

Document Information

Although the new overtime deductible is going to be extremely beneficial to many taxpayers, it will be easy for individuals to deduct incorrect amounts. To help, we've put together this explanation & worksheet to determine exactly what portion of overtime wages are applicable for this year's deduction.

Section 1: Who Qualifies?

- The deduction is available for employees who receive overtime pay that is required by federal law (the Fair Labor Standards Act, or FLSA)- generally, this means non-exempt employees who are paid at least "time-and-a-half" for hours worked over 40 in a week.
- The deduction is not available for overtime paid only under state law or as an employer policy if the employee is exempt from FLSA overtime rules.
- The maximum deduction is \$12,500 per year (\$25,000 for joint filers), and it phases out for higher incomes (over \$150,000 single/\$300,000 joint).

Section 2: How to Calculate the Deductible Portion of Overtime Pay

- **If your pay stub or payroll statement shows a separate line for the "overtime premium" (the extra half of "time-and-a-half"):**
 - Deduct the full amount shown as the overtime premium.
- **If your pay stub only shows a total overtime amount (not split out):**
 - If you are paid at the standard "time-and-a-half" rate, divide the total overtime amount by 3. The result is the deductible portion.
 - Example: If your pay stub shows \$15,000 in total overtime pay, $\$15,000 / 3 = \$5,000$ is deductible.
- **If you are paid at a higher overtime rate (e.g., double time):**
 - If your pay stub shows only the total overtime amount, divide by 4.
 - Example: \$20,000 in double-time overtime pay, $\$20,000 / 4 = \$5,000$ is deductible.
 - If your pay stub shows the extra premium (the amount above your regular rate), divide that amount by 2.
 - Example: \$10,000 in overtime premium at double time, $\$10,000 / 2 = \$5,000$ is deductible.
- **If you have a different overtime arrangement (such as law enforcement, fire protection, or compensatory time):**
 - For law enforcement/fire (14-day work period): Divide total overtime by 3.
 - For compensatory time paid at 1.5 hours per overtime hour: Divide the total compensatory time wages by 3.
- **If you do not have a clear statement:**
 - Use your regular rate and the number of overtime hours to estimate the FLSA overtime premium or ask your employer for a breakdown.

Section 3: What Documentation Is Needed?

- **Keep copies of:**
 - Pay stubs or payroll statements showing overtime pay and, if available, the overtime premium.
 - Year-end payroll summaries.
 - Any separate statements from your employer showing overtime details.
 - If you are self-employed or receive a Form 1099, keep detailed records (such as invoices, logs, or other documentation) showing the overtime portion..
- **If you use estimates or calculations, keep a worksheet showing how you arrived at the deductible amount, along with supporting documents.**
- **You must include your Social Security Number on your tax return to claim the deduction, and if married, you must file jointly to claim it.**

Worksheet Continues on Page 2

Section 4: Summary Table

Situation	How to Calculate Deductible Overtime	Documentation to Keep
Overtime premium shown separately	Deduct full premium amount	Pay stub/payroll statement
Only total overtime shown (time-and-a-half)	Divide total by 3	Pay stub/payroll statement
Only total overtime shown (double time)	Divide total by 4	Pay stub/payroll statement
Overtime premium shown (double time)	Divide premium by 2	Pay stub/payroll statement
Law enforcement/fire (14-day period)	Divide total by 3	Pay stub/payroll statement
Compensatory time (1.5 hours per hour)	Divide total by 3	Pay stub/payroll statement
No clear statement	Estimate using regular rate & hours	Worksheet, pay records employer info

I, the undersigned taxpayer, acknowledge and certify the following with respect to the deduction for qualified overtime claimed on my federal income tax return for the applicable tax year:

1. FLSA-Required Overtime Only

The amounts I have reported to my tax preparer as qualified overtime compensation represent only overtime pay that is required to be paid under section 7 of the Fair Labor Standards Act of 1938 (FLSA), as referenced in section 225 of the Internal Revenue Code, as enacted by the One, Big, Beautiful Bill Act (OBBBA). I understand that only the portion of overtime pay that is required by the FLSA (generally, the “half” portion of “time-and-a-half” pay for hours worked in excess of 40 in a workweek, or as otherwise required by the FLSA for my occupation) is eligible for the deduction.

2. Exclusion of Qualified Tips:

I have not included any amounts that are considered “qualified tips” (as defined in section 224(d) of the Internal Revenue Code) in the calculation of my qualified overtime compensation for purposes of the federal deduction.

3. Proper Documentation

I have maintained and provided to my tax preparer appropriate documentation to substantiate the amount of qualified overtime compensation claimed, as required by IRS Notice 2025-69 and related IRS guidance. This documentation may include, but is not limited to, pay stubs, payroll statements, employer-provided summaries, or other records that support the calculation of the FLSA overtime premium. I understand that I am required to retain these records in accordance with IRS recordkeeping requirements.

4. Accuracy and Truthfulness

To the best of my knowledge and belief, the information I have provided to my tax preparer regarding my overtime compensation is true, correct, and complete, and complies with all requirements for the federal overtime deduction under section 225 of the Internal Revenue Code.

5. Deduction Limitations

I understand that I am responsible for ensuring that the deduction claimed meets all legal requirements, and that any improper claim may result in the disallowance of the deduction, additional tax, interest, and penalties.

Final Deduction & Signatures on Next Page`



Overtime Income Deduction Explanation & Worksheet

Enter in your amount of Qualified Overtime Income below.

Qualified Overtime Income Reporting	
_____	_____
Taxpayer Qualified OT Deduction Total	Spouse Qualified OT Deduction Total

By signing below, I certify that I have read and understood the above, and that all overtime amounts reported for the purpose of claiming the deduction under section 224 are accurate, eligible, and fully compliant.

Signatures			
_____	_____	_____	_____
Taxpayer Signature	Date	Spouse Signature	Date
_____		_____	
Taxpayer Name Printed		Spouse Name Printed	