

# Overtime Pay & New Federal Reporting Requirements:



Beginning in 2025, new federal rules under the One Big Beautiful Bill Act (OBBBA) introduced reporting and deduction provisions related to overtime compensation. While core Fair Labor Standards Act (FLSA) overtime rules remain unchanged, employers and employees should prepare for changes in how overtime is tracked, documented, and reported for tax purposes.

## Federal Overtime Pay Requirements

Under the FLSA, non-exempt employees must be paid time-and-a-half their regular rate for qualified overtime (hours worked over 40 in a workweek).

Certain executive, administrative, professional, and other categories may be exempt from overtime requirements if salary and duties tests are met.

## New Reporting Requirements under the OBBB Act (Federal Tax Law Changes)

Effective for tax year 2025 and beyond (2025 - 2028)

### Employer Reporting Obligations

1. **Separate Reporting of Qualified Overtime**
  - Employers must prepare to report the amount of qualified overtime compensation separately for federal tax purposes.
  - This identified amount represents the FLSA-required premium (the half portion of time-and-a-half above straight time.)
2. **Timeline for Implementation (for 2025)**
  - Employers are required to track and separately report qualified overtime compensation and tip income; however, for 2025, the IRS has provided transitional penalty relief and will not impose penalties on employers that fail to separately report qualified overtime or occupation codes on Forms W-2 and 1099.
3. **Practical Reporting Methods**
  - Although dedicated boxes for qualified overtime may not appear on current 2025 tax forms, employers can:
    - Report amounts in Box 14 of Form W-2
    - Provide attached written statements to employees
    - Use internal reporting or payroll system
4. **System and Process Changes**
  - Employers should prepare payroll systems for future mandatory reporting (e.g. for 2026 filings) by:
    - Coding overtime pay to distinguish the FLSA premium portion
    - Recording data needed to support deduction claims
    - Establishing documentation standards for year-end statement

## Employee Requirements and Implications

### 1. Tax Deduction Eligibility

- Employees may claim a federal income deduction for the qualified overtime compensation received in 2025-2028 on their individual tax returns, up to:
  - o \$12,500 for single filers
  - o \$25,000 for joint filers

### 2. Need for Documentation

- Because employers are not required to separately report qualified overtime amounts for 2025, or will not receive a dedicated form field, employees may have to:
  - o Use pay stubs, payroll summaries, and employer-provided statements to calculate qualified overtime pay
  - o Make a reasonable effort to determine the overtime premium portion if it is not separately identified

### 3. Eligibility Criteria

- Only employees eligible under FLSA for overtime (non-exempt) can claim the deduction. Overtime paid under different legal regimes (e.g. state law daily overtime thresholds) may not qualify for the federal deduction.

### 4. Employee Action Steps

- Verify FLSA eligibility status with their employer
- Collect documentation showing hours and overtime pay
- Consult tax preparers on proper calculation and deduction claims
- Track overtime compensation year-round to streamline tax calculations

## Compliance and Communication Checklist

### For Employers

- ☐ Update payroll systems to separately track or identify qualified overtime.
- ☐ Establish internal policies for overtime categorization and documentation.
- ☐ Communicate reporting practices to employees clearly, including how overtime pay is reflected on year-end tax forms.
- ☐ Educate payroll and HR teams about FLSA eligibility and qualified overtime definitions.

### For Employees

- ☐ Understand your entitlement under federal and applicable state law for overtime pay.
- ☐ Keep personal records of hours worked and overtime pay.
- ☐ Anticipate changes in how overtime may be reported for tax purposes starting with 2025 filings.

## Key Points to Remember

1. FLSA overtime pay rules unchanged: Employers must pay eligible employees time-and-a-half for hours over 40.
2. New federal tax reporting and deduction rules apply for overtime tax years 2025-2028 under the OBBBA.
3. Penalty for 2025 reporting is waived to allow transition.
4. Employers should prepare systems and practices now for mandatory reporting in 2026 and beyond.

**Please contact the HoganTaylor CAAS team for additional information:**



**Aaron Ackerman**  
aackerman@hogantaylor.com



**Megan Rooney**  
mrooney@hogantaylor.com



**Tammy Williams**  
twilliams@hogantaylor.com