

**120TH CONGRESS**  
1ST SESSION

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**H.R. \_\_\_\_\_**

**IN THE HOUSE OF REPRESENTATIVES**

\_\_\_\_\_, 2026

**Mr. KLOIBER** introduced the following bill; which was referred to the Committee on Ways and Means (for the provisions relating to tax incentives) and the Committee on Oversight and Accountability (for the provisions relating to Federal contracting)

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**A BILL**

To amend the Internal Revenue Code of 1986 to provide enhanced tax incentives for employers that pay living wages and provide qualifying employee benefits, to establish living-wage preferences in Federal contracting, to provide targeted support for small businesses transitioning to higher-wage models, and for other purposes.

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*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

**(a) Short Title.—**

This Act may be cited as the “*Rewarding Work and Wages Act*” or the “*RWWA*”.

**(b) Table of Contents.—**

The table of contents of this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Findings and purpose.
- Sec. 3. Definitions.
- Sec. 4. Living wage and credit cap determination.
- Sec. 5. Living wage employer tax credit.
- Sec. 6. Enhanced deductions for qualifying employee benefits.

- Sec. 7. Federal contracting living-wage preferences.
- Sec. 8. Small business transition assistance.
- Sec. 9. Worker misclassification and wage theft prevention.
- Sec. 10. Transparency and reporting.
- Sec. 11. Revenue provisions.
- Sec. 12. Authorization of appropriations.
- Sec. 13. Effective date.
- Sec. 14. Severability.

## **SEC. 2. FINDINGS AND PURPOSE.**

### **(a) Findings.—**

Congress finds the following:

- (1) Over the past 45 years, real wages for middle- and lower-income households in the United States have failed to keep pace with inflation, productivity growth, and the rising cost of living.
- (2) Despite sustained growth in corporate profits and worker productivity, the share of national income accruing to wages and worker compensation has declined, while the share accruing to capital and corporate profits has increased.
- (3) Millions of full-time workers in the United States are unable to meet basic household expenses, including housing, food, healthcare, childcare, and transportation, without reliance on Federal or State public assistance programs.
- (4) The Federal Government provides substantial financial support to businesses through the tax code, Federal contracts, grants, and other incentive programs, but existing incentive structures do not adequately differentiate between employers that invest in their workforce and those that do not.
- (5) Research demonstrates that higher wages and stronger employee benefits are associated with increased worker productivity, reduced turnover, lower reliance on public assistance, and stronger local economic growth.
- (6) Small businesses, which are vital to local economies and communities, often face disproportionate challenges in competing with large corporations for talent due to tighter operating margins, and would benefit from targeted support in raising worker compensation.

### **(b) Purpose.—**

The purpose of this Act is to—

- (1) restructure Federal business incentives so that employers who pay living wages and provide qualifying benefits to their employees receive enhanced financial advantages under the Internal Revenue Code and in Federal procurement;
- (2) reduce reliance on public assistance programs by ensuring that full-time workers earn sufficient wages to meet basic needs;
- (3) support small and growing businesses in transitioning to higher-wage compensation models; and
- (4) promote transparency and accountability in the use of taxpayer-supported business incentives.

### SEC. 3. DEFINITIONS.

In this Act:

- (1) LIVING WAGE.—The term “*living wage*” means the hourly wage rate determined by the Secretary of Labor under section 4 for a given metropolitan statistical area or nonmetropolitan county, sufficient to enable a single full-time worker to meet basic household expenses without reliance on Federal or State public assistance programs.
- (2) QUALIFYING EMPLOYER.—The term “*qualifying employer*” means an employer that—
  - (A) pays not less than the applicable living wage to not fewer than 90 percent of its full-time employees; and
  - (B) is in compliance with all applicable Federal labor laws, including the Fair Labor Standards Act of 1938 (29 U.S.C. 201 et seq.).
- (3) ENHANCED QUALIFYING EMPLOYER.—The term “*enhanced qualifying employer*” means a qualifying employer that, in addition to the requirements of paragraph (2), provides not fewer than 2 of the following qualifying employee benefits to its full-time employees:
  - (A) Employer-sponsored health insurance covering not less than 60 percent of the actuarial value of the plan.
  - (B) Not fewer than 12 weeks of paid family and medical leave per 12-month period.
  - (C) An employer contribution to a qualified retirement plan (as defined in section 401(a) of the Internal Revenue Code of 1986) of not less than 3 percent of each participating employee’s annual compensation.
- (4) FULL-TIME EMPLOYEE.—The term “*full-time employee*” means an employee who is employed on average not fewer than 30 hours of service per week or 130 hours of service per calendar month.

