No Tax on Overtime 2025–2028 | IRS Deduction Guide

Complete Guide to the IRS 'No Tax on Overtime' Deduction under the One Big Beautiful Bill Act (2025–2028)

Overview

Starting 2025, the U.S. government allows workers to deduct the premium portion of overtime pay (the extra 'half' of time-and-a-half) from taxable income under the One Big Beautiful Bill Act (OBBB).

Duration

The deduction applies for tax years 2025 through 2028 and is available for both employees and independent contractors.

Eligibility

You must receive qualified overtime pay under the Fair Labor Standards Act (FLSA), file an SSN, and report overtime through Form W-2 or 1099. Married filers must file jointly to claim the full deduction.

Deduction Limits

Single: Up to $12,500 | Married (Joint): Up to $25,000. The deduction phases out above $150,000 individual income.

Formula Example

Deduction = (Overtime Rate - Regular Rate) × Overtime Hours. Example: $37.50 - $25 × 60 = $750 deductible from taxable income.

How to Claim

1. Get your W-2/1099. 2. Calculate the deduction. 3. Report it as an adjustment to income on Form 1040. 4. Keep employer documentation for audit proof.

Employer Reporting

Employers report qualified overtime in Box 12 (Code PP) on Form W-2 starting 2026. A reasonable methods approach applies for 2025.

Impact on AGI

This deduction reduces Adjusted Gross Income (AGI), potentially affecting Child Tax Credit, ACA premium tax credits, and other income-based benefits.

Federal vs State

Some states may not conform to the new federal rule immediately. Verify with your state's Department of Revenue.

Deduction Limits Table

Filing Status	Max Deduction	Phase-Out Income
Single	$12,500	$150,000
Married (Joint)	$25,000	$300,000

For detailed information, visit the IRS official website or consult a tax professional. Prepared as part of the SEO 'No Tax on Overtime Calculator Guide' (2025).