

## Employee Guide: Calculating Your 2025 Overtime Deduction

Under the One Big Beautiful Bill Act (OBBA), FLSA-eligible employees can deduct the overtime premium (the “extra portion” of time and a half pay) from their 2025 federal taxable income. Since the 2025 W-2 will not have a specific box for this, employees must calculate this amount themselves using their final 2025 pay stubs.

 **Disclaimer:** While your employer is responsible for furnishing an accurate W-2, the employee (or, tax payer) is responsible for accurate tax returns. As you prepare your tax returns, please consult with your tax professional or advisors to ensure your *filing* meets all IRS requirements. This summary is for educational purposes only and does not constitute legal or tax advice.

### Step 1: Confirm You Are Eligible

To claim this deduction, you must meet the following three criteria:

1. **FLSA-Eligible:** You must be a "non-exempt" employee entitled to overtime under the Fair Labor Standards Act (most hourly, retail, and hospitality roles).
  - Note: Executives, managers, or professionals exempt from OT rules generally do not qualify.
2. **Income Limit:** Your total 2025 income (MAGI) must be under \$150,000 (Single Filer) or \$300,000 (Joint Filer).
3. **Filing Status:** If you are married, you must file a joint return to claim the deduction.

## Step 2: Find Your Overtime Totals

Locate your final Earnings Statement of 2025. Look for your year-to-date (YTD) totals for overtime. Because employers are not required to separate the "premium" for you this year on your W-2, you will use one of the following IRS-approved "Reasonable Methods" to find your deductible amount. For more information, please consult [IRS Notice 2025-69](#) or a qualified tax professional.

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## Step 3: Apply the IRS Calculation Method

If Your Paystub Shows...	Your Calculation	Example
"Overtime Premium" or "Premium Overtime" as a separate line item	Use the full amount	\$5,000 Premium = \$5,000 Deduction
"Overtime" (includes regular pay + premium)	Divide total by 3	\$15,000 Total OT $\div$ 3 = \$5,000 Deduction
"Double Overtime" Total (Paid at 2x rate)	Divide total by 4	\$20,000 Total OT $\div$ 4 = \$5,000 Deduction

*Common Question - Why do I divide by 3? If you are paid time-and-a-half, your pay is made of 3 "halves" (2 halves for your regular wage + 1 half for the premium). The law only lets you deduct that last 1/3 (the premium)*

## Special Cases:

- Compensatory (Comp) Time: If you were paid out for "Comp Time" in 2025 at a rate of 1.5 hours for every hour worked, you may deduct one-third (1/3) of that payout.
- State vs. Federal Overtime: Only overtime required by federal law (hours over 40 in a week) qualifies. If your state requires overtime for working over 8 hours in a day, but you didn't exceed 40 hours in that week, that specific pay may not be deductible (e.g. states like CA, CO, NV, etc.).
- If you are a tipped employee, calculate the amount you would have received if the wages were paid as regular wages. Then subtract this amount from the amount you were paid for overtime. The difference is your premium portion of overtime. Example:
  - Regular Rate: \$2.13/hr
  - Hours Paid: 10
  - Overtime Paid: \$57.80
  - Premium Overtime Calculation:  $\$57.80 - (\$2.13 * 10) = \$36.50$

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## Important Reminders:

- Keep Your Pay Stubs: The IRS requires you to keep the records you used to calculate this deduction (your 2025 final pay stub is your best evidence).
- Tax Filing: You will report this calculated amount when you file your taxes in early 2026, likely on a new form called IRS Form Schedule 1-A. Please consult with your tax advisor to correctly apply the deductions.
- Withholding: Your tax withholdings have not been adjusted. This deduction is claimed "at the end" when you file your return, which may result in a larger tax refund from the IRS.