

# UNDERSTANDING BONUS CLASSIFICATION:

## WHAT EMPLOYERS NEED TO KNOW

The No Tax on Overtime provision of the One Big Beautiful Bill means that correctly classifying bonuses as discretionary or non-discretionary has never been more important. Under the Fair Labor Standards Act (FLSA), non-discretionary bonuses must be included in an employee's regular rate of pay when calculating overtime. When overtime is tax-free, this distinction directly impacts both your compliance obligations and your employees' take-home pay.

Use this graphic to ensure your bonus programs are properly classified, and your overtime calculations are accurate.

DISCRETIONARY	NON-DISCRETIONARY
<ul style="list-style-type: none"><li>✱ Employees have no expectation of receiving it. It is a surprise or a gift.</li><li>✱ Employer has sole discretion and no prior legal obligation to pay.</li><li>✱ Not tied to specific performance goals, standards, or metrics.</li><li>✱ No advanced notice or promise of payment is given.</li><li>✱ <b>Excluded</b> from the employee's regular rate of pay when calculating overtime.</li></ul>	<ul style="list-style-type: none"><li>✱ Employees expect to receive it if they meet predefined goals or conditions.</li><li>✱ Employer is contractually or implicitly obligated to pay once criteria are met.</li><li>✱ Tied to specific achievements (e.g. sales targets, production goals, attendance).</li><li>✱ Amount and criteria are typically known in advance and outlined in policy/contract.</li><li>✱ <b>Included</b> in the employee's regular rate of pay, potentially increasing overtime pay.</li></ul>

### IMPORTANT!

For compliance with wage and hour laws, the label assigned to a bonus does not determine its type; its structure and the circumstances do. Non-discretionary bonuses for non-exempt employees must be factored into their regular rate of pay to ensure proper overtime calculation.