

HR COMPLIANCE OVERVIEW



Treasury and IRS' FAQs on Deductions for Qualified Overtime Compensation

To help individuals better understand the new deductions for qualified overtime compensation under the [One Big Beautiful Bill Act](#) (OBBBA), the U.S. Department of the Treasury (Treasury) and the IRS have [issued](#) frequently asked questions (FAQs).

On July 4, 2025, President Donald Trump signed a tax and spending bill commonly referred to as the OBBBA into law. Among other provisions, the OBBBA allows certain workers an above-the-line deduction for “qualified tips” and “qualified overtime compensation” for taxable years beginning after Dec. 31, 2024, and ending for taxable years beginning after Dec. 31, 2028.

The FAQs, issued in [Fact Sheet 2026-01](#), contain additional information about the deduction, provide resources for employees to assist them in determining whether they receive qualified overtime compensation under the Fair Labor Standards Act (FLSA), and contain helpful information regarding the differences in reporting requirements for tax years 2025 and 2026 through 2028. This Compliance Overview provides the Treasury and IRS' [FAQs](#).

OBBBA Qualified Overtime Deductions

- Section 70202 of the OBBBA establishes a new above-the-line tax deduction for qualified overtime compensation.
- The OBBBA defines “qualified overtime compensation” as overtime compensation paid to an individual required under Section 7 of the FLSA that is in excess of the regular rate at which the individual is paid.

LINKS AND RESOURCES

- Treasury and IRS [Fact Sheet 2026-01](#)
- [OBBBA provisions](#)
- Treasury and IRS [Notice 2025-62](#)
- Treasury and IRS [Notice 2025-69](#)

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Background

The OBBBA, P.L. 119-21, added a new deduction for qualified overtime compensation. [Notice 2025-69](#) clarifies how individuals can determine the amount of their deduction for qualified overtime compensation for the 2025 tax year. Below are answers to some questions about the new deduction for qualified overtime compensation.

General Information

Q1. What is qualified overtime compensation for purposes of the deduction?

Qualified overtime compensation is overtime compensation paid to an individual required under Section 7 of the [FLSA](#) (29 USC § 207) that exceeds the regular rate at which the individual is employed. For example, if an individual is paid at “one and one-half times” their regular rate for an hour of overtime work as required by the FLSA, the “half” portion of the “one and one-half times” paid for an hour of overtime work is qualified overtime compensation.

For overtime to be required under the FLSA, it must, among other requirements, be paid to an individual who is both covered by the FLSA and not exempt from the FLSA’s overtime requirement (an FLSA overtime-eligible employee). See Q2 and Q3 to determine if you are covered by and not exempt from the FLSA’s overtime requirement.

An individual who is ineligible for overtime under the FLSA does not receive qualified overtime compensation, regardless of other laws or circumstances (such as a collective bargaining agreement) providing for overtime pay.

Individuals eligible for overtime under the FLSA generally must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than 1.5 times their regular rate of pay. If an individual is eligible for overtime under the FLSA, but the individual’s employer pays more than is required under the FLSA, the qualified overtime compensation is limited to the portion of the overtime that is required by the FLSA that is in excess of the regular rate. For example, if an employer pays double the individual’s regular rate for hours worked over 40 in a workweek, only the one-half portion that is relied upon to comply with the FLSA requirement is qualified overtime compensation.

Q2. How do I determine whether I am covered by and not exempt from the FLSA? In other words, how do I determine if I am an FLSA overtime-eligible employee?

Though it is common for employees working in the United States to be covered by the FLSA, there are many exemptions from its overtime premium requirement. Whether an individual is covered by and not exempt under the FLSA is a fact-specific determination that depends on the individual’s occupation, work activities and/or earnings.

More information on coverage and exemption under the FLSA can be found on the U.S. Department of Labor [website](#). See the DOL’s [Fact Sheet #14: Coverage Under the Fair Labor Standards Act \(FLSA\)](#) and No. 8 in the [Handy Reference Guide to the Fair Labor Standards Act](#).

Q3. I am a federal employee. How do I know whether I am an FLSA overtime-eligible employee?

