



FACT SHEET: What Does the New Overtime Tax Law Really Mean For You?

Q: WHEN DOES THE NEW OVERTIME TAX LAW – WHICH PASSED IN JULY – TAKE EFFECT?

A: The overtime tax provisions of the bill are retroactive to the beginning of the year. Those who qualify will receive an additional six-month benefit in this tax year.

Q: WILL I RECEIVE A CHECK FROM THE IRS FOR TAXES I ALREADY PAID IN 2025?

A: No; in 2025, you will continue to pay taxes on all overtime worked. If you qualify however, you can utilize a tax deduction when filing your taxes. This provision doesn't really follow through on putting more money in the pockets of hard-working Americans. It may, however, reduce your tax liability at tax time.

Q: WHO IS ELIGIBLE FOR THIS TAX DEDUCTION?

A: To be eligible for the tax deduction, you must be a W-2 employee, this means independent contractors are not eligible. All members of the UWUA are W-2 employees and therefore would be eligible.

Q: WHAT KINDS OF OVERTIME HOURS QUALIFY?

A: Overtime must be required by the Fair Labor Standards Act (FLSA), which generally means hours worked beyond 40 hours in a work week. Most UWUA members receive overtime after 8 hours in a day, but there are so many variations in pay that are unaccounted for that we may need further clarifications for some. Even if you receive overtime after 8 hours, that overtime would still be eligible provided you worked more than 40 hours in a week. Bottom line, the FLSA requires overtime after 40 hours of worked time.

Q: ARE THERE OTHER RESTRICTIONS I SHOULD BE AWARE OF?

A: UWUA contracts provide paid time for vacation, personal time, medical, paid rest, and other non-work hours; these hours would not be included in the 40-hour calculation. So, although you may be paid 40 hours of straight time in a workweek, if they were not “worked” hours, then overtime associated with that workweek would not qualify.

The FLSA does not require a double-time premium, so for double-time overtime, only the half-time premium required would qualify. So, if a worker makes \$40 an hour, their double time pay would amount to \$80 an hour. Of that \$80, only \$20 (the “half” part of “time and a half”) qualifies for a potential tax break.

Q: SO IS THAT \$20 OF THE \$80 TAX FREE AT LEAST?

A: No — the bill exempts federal income tax, but not other federal taxes like Social Security and Medicare, and certainly not state and local taxes. So no, you are not actually going to realize tax free overtime.

Q: ARE THERE LIMITS TO THE DEDUCTION AMOUNT?

A: Unfortunately, there are limits on the amount of the total deduction: \$12,500 per year for single filers or \$25,000 for joint filers, and these deduction limits are further reduced based on earnings, with reductions starting at \$150,000 for single filers and \$300,000 for joint filers.

The amount of overall savings per individual depends on several factors but for practical purposes, if you qualified for the full \$12,500 deduction without any reductions and you were in the 24% tax bracket you would save approximately \$3,000 off your total tax liability. Lastly, don't get too used to this savings as the no tax on overtime provisions of the bill expire in 2028.