(5) SMALL EMPLOYER.—The term “*small employer*” means an employer that employed an average of not more than 50 full-time employees during the preceding taxable year.

(6) MID-SIZE EMPLOYER.—The term “*mid-size employer*” means an employer that employed an average of more than 50 but not more than 500 full-time employees during the preceding taxable year.

(7) LARGE EMPLOYER.—The term “*large employer*” means an employer that employed an average of more than 500 full-time employees during the preceding taxable year.

(8) COVERED SECTOR.—The term “*covered sector*” means an industry sector or subsector, as classified under the North American Industry Classification System (NAICS), for which the Secretary of Labor has established sector-specific credit cap adjustments under section 4(d).

(9) SECRETARY.—Unless otherwise specified, the term “*Secretary*” means the Secretary of the Treasury.

#### **SEC. 4. LIVING WAGE AND CREDIT CAP DETERMINATION.**

##### **(a) Annual Determination.—**

The Secretary of Labor shall, not later than March 1 of each calendar year, determine and publish the living wage rate for each metropolitan statistical area and each nonmetropolitan county in the United States.

##### **(b) Methodology.—**

In determining the living wage under subsection (a), the Secretary of Labor shall consider—

- (1) the cost of housing, as measured by the fair market rent for a modest 1-bedroom unit established by the Department of Housing and Urban Development;
- (2) the regional cost of food, transportation, healthcare, childcare, and other basic household necessities, as measured by the Bureau of Labor Statistics Consumer Expenditure Survey or a successor data source;
- (3) applicable Federal, State, and local tax obligations; and
- (4) a modest allowance for savings and discretionary spending equal to not less than 10 percent of the aggregate cost of the items described in paragraphs (1) through (3).

##### **(c) Transition.—**

For the first year in which this Act is in effect, the Secretary of Labor shall publish interim living wage rates not later than 90 days after the date of enactment using existing

data from the Bureau of Labor Statistics and the Department of Housing and Urban Development.

**(d) Annual Credit Cap Determination.—**

(1) IN GENERAL.—Concurrently with the annual living wage determination under subsection (a), the Secretary of Labor, in consultation with the Secretary of the Treasury and the Administrator of the Small Business Administration, shall determine and publish for each taxable year—

(A) the applicable base credit cap per qualified employee for each employer size category (small employer, mid-size employer, and large employer);

(B) the applicable enhanced benefits credit cap per qualified employee for each employer size category;

(C) the applicable maximum total credit per qualified employee for each employer size category;

(D) the applicable health insurance bonus credit amount per covered employee for each employer size category;

(E) the applicable retirement contribution bonus credit amount per participating employee for each employer size category; and

(F) any sector-specific adjustments to the caps described in subparagraphs (A) through (E) for covered sectors.

(2) EMPLOYER SIZE DIFFERENTIATION.—In establishing the credit caps under paragraph (1), the Secretary of Labor shall set higher per-employee credit caps for small employers and mid-size employers relative to large employers, in recognition of the disproportionate financial burden that wage increases impose on employers with smaller revenue bases and tighter operating margins.

(3) SECTOR-SPECIFIC ADJUSTMENTS.—

(A) The Secretary of Labor shall identify covered sectors in which prevailing wage levels, profit margins, or workforce composition characteristics warrant sector-specific adjustments to the credit caps established under paragraph (1).

