

# Wage Deductions: When Can You Make Them?

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| Hours and Earnings |             | Year-to |
|--------------------|-------------|---------|
| Hours              | This Period |         |
| 71.00              | 384.00      |         |
|                    | 276.90      |         |
|                    | 384.00      |         |

While wage deductions can effectively recoup costs and losses from an employee, deductions from wages are heavily regulated, and contractors should proceed with caution when making these deductions. Under the Fair Labor Standards Act, a federal law governing most contractors nationwide, wage deductions for items considered primarily for the benefit or convenience of the employer may not reduce an employee's pay rate below minimum wage. For example, if an employer has an agreement with an employee to deduct from the employee's wages costs to cover any damage to an employer's property or lost equipment, the employer's deductions cannot bring the employee's pay below minimum wage. Alternatively, wage deductions for items considered for the employee's benefit and do not benefit the employer, such as a personal loan to the employee, the wage deduction can reduce the employee's effective rate of pay below minimum wage. The same general rule applies to wage deductions and overtime compensation, not bringing the employee's wage below time and a half.

In addition to federal laws regulating wage deductions, many states have stricter rules governing what, when, and how employers may make deductions from employees' wages. For instance, in New Jersey, employers may not require an employee to pay for their uniforms or deduct the cost of uniforms from an employee's paycheck, and in California, employers are generally prohibited from making deductions from an employee's wages for vehicle damage caused by an employee's negligence.

As a general rule of thumb, contractors should always get express permission from employees to make any deductions from their wages and pay close attention to their state's laws on deductions to ensure they are not running afoul of these regulations. To merely include a deduction policy in the employee handbook without seeking permission and vetting what deductions are allowable in your state and the laws governing those deductions is wholly insufficient.

Out of all of the many areas of employment law that employers must comply with, wage and hour laws have some of the steepest consequences for noncompliance. Contractors who fail to comply with wage and hour laws, such as wage deduction regulations, may have to pay double to treble damages, the employee's attorney's fees, and individual penalties for noncompliance. Accordingly, contractors must pay special attention to these laws before implementing any policies or procedures related to payroll deductions.