



NO TAX ON OVERTIME FACT SHEET



Who qualifies?

- Only **W-2 employees** are covered.
 - Anyone working as an **independent contractor** is not eligible.
- The benefit phases out for those making more than:
 - **\$150,000 (Single)**
 - **\$300,000 (Married, filing jointly)**
- The benefit will **end with the 2028 tax year**.



How does the deduction work?

- Starting with the **2025 tax year**, Employers must provide workers with a W-2 that lists **qualified overtime compensation**.
- Employees may **deduct that qualified overtime from their federal taxable income**.
- Eligible employees can deduct up to:
 - **\$12,500 annually (Single)**
 - **\$25,000 annually (Married, filing jointly)**
 - Applies to **overtime earned on or after January 1, 2025**.
- The deduction goes down **\$100 for every \$1,000 over the threshold**.
 - Example: If you made **\$152,000**, you can only deduct **\$12,300 max**.



What is qualified overtime compensation?

- Employees may **only deduct overtime compensation required under the Fair Labor Standards Act (FLSA)**.
 - Requires that employers pay overtime at **time-and-a-half for all hours worked over 40 in a workweek**.
- Employees may **NOT deduct**:
 - Overtime earned under a **state law requirement**.
 - Overtime earned under a **collective bargaining agreement**, except for FLSA overtime after 40 hours/week.
 - **Shift differentials, weekend premiums, or other differentials** not required by the FLSA.



Can overtime be deducted for state and local taxes?

- **NO.** The deductions **do not apply** to Social Security and Medicare taxes, **state taxes**, and **local taxes**.



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