

OBBBA “No Tax on Overtime” – Frequently Asked Questions

What is the “No Tax on Overtime” provision?

The “No Tax on Overtime” provision is part of the One Big Beautiful Bill Act (OBBBA), which was signed into law in July 2025. This provision allows eligible overtime premiums to be excluded from federal income tax.

How will WIU report eligible overtime amounts?

WIU hopes to have letters out to employees detailing their eligible overtime by mid-February.

Does the deduction apply to all overtime pay?

No, the deduction applies **only to the premium portion of overtime pay** (the “extra half” above an employee’s regular rate) as required by the Fair Labor Standards Act (FLSA).

Overtime paid under state laws, university policies, or collective bargaining agreements does not qualify unless it meets FLSA requirements. Overtime paid based on the university’s more generous policies or collective bargaining agreements such as:

- Daily overtime for hours worked over 7.5 in a day, or
- Overtime paid for hours worked over 37.5 hours in a workweek

is **not eligible** unless the employee also exceeds **40 hours worked in a single workweek**, as defined by the FLSA.

What overtime qualifies?

Only overtime earned after physically working more than **40 hours in a workweek qualifies**.

- WIU’s standard workweek runs **Monday through Sunday**.
- Hours worked **do not include** sick leave, family sick leave, vacation, Illinois Paid Leave for All (IPLA), or compensatory time used.

Examples:

- Shift differentials are **not** FLSA overtime.
- Double time is **not** FLSA overtime. Only the “extra half” above the regular rate may qualify.
- Overtime paid between **37.5 and 40 hours worked** is not FLSA-eligible.
- If paid overtime was earned in a week where leave time (sick, vacation, IPLA, or comp time) was used, the employee must still have **physically worked 40 hours** for the overtime to qualify.

What about overtime that was banked as Compensatory time?

When compensatory time is used, WIU must determine whether the overtime **met FLSA standards at the time it was earned**. If it qualifies as FLSA overtime, **only the value of the premium portion** (the "extra half", or one-third of the total comp time value) is eligible.

Note: WIU uses a Last In, First Out (LIFO) method when determining which leave hours are used.

Are exempt employees eligible for this deduction?

No, employees classified as exempt under the FLSA (such as most salaried professionals) are not eligible.

Are overtime wages still subject to other taxes?

Yes, overtime wages remain subject to **Social Security, Medicare, and any applicable state or local taxes**.

Will this change how overtime is taxed during the year?

No. Federal income tax and Medicare will continue to be withheld from overtime pay, and Social Security tax will continue to be withheld where applicable.