

What Employers Need to Know About How to Track and Report Qualified Overtime Compensation in Compliance with the “No Tax on Overtime” Provision of the One Big Beautiful Bill Act

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On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) became law. The Act provides a temporary deduction from federal taxable income for “qualifying overtime compensation.” Notably, only the premium portion (e.g. the “half” portion of “time-and-a-half” compensation) of the overtime pay can be deducted, not the entire amount of the overtime payment.

The term “qualifying overtime compensation” under the Act means overtime compensation that is required to be paid under Section 7 of the Fair Labor Standards Act (the “FLSA”). Most employees covered by the FLSA must receive overtime pay for hours actually worked over 40 in a workweek at a rate not less than time and one-half of their regular rates of pay. (For municipal police and fire departments that have adopted the 7(k) exemption under the FLSA, overtime would begin after 171 and 212 hours actually worked, respectively.)

Starting in 2026, employers are required to provide employees with W-2s showing the total amount of “qualified overtime compensation,” as defined by the FLSA, paid during the year. The IRS has issued a [draft W-2](#) with box “TT” for qualified overtime compensation.

Unfortunately, the reporting may be complicated for employers who pay overtime beyond what is required by the FLSA. For example, unionized workforces may pay overtime for hours worked on a holiday and payment for those hours is not “qualifying overtime compensation” under the FLSA. In addition, paid leave taken during a pay period does not count toward hours worked for overtime purposes. There are many scenarios where employers may pay overtime compensation to employees that is not required by the FLSA.

In situations where employers pay overtime compensation that does not



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align with overtime compensation required by the FLSA, the employers must ensure that their reporting of “qualified overtime compensation” does not include the compensation that is beyond what is required by the FLSA. Accordingly, it is important for employers to track FLSA-required overtime compensation paid to employees separately from non-FLSA-required overtime compensation.

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