(B) In making sector-specific adjustments, the Secretary of Labor shall consider—

(i) the median profit margin for employers in the sector;

(ii) the proportion of the sector's workforce that is compensated below the applicable living wage;

(iii) the degree to which the sector relies on Federal contracts or taxpayer-supported revenue; and

(iv) the potential impact of wage increases on consumer prices for essential goods and services in the sector.

(C) Sector-specific adjustments may increase or decrease the applicable credit caps for a covered sector by not more than 30 percent relative to the general credit cap for the applicable employer size category.

(4) INITIAL CREDIT CAP AMOUNTS.—For the first taxable year in which this Act is in effect, the credit caps shall be as follows, subject to adjustment under paragraphs (2) and (3):

(A) BASE CREDIT CAP.—

- (i) For small employers: \$3,500 per qualified employee.
- (ii) For mid-size employers: \$3,000 per qualified employee.
- (iii) For large employers: \$2,000 per qualified employee.

(B) ENHANCED BENEFITS CREDIT CAP.—

- (i) For small employers: \$2,000 per qualified employee.
- (ii) For mid-size employers: \$1,750 per qualified employee.
- (iii) For large employers: \$1,200 per qualified employee.

(C) HEALTH INSURANCE BONUS.—

- (i) For small employers: \$750 per covered employee.
- (ii) For mid-size employers: \$600 per covered employee.
- (iii) For large employers: \$400 per covered employee.

(D) RETIREMENT CONTRIBUTION BONUS.—

- (i) For small employers: \$500 per participating employee.
- (ii) For mid-size employers: \$400 per participating employee.
- (iii) For large employers: \$250 per participating employee.

(E) MAXIMUM TOTAL CREDIT.—

- (i) For small employers: \$6,750 per qualified employee.
- (ii) For mid-size employers: \$5,750 per qualified employee.
- (iii) For large employers: \$3,850 per qualified employee.

**(e) Inflation Adjustment.—**

(1) IN GENERAL.—In the case of any taxable year beginning after the first calendar year in which this Act is in effect, each of the dollar amounts specified in subsection (d)(4) and each credit cap determined under subsection (d)(1) shall be adjusted by multiplying such amount by the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 for the calendar year in which the taxable

year begins, determined by substituting ‘calendar year 2026’ for ‘calendar year 2016’ in subparagraph (A)(ii) thereof.

(2) ROUNDING.—If any amount as adjusted under paragraph (1) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50.

(3) PUBLICATION.—The Secretary of Labor shall publish the inflation-adjusted credit cap amounts for each taxable year as part of the annual determination under subsection (a).

## **SEC. 5. LIVING WAGE EMPLOYER TAX CREDIT.**

### **(a) In General.—**

Subpart D of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new section:

### **“SEC. 45BB. LIVING WAGE EMPLOYER CREDIT.**

**“(a) In General.—**For purposes of section 38, the living wage employer credit determined under this section for any taxable year is the sum of—

“(1) the base living wage credit under subsection (b), and

“(2) the enhanced benefits credit under subsection (c).

### **“(b) Base Living Wage Credit.—**

“(1) IN GENERAL.—The base living wage credit for any taxable year is an amount equal to 10 percent of the aggregate wages paid by the taxpayer during such taxable year to qualified employees, not to exceed the applicable base credit cap per qualified employee as determined by the Secretary of Labor under section 4(d)(1)(A) of the Rewarding Work and Wages Act for the taxable year, as adjusted for the taxpayer’s employer size category and any applicable sector-specific adjustment.

“(2) QUALIFIED EMPLOYEE.—For purposes of this subsection, the term ‘qualified employee’ means a full-time employee who is paid not less than the applicable living wage (as determined under section 4 of the Rewarding Work and Wages Act) for the metropolitan statistical area or nonmetropolitan county in which such employee’s primary place of employment is located.

