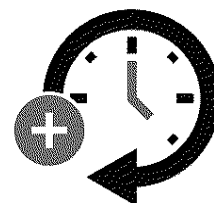


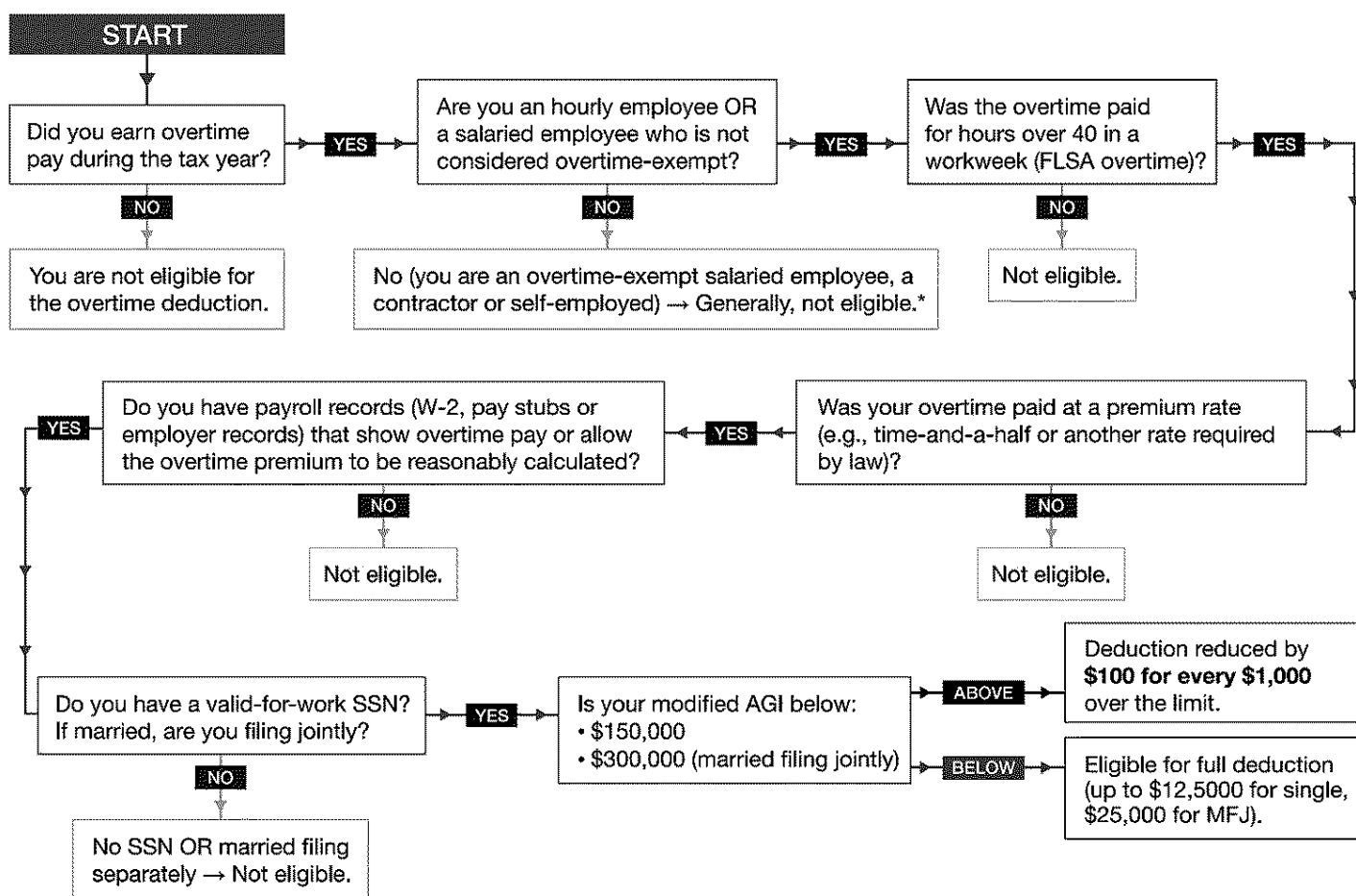
New overtime deduction: who gets it and how it works



Beginning with **2025 tax returns**, certain overtime wages may be deducted from federal adjusted gross income for eligible workers.

The deduction applies to qualifying **hourly employees** and **non-exempt salaried employees** who work more than 40 hours per week. The deduction applies **only** to the premium portion of overtime pay (the extra amount paid above your regular rate, not the full overtime wages you receive). If an employer pays more than FLSA requires, only the FLSA-required portion qualifies.

Maximum annual deduction: **up to \$12,500 per individual** (\$25,000 joint filers) in overtime pay (subject to income limits). Use this flowchart to determine if your overtime pay qualifies for the deduction.



*There is one narrow exception where a worker classified as a non-employee for federal employment tax purposes might still qualify. For example, if an employer has §530 relief and treats workers as non-employees for tax purposes, but those workers are still entitled to overtime pay under the FLSA, the employer must separately report the overtime pay on a Form 1099 issued to the worker.

If you passed all steps, you may deduct up to \$12,500 for single, \$25,000 for MFJ, in qualified overtime pay from federal taxable income for tax years 2025-2028.

EXAMPLE SCENARIOS

Here are a few scenarios to further explain situations where overtime pay may typically be deducted from income for federal tax purposes.

Scenario 1 - full-time hourly worker

(qualifies)

- 40 hours/week + 8 hours/week overtime
- OT rate: time-and-a-half
- Total annual premium overtime pay: \$3,200

Deduction: \$3,200 allowed

Scenario 2 - non-exempt salaried employee

(qualifies if premium paid)

- Salary covers first 40 hours
- Employer pays legally required OT premium on extra hours
- MAGI: \$90,000

Result: Eligible deduction up to \$12,500

Scenario 3 - self-employed contractor

(does not qualify)

- Works 50 hours/week
- Bills clients by the hour
- Earns a “premium” for rush jobs

Result: Not eligible - contractor income does not generally qualify under FLSA

Scenario 4 - high-income worker

(phaseout applies)

- MAGI: \$170,000 (single) → \$20,000 over threshold
- Reduction: $\$100 \times 20 = \$2,000$

Result: Maximum deduction reduced to **\$10,500**



Overtime that counts:

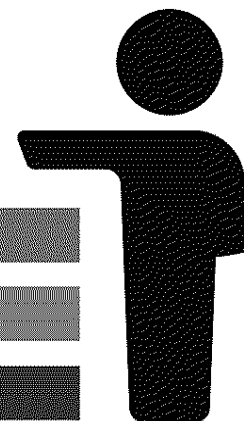
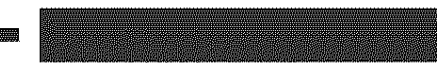
- Paid at a premium rate
- Documented on pay stubs/W-2
- Tied to FLSA



Overtime that doesn't:

- Any OT paid if < 40 hr/wk, including holiday, weekend and collective bargaining premium pay
- Employer-voluntary overtime pay, if not required by FLSA
- OT required solely by state law or a work contract, not FLSA-specific

QUICK RULES



Additional rules:

- Deduction available **tax years 2025-2028**
- Must meet **MAGI thresholds**
- Must have a **valid Social Security number**
- Married couples must **file jointly**