

Overtime and the One Big Beautiful Bill Act

SASBO-VASBO Conference
March 2026



This bill was signed into law
on
July 4, 2025



It's a *budget reconciliation* package and bundles many large policy changes and budget priorities into one omnibus bill.



Categories of Changes

1

Tax reform & cuts

4

Healthcare & ACA adjustments

2

Changes to social safety net programs

5

Affordable housing incentives

3

Defense & border spending increases

6

Changes to education programs & student loans



A few major tax changes

- Makes permanent the nearly doubled standard deduction created by the Tax Cuts & Jobs Act (TCJA) that were set to expire December 31, 2025
- Created a deduction of up to \$10,000 for qualified passenger vehicle loan interest during a given taxable year.
- Allows a deduction of up to \$25,000 for qualified tips received by an individual in an occupation that customarily and regularly receives tips during a given taxable year.
- Generally increases the threshold of independent contractors from \$600 to \$2,000 and applies to payments made after December 31, 2025
- Created an above-the-line deduction for overtime premium pay during a given taxable year



How does this affect my district?

1

New federal income tax deduction for overtime

Employers now have to separately track and report overtime pay that qualifies for the deduction.

2

What is qualified overtime?

Qualified overtime is defined under the Fair Labor Standards Act (FLSA) as generally, time-and-a-half pay for hours worked over 40 in a week.

3

Reporting

Employers must report this separately on employee tax documents so workers can claim the deduction accurately





**This sounds
like the FLSA
- is it the
same thing?**



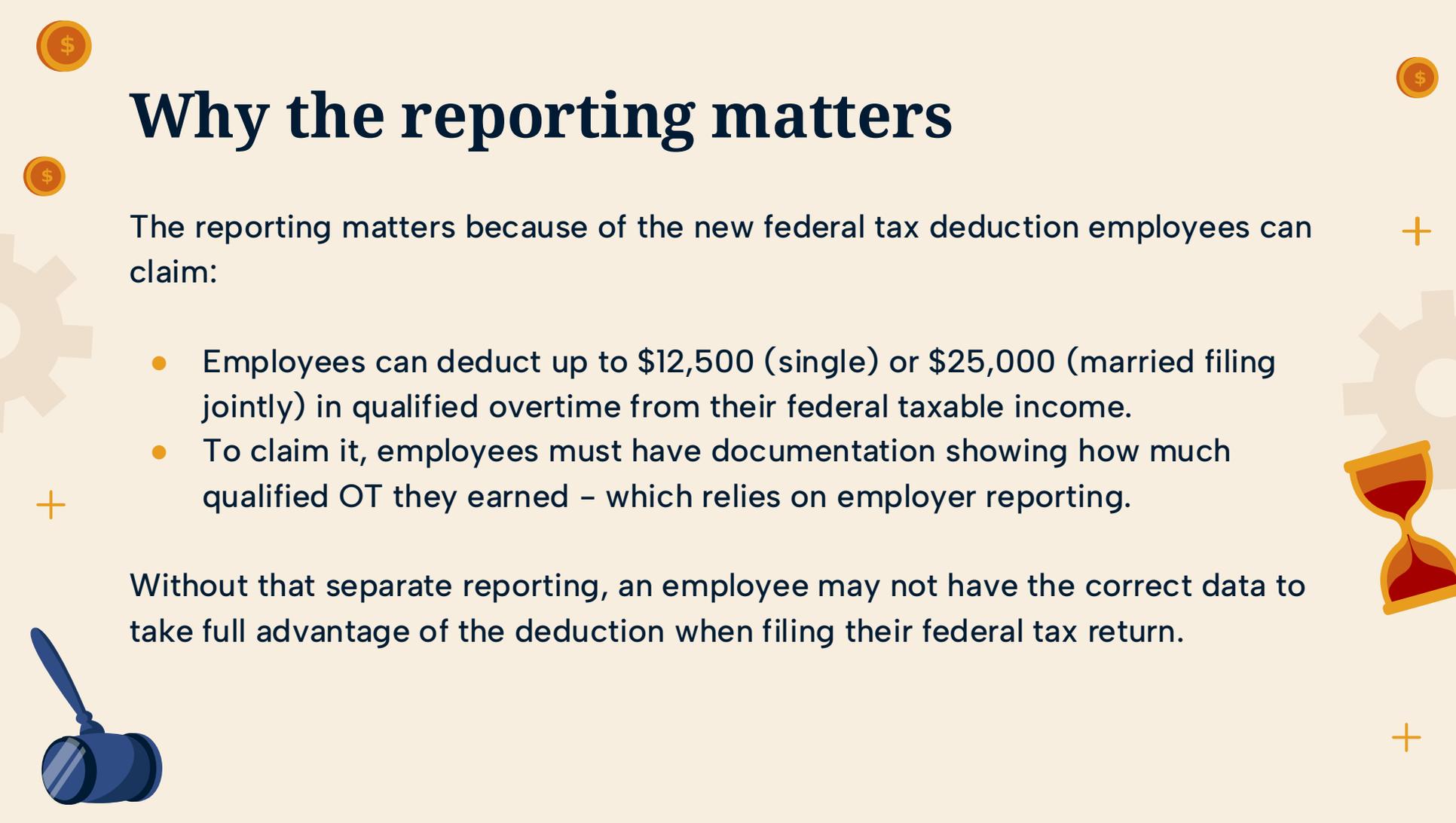
What's the purpose of each law?

