

NEW FEDERAL TAX BREAK FOR OVERTIME PAY!

Starting January 1, 2025, a new federal law allows up to \$12,500 of overtime pay per year to be exempt from federal income tax. This applies to qualifying employees through December 31, 2028.

Who Qualifies?

- Must be a W-2 employee
- Must earn overtime under federal law (Fair Labor Standards Act)
- Must have Modified Adjusted Gross Income (MAGI) below:
 - \$150,000 for single filers
 - \$300,000 for joint filers

 Married? You must file as Married Filing Jointly to claim the exemption. Married Filing Separately does not qualify.

What Counts as Overtime?

Only the premium portion of overtime pay qualifies—this is the extra amount paid above your regular hourly rate.

Example: If your regular rate is \$20/hour and your overtime rate is \$30/hour, the \$10/hour premium is tax-exempt (up to \$12,500/year).

Employer Requirements

- Must report overtime separately on W-2 forms or in a statement for 2025
- Applies only to “federally defined overtime”—not state or employer-specific rules. “Federally defined overtime” is defined as hours over 40 hours per week. And the regular rate is increase by .50 (\$15/hour = \$22.50/hour) so the “overtime” amount is \$7.50. Double time or triple time does not count as these are not “federally defined overtime”.