

# IS THERE REALLY NO TAX ON OVERTIME?

Kevin P. Tabarus, National Secretary-Treasurer



**T**he Reconciliation Bill that passed Congress was signed into law on July 4, 2025, as Public Law 119-21 contained provisions for “No Tax on Tips”, “No Tax on Overtime”, “No Tax on Car Loan Interest”, and several other provisions.

The “No Tax on Overtime” is a provision that interests most Mail Handlers. It sounds great! However, it is not as great as it was advertised. It sounded like there would be no federal income tax on all paid overtime hours. The truth is that the federal income tax on overtime is restricted and limited.

## **It does not make all overtime tax-free!**

This is a new tax deduction, effective for 2025 through 2028. Individuals that receive overtime compensation as required by the Fair Labor Standards Act (FLSA) may deduct the “half” portion of the “time-and-a-half” compensation.

What does the “half” portion of “time-and-a-half” compensation, required by FLSA equal?

The straight time salary rate for a Level 4 top step Mail Handler is \$36.57 an hour. The overtime salary rate for a Level 4 top step Mail Handler is \$54.86 an hour. **The “half” portion of the “time-and-a-half” compensation equals only \$18.29 an hour.** (\$54.86 minus \$36.87, equals \$18.29). Only this “half” portion is deductible. But there are restrictions.

The deduction restrictions include: the maximum annual deduction is \$12,500 (\$25,000 for joint filers) and the deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

What is FLSA Overtime? The Fair Labor Standards Act (FLSA) is a federal statute which applies to the Postal Service. The FLSA provides that the Postal Service must pay employees covered by the overtime provisions of the Act (which includes all Mail Handlers) at least one and one-half times the employee's regular rate for all hours of actual work in excess of 40 hours in any FLSA workweek. It is important to remember that, for purposes of the FLSA, actual work does not include any paid time off.

What this means is that if you have paid leave in a work week while also working overtime in the same work week (because you worked more than eight hours in a day), that overtime pay may not be eligible for the tax deduction. Similarly, if an MHA works four (4) hours of overtime early in a work week, but only works a total of thirty-eight hours in a

week, while the MHA will be paid for 4 hours at the overtime rate, that overtime may not be eligible for the tax deduction.

Because employers, like the Postal Service, are required by the new law to furnish the total amount of qualified overtime compensation paid during the year, it is our understanding that the new 2025 W2 Form issued to employees by the Postal Service will specify the amount of overtime compensation that may be deducted.

This deduction is available to those who itemize their deductions and those who non-itemize their deductions. To be eligible to claim this deduction you must include your Social Security Number on the tax return and must file jointly if married. If you are married, you cannot file tax returns separately, to claim this deduction!

Remember, this is just a deduction, not that all overtime is exempt from taxation. The deduction can only be claimed when you file your annual tax return. This means your paychecks will still have taxes normally withheld throughout the year. Some tax professionals estimate there will be only a small decrease in federal income tax.

This reconciliation bill concerning the deduction of **only** the “half” portion of overtime pay only applies to federal income tax. It does not apply to state (and local) income tax. Each state and locality has its own rules and some are considering exempting overtime pay from their state's income tax. Overtime pay is still subject to federal Social Security and Medicare taxes.

Please discuss this new deduction with your professional tax preparer. This article is not intended to provide income tax advice. More information can be found at [www.irs.gov](http://www.irs.gov). We expect that the IRS will be providing more guidance on how this overtime deduction will be implemented.

The so-called big beautiful bill is not as big and beautiful as advertised.

Faternally,

A stylized, handwritten signature in blue ink, appearing to read 'KPT', followed by a horizontal line.

**Kevin P. Tabarus**

National Secretary-Treasurer