### **“(c) Enhanced Benefits Credit.—**

“(1) IN GENERAL.—An enhanced qualifying employer (as defined in section 3(3) of the Rewarding Work and Wages Act) shall be allowed an additional credit equal to 5 percent of the aggregate wages paid to qualified employees during the taxable year, not to exceed the applicable enhanced benefits credit cap per qualified employee as determined by the Secretary of Labor under section 4(d)(1)(B) of such Act for the taxable year, as adjusted for the taxpayer’s employer size category and any applicable sector-specific adjustment.

“(2) **HEALTH INSURANCE BONUS.**—A qualifying employer that provides employer-sponsored health insurance meeting the requirements of section 3(3)(A) of the Rewarding Work and Wages Act shall be allowed an additional credit per covered employee per taxable year in the amount determined by the Secretary of Labor under section 4(d)(1)(D) of such Act for the applicable employer size category.

“(3) **RETIREMENT CONTRIBUTION BONUS.**—A qualifying employer that provides retirement plan contributions meeting the requirements of section 3(3)(C) of the Rewarding Work and Wages Act shall be allowed an additional credit per participating employee per taxable year in the amount determined by the Secretary of Labor under section 4(d)(1)(E) of such Act for the applicable employer size category.

“(d) **Maximum Credit.**—The total credit allowed under this section with respect to any single employee for any taxable year shall not exceed the applicable maximum total credit per qualified employee as determined by the Secretary of Labor under section 4(d)(1)(C) of the Rewarding Work and Wages Act for the taxpayer’s employer size category, as adjusted for any applicable sector-specific adjustment and inflation under section 4(e) of such Act.

“(e) **Denial of Double Benefit.**—No deduction shall be allowed under this chapter for the portion of wages or benefits for which a credit is allowed under this section.

“(f) **Termination.**—This section shall not apply to any taxable year beginning after the date that is 10 years after the date of enactment of the Rewarding Work and Wages Act, unless extended by a subsequent Act of Congress.”

“(g) **Limitation on Eligible Wages.**—

“(1) **IN GENERAL.**—For purposes of computing the credit under subsections (b) and (c), the aggregate wages taken into account with respect to any single employee for any taxable year shall not exceed an amount equal to 300 percent of the applicable living wage for the metropolitan statistical area or nonmetropolitan county in which such employee’s primary place of employment is located, computed on an annualized basis.

“(2) **EXCLUSION OF HIGHLY COMPENSATED EMPLOYEES AND OFFICERS.**—No credit shall be allowed under this section with respect to wages paid to—

“(A) any highly compensated employee within the meaning of section 414(q) of this title; or

“(B) any individual who, at any time during the taxable year, is an officer of the employer within the meaning of section 416(i)(1)(A) of this title.

“(3) **RELATED PARTY RULE.**—For purposes of paragraph (2), the compensation of any employee who is a member of the family (within the meaning of section 267(c)(4) of this title) of a majority owner of the employer shall be treated as the compensation of a highly compensated employee.”

**(b) Conforming Amendments.—**

(1) Section 38(b) of the Internal Revenue Code of 1986 is amended by adding at the end the following: “plus the living wage employer credit determined under section 45BB.”

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1 of such Code is amended by adding at the end the following new item: “Sec. 45BB. Living wage employer credit.”

**SEC. 6. ENHANCED DEDUCTIONS FOR QUALIFYING EMPLOYEE BENEFITS.**

**(a) Paid Leave Deduction.—**

A qualifying employer that provides paid family and medical leave meeting the requirements of section 3(3)(B) shall be allowed a deduction equal to 125 percent of the cost of wages paid to employees during periods of qualified paid leave, in lieu of the deduction otherwise allowable under section 162 of the Internal Revenue Code of 1986 for such wages.

**(b) Small Employer Bonus Deduction.—**

A small employer that is a qualifying employer shall be allowed an additional deduction equal to 150 percent of the employer’s contributions to employer-sponsored health insurance premiums for qualified employees, in lieu of the deduction otherwise allowable under section 162 of such Code for such contributions.

