

# NO TAX ON OVERTIME THROUGH 2028

## WHAT IT MEANS FOR YOU



### WHO'S COVERED?

- **W-2 employees** only– if you get a W-2 at the end of the year, you qualify.
- **Independent contractors are not covered.**
- **Income limits:**
  - **\$150,000** for **single filers**
  - **\$300,000** for **married couples filing jointly**
- **Rail carrier employees are not included** under this law.
- The **benefit ends in December 2028**. It is not permanent like other parts of the bill.



### HOW DOES THE DEDUCTION WORK?

- Starting with your **2025 taxes**, your W-2 will show **how much of your pay was qualified overtime**.
- You can **deduct that overtime pay from your federal taxable income**– lowering your tax bill.
- **Deduction Limits:**
  - **Up to \$12,500 a year** if you file **single**
  - **Up to \$25,000 a year** if you file **jointly**
- If your income is **above the limit, the deduction phases down**.
  - Example: At **\$152,000**, your deduction drops to **\$12,300**.



### WHAT COUNTS AS QUALIFIED OVERTIME?

- **Overtime compensation pay you earn under the Fair Labor Standards Act (FLSA):**
  - You may deduct the pay that exceeds the regular rate of pay --such as the “half” portion of “time-and-a-half” pay for hours worked beyond 40 in a week.



### IS ALL EXTRA PAY COVERED?

**NO, NOT EVERY KIND OF EXTRA PAY IS COVERED. YOU CANNOT DEDUCT:**

- **State-only overtime** - if your state requires overtime rules that are different from federal law, that extra pay isn't deductible.
- **Union contract overtime** - Many union contracts define overtime more broadly than the FLSA.
  - Example: by providing premium pay for daily overtime (over 8 hours in a day) or for work on holidays or weekends. **Since these extra payments are based on a contract** rather than the FLSA requirement of over 40 hours per week, **they do not qualify** for the new tax deduction.
- **Extra pay that isn't true overtime**, like:
  - **Shift differentials**
  - **Weekend or holiday premiums**
  - **Night work bonuses**
- Think of it this way: **only federally required** “time-and-a-half after 40 hours” overtime counts. Anything else — even if it's extra pay — does not qualify for this deduction.
  - This means that Laborers in states like Illinois **that require** time-and-a half payment for every hour worked after 8 hours **cannot deduct** this overtime payment.
  - This also means that Laborers working under **collective bargaining agreements that provide double time** for all work on Sundays and/or holidays **cannot seek a deduction** on that overtime.



### WHAT ABOUT OTHER TAXES?

- This deduction won't lower what you owe for:
  - **Social Security** or **Medicare taxes**.
  - **State taxes** or **local taxes**.
- This deduction **will not increase your take home pay**; it will only **reduce your annual taxes**.