



Frequently Asked Questions

One Big Beautiful Bill

“No Tax on Overtime” and 2025 W-2 Reporting

Important: This FAQ is for general information only and does **not** constitute tax, legal, or financial advice. Employees should consult a personal tax advisor or the IRS for guidance on their individual tax situation.

What is the new “no tax on overtime” provision?

A recent change in federal tax law, signed into law as the “One Big Beautiful Bill”, created a temporary federal income tax deduction for certain overtime pay for employees covered by the Fair Labor Standards Act (FLSA). This allows a separate deduction from wages and applies only to specific types of overtime pay called “qualified overtime compensation,” which may be available for certain tax years as defined by federal law. It is claimed on your federal income tax return; it is not something the County applies directly to your paycheck. If you are unsure whether you are FLSA-covered (non-exempt) or FLSA-exempt, please visit the link below.

<https://hr.sbccounty.gov/wp-content/uploads/sites/39/Documents/2025-FLSA-Status-by-Job-Classification.pdf>

Does this mean there will be no taxes taken out of my overtime on my paycheck?

No. Your overtime pay will still have normal withholding taken out, including:

- Federal income tax withholding
- California state income tax withholding
- Social Security and Medicare (FICA), if applicable

The “no tax on overtime” provision works as a deduction on your federal income tax return. It does not stop taxes from being withheld from your paycheck during the year.

What is “qualified overtime compensation”?

Under federal law, “qualified overtime compensation” generally means only a portion of the overtime paid to you. It is the portion of the overtime premium that is required and paid under the Fair Labor Standards Act (“FLSA”) – the extra “half-time” portion of time-and-a-half pay for FLSA-covered (non-exempt) employees.

I’m FLSA-exempt but sometimes get overtime or additional pay under my MOU. Does this apply to me?

No. Under federal law, the “no tax on overtime” deduction applies only to FLSA overtime paid to FLSA-covered (non-exempt) employees. Overtime or extra pay paid to FLSA-exempt employees (for example, certain salaried executive, administrative, or professional positions) does not qualify as “qualified overtime compensation,” even if it is allowed under County policy or a collective bargaining agreement. If you are unsure of your FLSA status visit the link below.

<https://hr.sbccounty.gov/wp-content/uploads/sites/39/Documents/2025-FLSA-Status-by-Job-Classification.pdf>

If I used vacation, sick leave, or holiday in a week, can my overtime for that week still qualify for the deduction?

Maybe. Under FLSA, paid leave is not treated as “hours worked.” Only the portion of overtime earned from hours actually worked (e.g. REG) beyond the FLSA maximum (for example, over 40 hours in a 7-day work period for many employees) can qualify.

The County’s overtime rules may still pay you overtime in weeks when you use accrued leave, but that overtime may not all count as “qualified overtime compensation” under federal rules. Your tax preparer or tax software can help you evaluate your specific situation.

Is the compensatory time (“comp time”) I used eligible for the overtime deduction?

Yes, if it is “qualified overtime compensation.” A portion of the comp time used or cashed out may be deductible if it is “qualified overtime compensation” as defined above. Because this can be complex, employees may wish to work with a tax professional or reputable tax preparation software when applying those rules.

Will California also exclude my overtime from income?

No. The “no tax on overtime” provision is a federal income tax deduction. California has its own tax rules and does not automatically follow federal deductions. Unless you are notified otherwise by official state guidance, you should assume that California state income tax continues to apply to overtime in the same way it has in prior years.

What should I look for on my 2025 Form W-2?

For tax year 2025, the County will provide an estimated qualified overtime amount. The amount will be reported on Form W-2, Box 14 as “EstOvtPrm.” The amount reported in Box 14 is provided solely as an estimate to assist you and your tax preparer in determining your federal “No Tax on Overtime” deduction. It is not a guarantee of the exact deductible amount, and your actual deduction may vary depending on your individual circumstances.

How should I use the W-2 Box 14 amount when I file my taxes?

The Box 14 amount is intended as a starting point or reference for you and your tax preparer. It represents the best estimate of “qualified overtime compensation” the County can provide.

If you or your tax preparer want to refine that number, you may:

1. Use the Box 14 amount as a starting point, and
2. Review your 2025 Leave and Earnings Statements to identify:
 - o Overtime hours based solely on hours actually worked (excluding paid leave) and
 - o Comp time paid or cashed out.

Your Leave and Earnings Statements show your pay under specific earnings codes (for example, codes for regular time, overtime, and comp time earned or paid). These codes and totals can help you and your tax preparer understand how much overtime-related pay you received in 2025.

However, employees should work with a tax professional to determine how best to use the Box 14 amount and their Leave and Earnings Statements because of:

- Different FLSA work periods (7-, 14-, and 24-day),
- Negotiated collective bargaining agreements that allow certain paid leaves to count as hours actually worked for overtime calculations, and

- Comp time that is paid or cashed out in the reporting year.

Who should I contact with questions?

- Questions about your W-2 or the Box 14 amount:
Contact the Auditor-Controller/Treasurer/Tax Collector (ATC) Central Payroll Section at
centralpayrolldocs@sbcountyatc.gov
- Questions about whether and how to claim the “no tax on overtime” deduction on your tax return:
Contact a personal tax advisor.

The County cannot provide individual tax advice or file tax returns for employees.