Town of Orange

Town Council

Special Meeting Agenda
Tuesday, September 9, 2025
Town of Orange Community Meeting Room

5:00 p.m.

1. **Call to order by Mayor.**
2. **Roll Call:**

   Mayor J. Harrison Cluff — **Councilmember Jeremiah V. Pent**

   Vice-Mayor Delmer G. Seal, Jr. — **Councilmember Donna Waugh-Robinson**

   Councilmember Jason R. Cashell

3. **Adoption of Agenda.**
4. **Discussion of the overtime taxation changes as a result of the Big Beautiful Bill.**
5. **Town Council will convene into a Closed Meeting per State Code Section 2.2-3711(A)(1) to discuss personnel matters involving the Town Manager's position.**
6. **Town Council Adjournment.**

Town of Orange
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MEMORANDUM

TO: Mayor and Council Members

FROM: Greg Woods, Town Manager

DATE: September 2, 2025

SUBJECT: Non-Taxable Overtime

President Trump's Big, Beautiful Bill removed tax on tips and overtime as well as other citizen tax reductions such as an additional Social Security deduction for seniors. The only item in the bill that impacts the Town is the no tax on overtime. Overtime is generally referred to as one- and half-time regular hourly pay or in the case of double and triple time – 2 or 3 times the regular pay.

The bill causes the half-time piece (or pay above regular time) to be non-taxable. Our payroll system (Edmunds) should be able to handle this for overtime (or double time) pay, but we have a problem with the way compensatory time has been recorded and used (paid). The Town provides overtime, double time and/or compensatory time for the following events:

Personnel Manual Rules:

1) Nonexempt employees, other than police officers, will be paid at a rate of one and one half-times their normal salary for each hour over forty (40) worked within a calendar week, unless they have elected to receive compensatory time instead. Holidays, vacations, compensatory time used and other paid time off (excluding sick pay) are deemed to be hours worked. (Personnel Manual Section 5.6-A1).
2) Employees eligible for overtime may, at their option, take compensatory time instead. Compensatory time for such employees will be granted at a rate of one and one half-hours for each hour of overtime worked, subject to the limitations of section 5.6 D. (Personnel Manual Section 5.6-A2).
3) All full-time, permanent personnel required to work on Town holidays will be paid at one and one-half time for each hour worked and given Compensatory time equal to a normal shift to use at another time of his/her choice. (Personnel Manual Section 5.6-B1 2(i)).
4) Employees called in to work outside their regular planned work schedule shall be entitled to receive overtime payment at the rate of time and one-half for the actual hours worked with a minimum of 2 hours. Employees called in to work on a holiday shall be entitled to receive double time pay for the actual hours worked with a minimum of 2 hours. (Personnel Manual Section 5.6 C).

Current:

Our system problem is that the compensatory time is awarded as regular time in the following examples:

1) Under Section 5.6 A1, an employee works 8 hours over in a week or in the case of police officers after 160 hours (for the four-week period), the employee is given 12 hours of compensatory time to be used when authorized. When used the employee is paid on an hourly basis the amount of compensatory time used. If this is 8 hours used, then 8 hours is paid at regular rate and the 4 hours remains in the compensatory time bank until used. The 4 hours remaining in the compensatory time bank would be non-taxable, but we cannot distinguish which hours are taxable or not which would have to be done on an individual basis causing more complications.
2) Under section 5.6 B1 2(i), if the compensatory time is awarded due to working on a holiday, this is added to the compensatory time bank as regular time (not subject to the non-taxable overtime requirement).

With the compensatory time earned being recorded as regular hours, when it is paid it is done so at regular time pay, therefore the employee would not get the tax benefit they are entitled to.

Proposed:

It is expected that the payroll system will handle the half-time piece of the overtime amount as non-taxable and be able to track it. The proposed recommendation is to record the compensatory time as the same hours as worked and pay it out as overtime when used. For example, in the case of Section 5.6 A1 overtime for 8 hours of compensatory time earned, this would be recorded as 8 hours of compensatory time to be used but would be paid at overtime rates. The employee would still get some time off (equal to what was worked).

In the case of the holiday pay scenario, I would suggest the following:

Instead of pay at one and a half-time with 8 hours compensatory time (added in the time bank as regular hours). Change this to 8 hours holiday pay with 8 hours (or 12 depending on shift) of compensatory time which would be paid at the overtime rate when used.