

NO TAX ON OVERTIME

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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OBBB) added a new tax deduction for qualified overtime income, colloquially known as “No Tax on Overtime.”

BACKGROUND: Under the Fair Labor Standards Act (FLSA), covered employers must report and pay overtime to most workers they pay hourly (and certain salaried workers) who work more than 40 hours in a given workweek. Overtime pay is “time-and-a-half” (150% of workers’ regular rate of pay). The overtime pay mandate leads to overtime workers receiving higher pay for those hours (if they still work those hours) but also allows the federal government to collect taxes on the extra mandated overtime pay.

The federal income tax code applies to all income “from whatever source derived,” unless otherwise stipulated. That includes personal business income, interest income, rents, royalties, dividends, and paid compensation (though certain employee benefits are exempt from income tax). Prior to OBBB, the income tax made no distinction between overtime income and regular paid compensation. In addition to federal income tax, overtime pay is also subject to federal payroll tax.

What OBBB Did:

- Created an *above-the-line* deduction (meaning it can be claimed even if taking the standard deduction) for up to \$12,500/\$25,000 (single/married joint filers) of qualified overtime pay for tax years 2025 through 2028, effectively eliminating most income tax on “the half” of “time and a half.”
- Set up the tax deduction to begin phasing out for taxpayers with modified adjusted gross income of \$150,000/\$300,000.
- Aligned the overtime tax deduction with the FLSA regulations to prevent abuse.
- Left intact payroll taxes on overtime pay.

Why It Matters?

- No Tax on Overtime helps ensure that only workers get paid for mandated overtime work—not the IRS.
- According to the Yale Budget Lab, about 98 million Americans work in occupations that are *eligible* for overtime pay.
- JCT estimated “No Tax on Overtime” is a **\$90 billion** tax cut over four years.

Where Can I Find the Changes? OBBB Section 70202; 26 U.S.C. § 225.

BOTTOMLINE: Federal mandates that stipulate how much employers must pay employees are harmful and reduce labor demand. By mitigating some of the downsides of the FLSA mandates, No Tax on Overtime helps give hourly wage workers more freedom to take on a long work week if it’s right for them and their families.