FLSA eligibility for federal employees is typically documented on the employee’s Standard Form 50, Notification of Personnel Action. See block 35, “FLSA Category”; “E” means exempt or FLSA-ineligible and “N” means nonexempt or FLSA overtime-eligible. Under 29 U.S.C. 204(f), the Office of Personnel Management (OPM) administers the FLSA for most federal employees. See [OPM FLSA regulations](#) and [OPM FLSA fact sheet](#).

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Although OPM administers the FLSA for most federal employees, there are some exceptions. For example, DOL's FLSA regulations and guidance cover employees of the Library of Congress, U.S. Postal Service, the Postal Regulatory Commission and Tennessee Valley Authority. See 29 U.S.C. 204(f). Additionally, the Office of Congressional Workplace Rights regulates the FLSA for legislative branch employees generally. See [OCWR Rules and Regulations: Fair Labor Standards Act](#) for more information.

Q4. What is the deduction amount? Are there limits to the deduction?

The deduction is up to \$12,500 of qualified overtime compensation earned for the year per return (\$25,000 in the case of a joint return). The deduction is reduced if a taxpayer's modified adjusted gross income (MAGI) for the tax year exceeds \$150,000 (\$300,000 for joint filers). See [Notice 2025-69](#) for more information on how to calculate MAGI for this purpose.

Q5. Are there other rules that apply to the deduction?

Yes. The taxpayer who received the qualified overtime compensation must have a Social Security number valid for employment and must include the Social Security number on the tax return claiming the deduction.

If the taxpayer is married (within the meaning of section 7703), the taxpayer and the taxpayer's spouse must file a joint return to claim the deduction. If both spouses received qualified overtime compensation, both spouses must have a Social Security number valid for employment and must include both Social Security numbers on the tax return claiming the deduction.

Q6. Will qualified overtime compensation be separately reported to individuals on Form W-2, Form 1099-NEC or Form 1099-MISC? Doesn't qualified overtime have to be separately reported in order for an individual to take the deduction?

It depends on the tax year.

For tax year 2025, employers and other payers are not required to report qualified overtime compensation separately on Forms W-2, 1099-NEC and 1099-MISC. See [Notice 2025-62](#). For 2025, some employers and other payers may choose to separately report the amount of qualified overtime compensation to employees using Box 14 of Form W-2 or to employees or payees through an online portal or on a separate statement. If individuals do not receive a Form W-2 or other statement from their employer or other payer for tax year 2025 that separately reports the amount of qualified overtime compensation, they may use any of the methods described in [Notice 2025-69](#) and the Instructions to Schedule 1-A that are included in the [Instructions for Form 1040](#) to calculate the amount of qualified overtime compensation.

For tax years 2026 and later years, employers and other payers are required to separately report qualified overtime compensation. Forms W-2, 1099-NEC and 1099-MISC will be updated to allow employers and other payers to provide separate reporting of an individual's qualified overtime compensation.

Q7. I am an FLSA overtime-eligible employee, and I did not receive information from my employer on how much qualified overtime compensation I received during tax year 2025. How can I find more information to help me determine my deduction for qualified overtime compensation?

You can find more information in the following:

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- [Notice 2025-69](#) contains information to help individuals determine the deduction for qualified overtime compensation. See also [Treasury, IRS provide guidance for individuals who received tips or overtime during tax year 2025](#).
 - The Instructions for Schedule 1-A included in the [Instructions for Form 1040](#) contain information that may be helpful in determining the deduction for qualified overtime compensation; and
- If you are an FLSA overtime-eligible federal employee, special rules may apply to you with respect to calculating your qualified overtime compensation. See [How to Compute FLSA Overtime Pay](#) for a fact sheet applicable to most federal employees. Please contact your agency's HR office or payroll provider for further assistance.

Q8. Where can I get more information on the FLSA and overtime pay in general?

More information on the FLSA is available at [WHD Fact Sheets](#), [Overtime Pay: General Guidance](#) and [Handy Reference Guide to the Fair Labor Standards Act](#).

For federal employees covered by OPM-issued [FLSA regulations](#), see the OPM FLSA fact sheet titled [How to Compute FLSA Overtime Pay](#).

Source: IRS