

November 24, 2025

# **"No Tax On Overtime" Is Actually a Tax Deduction**



# Vermont League of Cities & Towns

Under the "One, Big, Beautiful Bill", some municipal employees may be eligible for new deductions for tax years 2025 through 2028.

- **New Deduction:** Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay – such as the "half" portion of "time-and-a-half" compensation – that is required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.
  - Maximum annual deduction is \$12,500 (\$25,000 for joint filers).
  - Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).
- **Taxpayer Eligibility:** Deduction is available for both itemizing and non-itemizing taxpayers.
  - Taxpayers must:
    - include their Social Security Number on the return and
    - file jointly if married, to claim the deduction.
- **Reporting:** Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.



- **Guidance:** The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.

For more information, please visit the IRS News Release of 11/21/2025, [Treasury, IRS provide guidance for individuals who received tips or overtime during tax year 2025](#).