FLSA

- Federal Wage and Hour Law
- Requires payment of overtime (1.5x regular rate) after 40 hours in a workweek
- Requires employers to maintain accurate wage and hour records
- Focused on ensuring proper pay

OBBBA

- Federal Tax Law
- Requires employers to separately track and report FLSA-required overtime premium portion
- Allows employees to deduct qualified overtime premium from federal taxable income
- Focused on tax reporting



Why the reporting matters

The reporting matters because of the new federal tax deduction employees can claim:

- Employees can deduct up to \$12,500 (single) or \$25,000 (married filing jointly) in qualified overtime from their federal taxable income.
- To claim it, employees must have documentation showing how much qualified OT they earned – which relies on employer reporting.



Without that separate reporting, an employee may not have the correct data to take full advantage of the deduction when filing their federal tax return.

What records are required?

FLSA

- Employee name, address, SSN
- Hours worked each day and total each workweek
- Regular hourly rate
- Total straight-time and overtime earnings
- Additions/deductions from wages
- Pay date, pay period and total wages paid each pay period

OBBBA

- Identify only the FLSA-required overtime
- Separate the premium portion (0.5x) from straight-time pay
- Exclude state-law daily overtime, union/contract overtime above federal minimum and voluntary or bonus premiums
- Report the qualified premium separately for tax purposes

Differences at a Glance

	FLSA	OBBBA
Type of law	Labor Law	Tax Law
Requires OT pay?	Yes	No (relies on FLSA)
Requires tracking hours?	Yes	Indirectly
Requires separating premium portion?	No	Yes
Requires tax reporting of OT portion?	No	Yes
Focus	Proper Payment	Tax deduction eligibility

The Bottom Line



The FLSA tells you what must be paid and recorded.

The OBBBA tells you how part of that overtime must be separated and reported for tax purposes.

They overlap – but they are **NOT** the same requirement



Practical Example

Employee earns \$20/hr and works 45 hours

- FLSA requires:
 - 40 hrs x \$20 = \$800
 - 5 hrs x \$30 = \$150
 - Total pay = \$950



Under FLSA records

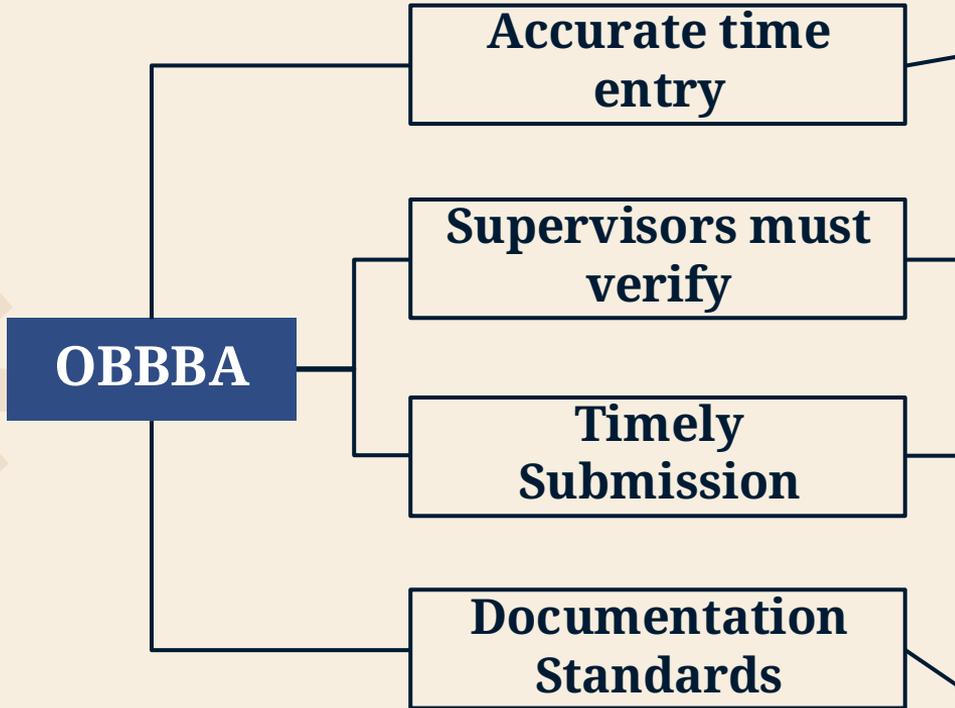
- You must record 45 hours
- You must record \$150 as overtime pay



