

OBBBA Qualified Overtime Tax Credit

No Tax on Overtime:

Effective for tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay – such as the “half” portion of “time-and-a-half” compensation -- that is required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.

FLSA Overtime Definition: At least 1½ times the regular rate of pay for all hours worked over 40 in a workweek.

*Key words are "hours worked." It does not include sick/vacation/holiday hours when determining hours worked in a workweek.

Employer Responsibility:

Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.

*The amount of qualified overtime premiums needs to be reported on the employees W-2. This is a district responsibility and can be done by utilizing the **WOT reportable code**. This will report the amount in **Box 12 code TT**.

High level overview:

Step 1: Find all overtime that has been paid.

Step 2: Determine if it qualifies under the FLSA definition of overtime.

Step 3: Calculate the premium portion that needs to be reported.

Step 4: Enter W-2 Reportables using the **WOT** reportable code for the premium amounts for your employees.

Considerations:

- FLSA overtime and CA/Ed Code overtime rules differ which means how you pay your employees to comply in California will not match up to the FLSA overtime rules.
- Only a portion of the paid qualified overtime is subject to the qualified overtime premium that is to be reported on the W-2.
- The overtime premium portion for time and a half (1.5) is only the 0.5, not the entire 1.5.

Scenario: Carlos is a 6-hour per day employee. His hourly pay rate is \$20.00.

Example A:

Carlos worked his regular weekly schedule, except on Tuesday when he worked a total of 10 hours:

- 2 hours at HRL
- 2 hours at OT5

For the week, Carlos worked 34 FLSA hours in total. Since he did not exceed 40 hours, he has 0 hours of FLSA overtime and no overtime to report.

Example B:

On Monday, Wednesday, and Friday, Carlos worked 10 hours each day, including:

- 2 hours at HRL
- 2 hours at OT5

For the week, he worked 42 total FLSA hours, resulting in:

- 2 hours of FLSA overtime

Overtime calculation:

- $2 \text{ hours} \times 1.5 \text{ OT rate} = \60.00 total FLSA overtime pay
- $\$60.00 \div 3 = \20.00 qualified overtime premium to be reported

New Scenario: Carlos is promoted to an 8-hour-per-day position, with his hourly rate remaining \$20.00.

Example C:

He worked 2 hours of OT5 on both Monday and Tuesday.

For the week, Carlos worked 44 total FLSA hours, resulting in:

- 4 hours of FLSA overtime

Overtime calculation:

- $4 \text{ hours} \times 1.5 \text{ OT rate} = \120.00 total FLSA overtime pay
- $\$120.00 \div 3 = \40.00 qualified overtime premium to be reported

Example D:

Friday was a holiday, and Carlos worked 1 hour of OT5 on Thursday.

For the week, he worked 33 total FLSA hours, resulting in:

- 0 hours of FLSA overtime

Example E:

Carlos was absent all day Monday. He was asked to come in on Saturday and worked 4 hours.

For the week, he worked 36 total FLSA hours, resulting in:

- 0 hours of FLSA overtime

Example F:

Carlos was absent for 4 hours on Wednesday. He then worked 4 hours of OT on Thursday and 3 hours of OT on Friday.

For the week, he worked 43 total FLSA hours, resulting in:

- 3 hours of FLSA overtime

Overtime calculation:

- $3 \text{ hours} \times 1.5 \text{ OT rate} = \90.00 total FLSA overtime pay
- $\$90.00 \div 3 = \30.00 qualified overtime premium to be reported

Example G:

Carlos worked 2 hours of Double-time (OT2) on Monday.

For the week, he worked 42 total FLSA hours, resulting in:

- 2 hours of FLSA overtime

Overtime calculation:

- $2 \text{ hours} \times 2.0 \text{ OT rate} = \80.00 total FLSA overtime pay
- $\$80.00 \div 4 = \20.00 qualified overtime premium to be reported

Links:

[OBBBA Provisions](#)

[Q&A IRS OT Comp](#)