

## For Employees: 2025 Overtime Deduction Checklist

Understanding the new 2025 overtime deduction can help you make the most of the income you earn throughout the year. These updated federal rules outline who qualifies, what counts, and how much you may be able to deduct when you file your tax return. This overview breaks everything down so you know what applies to you, what to track, and how to claim these benefits when tax season arrives.

### Overtime Deduction

- ☐ **Who Qualifies:** Employees and self-employed individuals who receive overtime pay required under the Fair Labor Standards Act (FLSA)—generally, the “half” portion of “time-and-a-half” pay for hours worked over 40 in a week. Only the premium portion (the extra pay above your regular rate) is deductible.
  - Example - Jane works 44 hours a week. Her standard rate is \$10 an hour but makes time-and-a-half for overtime. Therefore, her pay for the week is 40 hours times \$10 per hour, plus 4 hours times \$15 per hour, for a gross total of \$460. The amount of qualified overtime is the premium rate over her base pay (\$5 an hour) times the number of hours over 40 in the week (4). Her qualified overtime is \$20.
- ☐ **How Much:** You may deduct up to \$12,500 per year (\$25,000 for joint filers) of qualified overtime pay from your federal taxable income.
- ☐ **Income Limits:** The deduction is reduced by \$100 for every \$1,000 your modified adjusted gross income (MAGI) exceeds \$150,000 (\$300,000 for joint filers). If your MAGI is high enough, the deduction may be fully phased out.
- ☐ **How to Claim:** The deduction is taken on new Schedule 1-A as part of your individual tax return (Form 1040), whether or not you itemize. You must include your Social Security Number, and if married, you must file jointly to claim the deduction.
- ☐ **Reporting:** Only overtime pay reported on a Form W-2 or Form 1099 is eligible.
- ☐ **Payroll Taxes:** Overtime pay is still subject to Social Security and Medicare taxes and must be reported by your employer as usual. Your withholdings will not be reduced or adjusted for this for 2025. Also, your W-2 will not reflect the overtime; you must obtain that information from your employer.
- ☐ **Timeframe:** The deduction applies for tax years 2025 through 2028.

**Note:** The deduction is for federal income tax only; state and local tax treatment may differ. You will still see withholding for income and payroll taxes on your paychecks, but you can claim the deduction when you file your annual tax return, potentially reducing your tax bill or increasing your refund.