

No Tax on Overtime---Sort of....read on....

On July 4, 2025, the President signed the One Big Beautiful Bill Act (often called the OB3, OBBBA, or Public Law 119-21). The law has many beneficial tax extensions from the Tax Cuts and Jobs Act of 2017 (TCJA) and ends some other tax benefits.

This update includes the changes to Overtime Income. Be assured, the IRS will come out with regulations and guidelines as to how this new law will be applied and administered. The below is an outline of the new law and might be adjusted and expanded based on IRS notices.

Overtime Income

For tax years 2025 through 2028, if a taxpayer receives overtime pay the new law allows some or all of the overtime “premium” pay to be excluded from taxable income.

A few requirements:

- 1) Up to \$12,500 (single or head of household) or \$25,000 (married filing jointly) can be excluded from income for a tax return.
- 2) The exclusion gets phased out by \$100 for each \$1000 the taxpayer’s adjusted gross income (AGI) exceeds \$150,000 (single or head of household) or \$300,000 (married filing joint).
- 3) If married, the return **must** be a married joint return, not a married separate return.
- 4) Only the overtime premium paid can be excluded from taxable income. This “premium” is usually the “half” in “time and a half”. Similar, “double-time” wages such as those paid for over a 12-hour day or holiday pay in certain industries, only the “double” or amount above the base pay could be excluded from taxable income.
- 5) The overtime premium is supposed to be included on the W-2 the employee receives.

Example: Cliff Clavin, a dedicated Postal Worker, often worked more than 40 hours a week delivering mail in sleet, snow, rain, and other weather-induced climates. In 2025,



Cliff earned \$30,000 of “time and a half” overtime. Thus, the premium was \$10,000 as his base pay was \$20,000. If Cliff’s income was under the phaseouts, he could exclude all \$10,000 from his income. Since he was in a 22% marginal tax bracket, he saved over \$2200 in taxes. He was so excited by this, he became more generous and tipped his favorite

waitress, Carla, more. Cliff also sent Carla the email we will be sending out shortly about excluding Tip Income from her tax return.