Under OBBBA

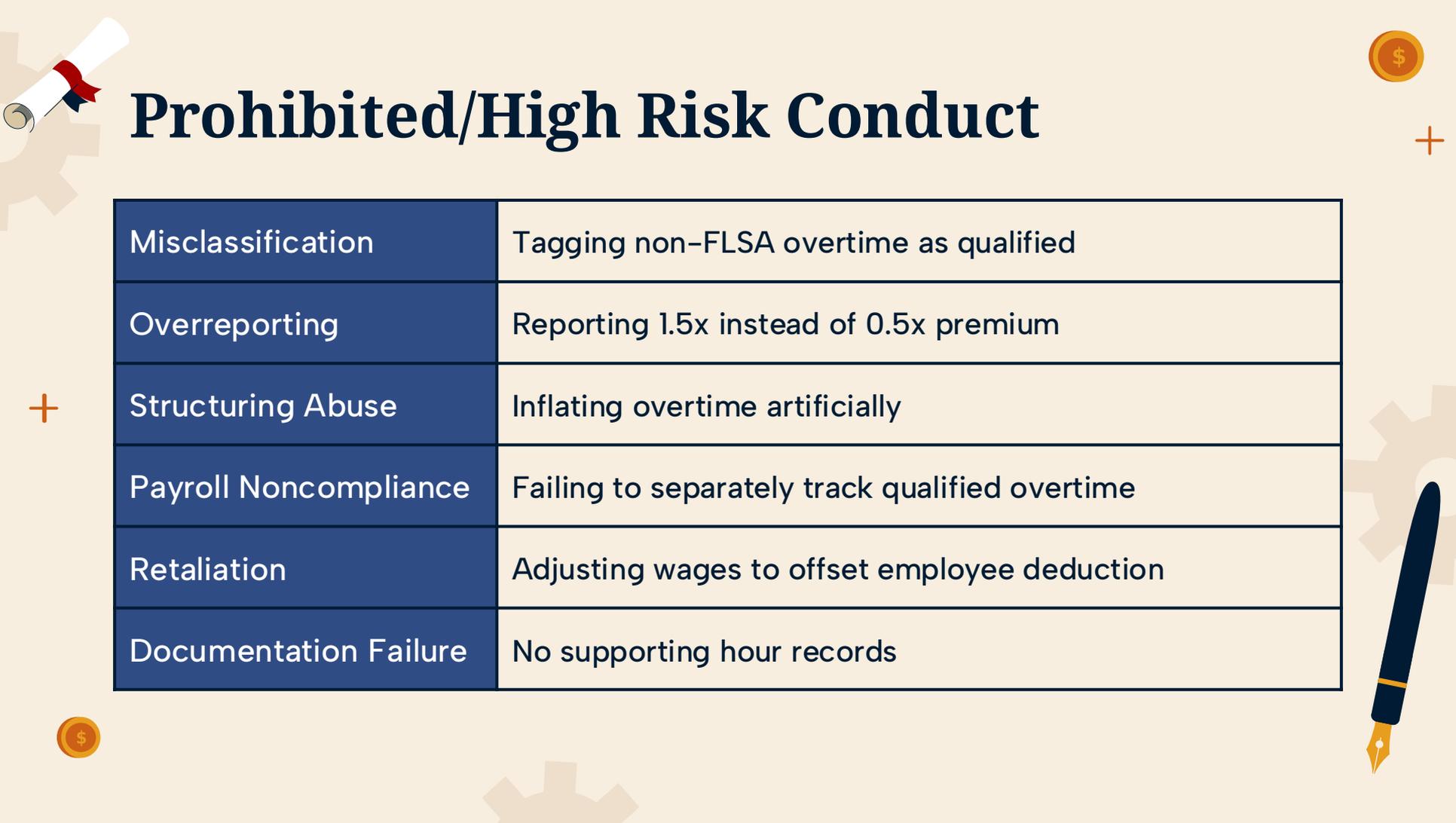
Only the \$10/hr premium x 5 hours = \$50 is “qualified overtime” and must be separately tracked for tax reporting.

