

No Tax on FLSA Required Overtime Premiums

The One Big Beautiful Bill Act (OBBBA) includes a “no tax on overtime” provision, which creates a deduction for qualified overtime compensation for tax years 2025 through 2028. This income tax deduction is available for both itemizing and non-itemizing taxpayers when preparing your annual federal tax return.

- Maximum annual deduction is \$12,500 (\$25,000 for joint filers).
- Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

While the university cannot provide tax advice, the following points are meant to explain this provision.

Who does this impact?

Employees who receive qualified overtime compensation -- for hours worked over forty in a workweek -- may deduct the pay that exceeds their regular rate of pay (the “half” portion of “time-and-a-half” compensation) that is required by the Fair Labor Standards Act and reported on the Form W-2.

At the University of Michigan, this overtime income tax deduction applies to the following year-to-date (YTD) earnings amounts on your final calendar-year paystub:

- **“Overtime 1.5”** amount x .333333 (OTP and NOT timesheet hours)
- **“Temp Overtime 1.5”** amount x .333333 (OTP timesheet hours)
- **“Double Time”** amount x .25 (DBT timesheet hours)
- **“Double Time-Temp”** amount x .25 (DBT timesheet hours)
- **“Overtime 1.5 Mandatory”** x .333333 (OTM timesheet hours)
- **“Overtime Half Pay”** amount x 1 (OTH timesheet hours)
- **“OT PACUORProc Comp of Care 2.0”** amount x .25 (OTF timesheet hours)
- **“OT OnCall Level 3 3.0”** amount x .166667 (OTG timesheet hours)
- **“OT OnCall Level 2 2.0”** amount x .25 (OTK timesheet hours)
- **“OT OnCall Level 1 1.75”** amount x .285714 (OTU timesheet hours)
- **“OT Emergency Situation 2.0”** amount x .25 (OTY timesheet hours)
- **“OT Completion of Care 1.75”** amount x .285714 (OTZ timesheet hours)

For calendar year 2025, the above overtime amounts will be reported as a combined amount in Box 14 of the Form W-2 using code OBBBTT.

Overtime examples

Andrew works overtime during 2025 and his final pay stub for the calendar year shows a YTD total “Overtime 1.5” amount of \$15,000, which is the total amount Andrew was paid for working overtime (the FLSA overtime premium combined with the portion of his regular wages). Andrew’s 2025 W-2 will include the \$5,000 FLSA overtime premium in Box 14, computed by multiplying \$15,000 by .333333.

Charlotte works overtime during 2025 and her final pay stub for the calendar year shows a YTD total “Overtime 1.5” amount of \$9,000, which is the total amount Charlotte was paid for working overtime (the FLSA overtime premium combined with the portion of her regular wages). In addition, Charlotte also received \$800 of “Overtime Half Pay” FLSA premium during 2025. Charlotte’s 2025 W-2 will include the \$3,800 FLSA overtime premium in Box 14, computed by multiplying \$9,000 by .333333 plus \$800.

Seth works overtime during 2025 and his final pay stub for the calendar year shows a YTD total "OT OnCall Level 1 1.75" amount of \$250, which is the total amount Seth was paid for working overtime (the FLSA overtime premium and additional premium combined with the portion of his regular wages). Seth's 2025 W-2 will include the \$71.43 FLSA overtime premium in Box 14, computed by multiplying \$250 by .285714.

Susan, a temporary employee, works overtime during 2025 and her final pay stub for the calendar year shows a YTD total "Temp Overtime 1.5" amount of \$1,200, which is the total amount Susan was paid for working overtime (the FLSA overtime premium combined with the portion of her regular wages). Susan's 2025 W-2 will include the \$400 FLSA overtime premium in Box 14, computed by multiplying \$1,200 by .333333.

Please Note: The above material is for informational purposes only. Please consult your legal or tax advisor about the impact of these rules on your individual situation. Additional information about deductions included in the OBBBA can be found on the [IRS website](#).