

TEXAS FEDERAL COURT STRIKES DOWN NEW SALARY MINIMUMS FOR FEDERAL OVERTIME EXEMPTION

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On November 15, 2024, a federal judge in Texas threw out federal rules establishing new minimum salary thresholds for the employees qualifying for one of the so-called “EAP” or white collar overtime exemptions under the Fair Labor Standards Act (“FLSA”). The court’s ruling not only halts an increase to the minimum salary threshold that was set to go into effect on January 1, 2025, it also effectively rolls back the threshold’s previous increase that became effective on July 1, 2024. As a result, the minimum salary threshold for the executive, administrative, and professional exemptions under the FLSA has dropped back to \$684 per week (or \$35,568 per year).

THE FLSA AND THE EAP EXEMPTIONS

The FLSA generally requires employers to pay at least the federal minimum wage as well as overtime to their employees at a rate one and a half times the employee’s regular rate of pay when the employee works over forty hours in a workweek. Several classes of employees are exempted from the requirements of the FLSA, including “white-collar” employees in certain executive, administrative, and professional (EAP) roles. To qualify for the “EAP” exemption, the employee must (1) be paid on a salary basis an amount that meets or exceeds a threshold set by federal regulations (the “salary test”), *and* (2) perform executive, administrative, or professional duties as defined by federal regulations (the “duties” test).

Earlier this year, the U.S. Department of Labor promulgated a final rule that increased the minimum salary threshold for the EAP exemptions from \$684 per week (the equivalent of \$35,568 per year) to \$844 per week (the equivalent of \$43,888 per year) beginning July 1, 2024. The final rule was scheduled to further raise the minimum threshold to \$1,128 per week (the equivalent of \$58,656 per year) beginning January 1, 2025. According to DOL estimates, the two threshold increases would have expanded overtime eligibility to approximately four million American workers. The final rule also set automatic increases to the threshold every three years.

The final rule sparked numerous legal challenges. In one of those challenges, filed on May 22, 2024, in a Texas federal court, a coalition of employers and business groups and the State of Texas combined efforts to have the rule invalidated as unlawful. A week after hearing arguments from the parties, Judge Sean D. Jordan of the U.S. District Court for the Eastern District of Texas issued a 62-page opinion agreeing with the plaintiffs. The court first held that the final rule’s new

minimum salary threshold for the EAP exemptions exceeded the DOL's authority because it created what amounted to a "salary-only test" that effectively eliminated the FLSA's duties tests for the exemptions. Similarly, the court found that the automatic increases to the minimum thresholds every three years violated the FLSA and the Administrative Procedure Act. The court concluded that if the DOL wants to increase the amounts every three years, it must go through the notice and comment rulemaking process established by the Administrative Procedure Act. The court's decision vacated the entire final rule nationwide.

WHAT THIS MEANS FOR EMPLOYERS

The Texas decision effectively reverts the minimum salary for an employee to satisfy the salary test for an overtime exemption under the FLSA back to \$684 per week (or \$35,568 per year) and eliminates the scheduled increase to the threshold that was set for January 1, 2025. The DOL has appealed the Texas decision, but an appellate decision is unlikely prior to the Trump administration transition on January 20, 2025. It is unclear if the new administration will pursue or abandon appeal of the Texas decision, but the odds seem greater that no appeal will be further pursued. In light of this uncertainty, employers may wish to allow further time to pass before deciding whether to roll back any salary increases already made in 2024 in response to the final rule's salary threshold.

If you have any questions or need further guidance regarding federal or state wage and hour issues, please contact a member of Hancock Daniel's [Labor & Employment](#) team.

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