Scrooge States: When Federal Tax Relief Stops at the State Line

December 27, 2025 - When Congress passed the One Big Beautiful Bill and the president signed it into law, the promise was simple and politically potent: no federal income tax on tips, no federal income tax on overtime pay, and a new deduction for seniors meant to ease the pressure of rising costs in retirement. For millions of workers and retirees, it sounded like real relief. What many people did not realize, however, is that federal tax policy does not automatically carry over to the states.
Each state decides whether to follow federal tax law or to â€œdecoupleâ€• from it. That technical choice has very real consequences. In states that conform to the new law, workers and seniors see the benefit at both the federal and state level. In states that do not, taxpayers get the federal break but still pay state income tax on the same income. The result is a patchwork system where identical workers in different states end up with very different tax bills.

A small group of states has chosen to fully align with the federal changes. Michigan stands out as the clearest example. Lawmakers there passed legislation to adopt the federal deductions for tips, overtime premiums, and the new senior deduction, making Michigan one of the few states where workers and retirees will see the full benefit Congress intended. Idaho, Montana, North Dakota, and South Carolina also generally conform to the new personal tax provisions under their existing tax codes.

Other states have taken a middle-road approach, adopting some parts of the federal law while rejecting others. Colorado allows the federal senior deduction but continues to tax overtime premium pay at the state level. Iowa and Oregon conform to the federal treatment of tips and overtime but do not allow the new senior deduction, meaning older residents in those states will still pay state tax on income the federal government now excludes.

Several large and influential states have gone further, choosing not to adopt the new worker and senior tax breaks at all. New York, California, and Illinois have all signaled that they will continue taxing tips and overtime income, citing concerns about lost revenue. Maine has explicitly rejected multiple provisions of the law, including the senior deduction, while Washington, D.C., moved quickly to decouple through emergency legislation, preserving local taxes on tips, overtime, and senior income.

The financial impact of these decisions is not abstract. It shows up directly on tax returns. A senior denied the new $6,000 deduction in a state with a six percent income tax will pay roughly $360 more in state taxes each year. In higher-tax jurisdictions, the added cost can exceed $500 annually for a single filer and double that for married couples. Tipped workers who qualify for the federal deduction but live in nonconforming states can owe hundreds of dollars more to their state governments, depending on their income and local tax rates. Overtime workers face similar outcomes, with states taxing the premium portion of overtime pay that Congress specifically chose to exempt.

Not everyone is affected. Residents of states with no state income tax on wages are largely insulated from the issue. Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming do not tax wage income, so whether they conform to the federal law is mostly irrelevant for workers earning tips or overtime. For seniors in those states, the federal deduction stands on its own.

Supporters of state decoupling argue that budgets matter and that adopting every federal tax change would force painful cuts elsewhere. Critics counter that these states are effectively advertising tax relief while quietly clawing it back at the local level, often from the same service workers and retirees politicians claim to champion. Treasury officials have urged states to conform, warning that noncompliance shifts the burden onto taxpayers who can least afford it.

The larger issue is clarity. Many taxpayers will assume that â€œno tax on tipsâ€• or â€œno tax on overtimeâ€• applies everywhe to discover at filing time that their state had other ideas. In those places, the promise of relief ends at the state line, and Scrooge is the one still collecting.

State Treatment of BBB Tax Breaks (Current as Reported)

State / Territory

Tips Exempt
Overtime Exempt

Senior Deduction
Notes

Alabama
Not Adopted
Not Adopted
Not Adopted
Static conformity; no enabling law

Alaska
N/A
N/A
N/A
No state income tax

Arizona
Not Adopted
Not Adopted
Not Adopted
No legislative adoption

Arkansas
Not Adopted
Not Adopted
Not Adopted
No legislative adoption

California
No
No
No
State officials explicitly said they will not comply

Colorado
Yes
No
Yes
Overtime premium explicitly excluded

Connecticut
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Delaware
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Florida
N/A
N/A
N/A
No state income tax

Georgia
Not Adopted
Not Adopted
Not Adopted
Rolling conformity excludes personal deductions

Hawaii
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Idaho
Yes
Yes
Yes
Conforms

Illinois
No
No
Not Adopted
State leadership rejected worker exemptions

Indiana
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Iowa
Yes
Yes
No
Senior deduction explicitly excluded

Kansas
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Kentucky
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Louisiana
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Maine
No
No
No
Explicitly rejected all three

Maryland
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Massachusetts
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Michigan
Yes
Yes
Yes
Only state to fully legislate compliance

Minnesota
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Mississippi
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Missouri
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Montana
Yes
Yes
Yes
Conforms

Nebraska
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Nevada
N/A

N/A
N/A
No state income tax

New Hampshire
N/A
N/A
N/A
No wage income tax

New Jersey
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

New York
No
No
Not Adopted
State declined to adopt worker exemptions

North Carolina
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

North Dakota
Yes
Yes
Yes
Conforms

Ohio
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Oklahoma
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Oregon
Yes
Yes
No
Senior deduction excluded

Pennsylvania
Not Adopted
Not Adopted
Not Adopted

Flat tax; no adoption legislation

Rhode Island
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

South Carolina
Yes
Yes
Yes
Conforms

South Dakota
N/A
N/A
N/A
No state income tax

Tennessee
N/A
N/A
N/A
No wage income tax

Texas
N/A
N/A
N/A
No state income tax

Utah
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Vermont
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Virginia
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Washington
N/A
N/A
N/A
No wage income tax

Washington, D.C.
No
No
No
Emergency legislation decoupled

West Virginia
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Wisconsin
Not Adopted
Not Adopted
Not Adopted
No adoption legislation

Wyoming
N/A
N/A
N/A
No state income tax