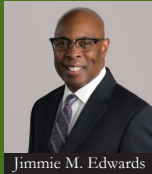
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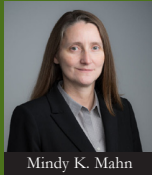
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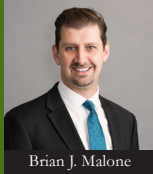
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as the new deduction only affects the calculation of federal income tax, not payroll tax obligations, and the tax deductions do not impact how overtime is calculated.

### Conclusion

Missouri's new minimum wage law and the federal overtime tax deduction rules present new challenges in wage compliance. Cities must ensure that all non-exempt employees, including salaried workers such as firefighters, receive pay that satisfies the minimum wage requirements. Further cities must review and implement updated payroll tracking to report qualified overtime compensation on employee W-2 forms. While IRS guidance on reporting is still pending, early preparation is critical to ensure a smooth transition into employers' 2026 reporting obligations. By taking proactive steps, municipalities can better navigate these changes, reduce compliance risks, and ensure accurate reporting in the coming tax years. 🍃



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### End Notes

<sup>1</sup> § 290.500, MO. REV. STAT.

<sup>2</sup> MO. CODE REGS. ANN. tit. 8 §§ 30-40.010, 020.

<sup>3</sup> *Id.*

<sup>4</sup> 29 U.S.C. § 207(k); U.S. Dep't of Labor, Wage & Hour Div., Opinion Letter (Nov. 19, 1986).

<sup>5</sup> 29 C.F.R. § 778.113(b); 29 C.F.R. § 553.230; U.S. Dep't of Labor, Wage & Hour Div., Opinion Letter (Nov. 19, 1986).

<sup>6</sup> 29 C.F.R. § 553.230.

<sup>7</sup> Pub. L. No. 119-21, tit VII, 139 Stat. 72 (2025).

<sup>8</sup> *Id.*

<sup>9</sup> Or, for work over 212 hours in a 28-day work period for fire employees and 171 hours for law enforcement employees.

<sup>10</sup> See *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*; One Big, Beautiful Bill Provisions: Income tax relief and deductions, IRS (Sept. 19, 2025), <https://www.irs.gov/newsroom/one-big-beautiful-bill-provisions#:~:text=New%20deduction%3A%20Effective%20for%202025%20through%202028%2C%20individuals%20who%20receive,W%2D2D%2C%20Form%201099%2C>

<sup>14</sup> IRS, DRAFT SCHEDULE 1-A (FORM 1040) 2-3 (2025), <https://www.irs.gov/pub/irs-dft/f1040s1a--dft.pdf>.