**SEC. 7. FEDERAL CONTRACTING LIVING-WAGE PREFERENCES.**

**(a) Evaluation Criteria.—**

The Federal Acquisition Regulation shall be amended to require that, in evaluating offers for any Federal contract with a total value exceeding \$250,000, the contracting officer shall assign a preference score to offerors based on—

- (1) whether the offeror pays not less than the applicable living wage to not fewer than 90 percent of the employees who will perform work under the contract;
- (2) whether the offeror provides employer-sponsored health insurance, paid family and medical leave, or retirement benefits to such employees;
- (3) whether the offeror maintains fair scheduling practices, defined as providing employees with not fewer than 14 calendar days’ advance notice of work schedules and not fewer than 30 hours of guaranteed weekly employment for full-time positions; and
- (4) the offeror’s record of compliance with Federal labor laws during the preceding 3-year period.

**(b) Scoring Weight.—**

The preference score described in subsection (a) shall account for not less than 15 percent and not more than 25 percent of the total evaluation score for any covered Federal contract.

**(c) Waiver.—**

The head of a Federal agency may waive the preference requirements of this section with respect to a specific contract if the agency head certifies in writing that—

- (1) application of the preference would result in the agency receiving no responsive offers or only offers that fail to meet the agency's minimum technical requirements; or
- (2) a national security or urgent public safety need requires the waiver.

**(d) Effective Date.—**

The amendments to the Federal Acquisition Regulation required by this section shall take effect not later than 18 months after the date of enactment of this Act and shall apply to solicitations issued on or after such effective date.

**SEC. 8. SMALL BUSINESS TRANSITION ASSISTANCE.**

**(a) Phase-In Period.—**

A small employer shall not be required to meet the full requirements of a qualifying employer under section 3(2) until the date that is 3 years after the date of enactment of this Act. During the phase-in period—

- (1) for year 1, a small employer shall be deemed a qualifying employer if not fewer than 60 percent of its full-time employees are paid not less than the applicable living wage;
- (2) for year 2, the threshold shall be 75 percent; and
- (3) for year 3, the threshold shall be 90 percent.

**(b) Transition Tax Credit.—**

A small employer that increases its median employee wage by not less than 5 percent in any taxable year during the phase-in period shall be allowed a credit against the tax imposed by chapter 1 of the Internal Revenue Code of 1986 equal to 25 percent of the aggregate amount of such wage increase, not to exceed \$50,000 per taxable year (adjusted for inflation under section 4(e) beginning in the second taxable year in which this Act is in effect).

**(c) Technical Assistance.—**

The Administrator of the Small Business Administration, in consultation with the Secretary of Labor, shall establish a program to provide—

- (1) free financial modeling and workforce planning assistance to small employers seeking to transition to living-wage compensation models;
- (2) peer mentoring programs connecting small employers with businesses that have successfully implemented higher-wage practices; and
- (3) informational resources regarding available Federal, State, and local incentives for employers that raise wages and improve employee benefits.

## **SEC. 9. WORKER MISCLASSIFICATION AND WAGE THEFT PREVENTION.**

### **(a) Enhanced Penalties.—**

Any employer that—

- (1) misclassifies employees as independent contractors for the purpose of evading the requirements of this Act or the Fair Labor Standards Act of 1938 shall be subject to a civil penalty of not less than \$5,000 and not more than \$25,000 per misclassified worker; and
- (2) engages in wage theft, including the failure to pay agreed-upon wages, unauthorized deduction of wages, or failure to pay overtime compensation required by law, shall be subject to a civil penalty of not less than \$10,000 per affected employee, in addition to the full amount of back wages owed plus liquidated damages equal to the amount of back wages.

### **(b) Disqualification.—**

Any employer found to have engaged in worker misclassification or wage theft in violation of this section shall be—

- (1) ineligible for any tax credit or enhanced deduction under sections 5 and 6 of this Act for not fewer than 3 taxable years following the date of the final determination of the violation; and
- (2) ineligible for Federal contracting preferences under section 7 for not fewer than 3 years following such date.

### **(c) Private Right of Action.—**

Any employee who is a victim of wage theft or misclassification in violation of this section may bring a civil action in a court of competent jurisdiction to recover the full amount of unpaid wages, liquidated damages, and reasonable attorney's fees and costs.

## **SEC. 10. TRANSPARENCY AND REPORTING.**

### **(a) Employer Reporting.—**

Each qualifying employer or enhanced qualifying employer claiming a credit or enhanced deduction under this Act shall include with its annual tax return—

- (1) the total number of full-time employees;
- (2) the median and mean hourly wage paid to such employees;
- (3) the percentage of employees paid at or above the applicable living wage;
- (4) a summary of qualifying employee benefits provided; and
- (5) the total amount of credits and enhanced deductions claimed under this Act.

**(b) Anonymization.—**

All data reported under subsection (a) shall be anonymized at the individual employee level. No individually identifiable wage or benefit information shall be made publicly available.

**(c) Annual Report to Congress.—**

Not later than 2 years after the date of enactment of this Act, and annually thereafter, the Secretary shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report containing—

- (1) the number of employers claiming credits or enhanced deductions under this Act, disaggregated by employer size and industry;
- (2) the estimated aggregate value of credits and deductions claimed;
- (3) the estimated change in median wages among participating employers;
- (4) the estimated impact on Federal public assistance expenditures;
- (5) the estimated impact on Federal procurement costs; and
- (6) any recommendations for legislative or regulatory improvements.

**SEC. 11. REVENUE PROVISIONS.**

**(a) Offset.—**

The estimated revenue cost of the tax credits and enhanced deductions provided under this Act shall be offset in whole or in part by—

- (1) the reduction in Federal public assistance expenditures attributable to increased wages among workers employed by qualifying employers;
- (2) the increase in Federal income tax and payroll tax revenue attributable to higher wages paid to workers of qualifying employers; and
- (3) revenue generated from civil penalties assessed under sections 5(e), 7, and 9 of this Act.

**(b) Scoring.—**

The Congressional Budget Office and the Joint Committee on Taxation shall, in scoring the budgetary effects of this Act, take into account the dynamic economic effects described in subsection (a), including reductions in Federal spending on the Supplemental Nutrition Assistance Program, Medicaid, the Earned Income Tax Credit, and other means-tested programs attributable to increased worker wages.

## **SEC. 12. AUTHORIZATION OF APPROPRIATIONS.**

There are authorized to be appropriated—

- (1) to the Department of the Treasury, such sums as may be necessary to administer the tax credits and enhanced deductions under sections 5 and 6;
- (2) to the Department of Labor, such sums as may be necessary to carry out the living wage determinations under section 4 and the enforcement provisions under section 9; and
- (3) to the Small Business Administration, \$100,000,000 for each of fiscal years 2027 through 2031, to carry out the small business transition assistance program under section 8(c).

## **SEC. 13. EFFECTIVE DATE.**

(a) **IN GENERAL.**—Except as otherwise provided in this Act, this Act and the amendments made by this Act shall take effect on the date that is 1 year after the date of enactment of this Act.

(b) **TAX PROVISIONS.**—The amendments made by sections 5 and 6 shall apply to taxable years beginning after December 31 of the calendar year in which this Act is enacted.

(c) **REGULATIONS.**—Not later than 270 days after the date of enactment of this Act, the Secretary of the Treasury and the Secretary of Labor shall promulgate such regulations as are necessary to carry out this Act.

## **SEC. 14. SEVERABILITY.**

If any provision of this Act, or any amendment made by this Act, or the application of such provision or amendment to any person or circumstance, is held to be unconstitutional, the remainder of this Act, the amendments made by this Act, and the application of the provisions of such to any person or circumstance not directly affected by such holding, shall not be affected thereby.

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