🪙 New (but not so new) reporting requirements+



- Employees must record actual start time, stop time, and breaks
- No pre-filled or estimated hours
- Hours are correct
- Overtime was authorized when required
- Timesheets must be submitted by the designated cutoff each pay period
- Records must be retained per policy
- Edits must be logged and traceable





Prohibited/High Risk Conduct

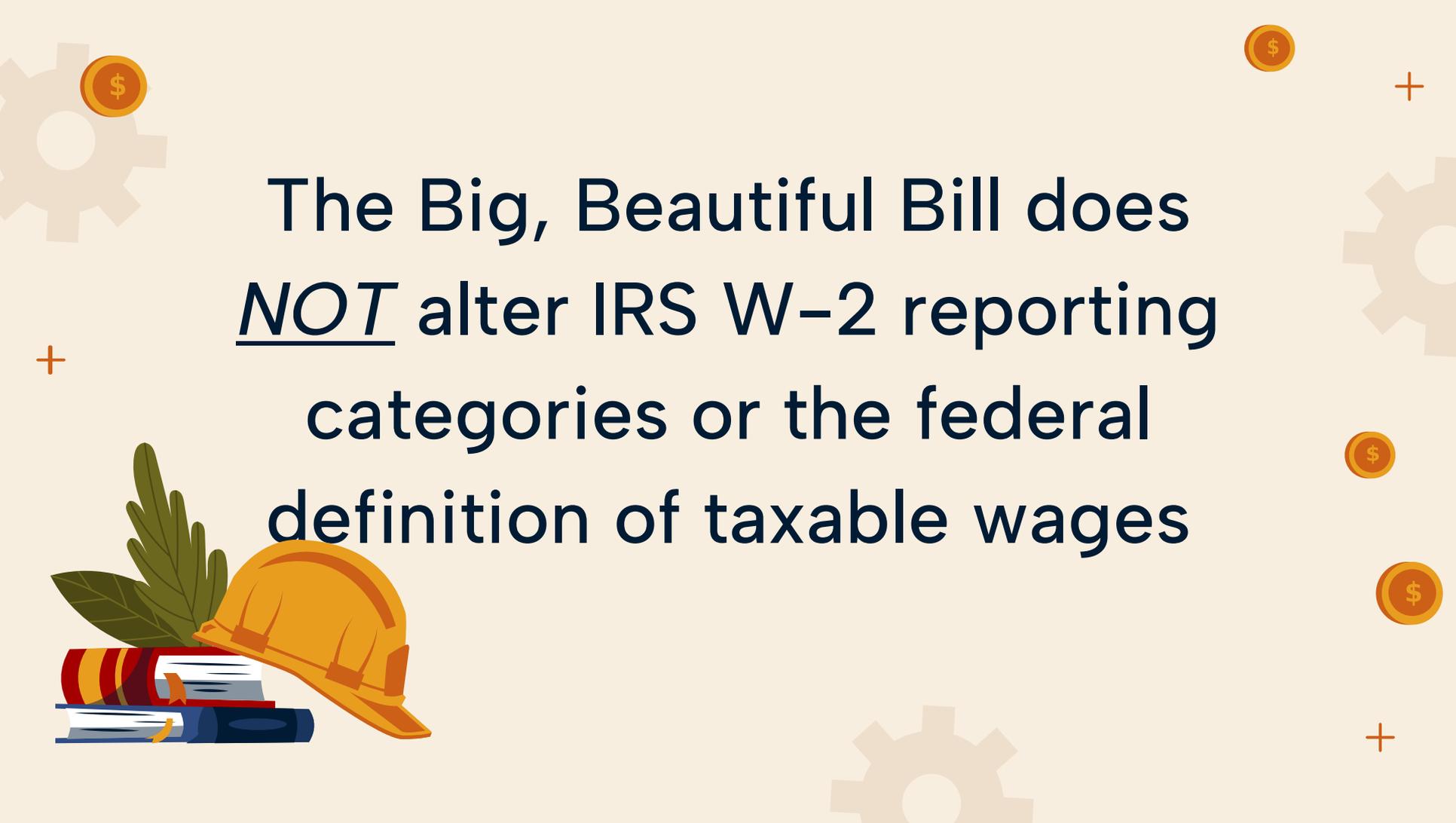
Misclassification	Tagging non-FLSA overtime as qualified
Overreporting	Reporting 1.5x instead of 0.5x premium
Structuring Abuse	Inflating overtime artificially
Payroll Noncompliance	Failing to separately track qualified overtime
Retaliation	Adjusting wages to offset employee deduction
Documentation Failure	No supporting hour records



Reporting OT on Employee W-2s



The Big, Beautiful Bill does
NOT alter IRS W-2 reporting
categories or the federal
definition of taxable wages



Forms W-2 for 2026 wages
will report qualified
overtime in Box 12 with a
new alpha code designated
by the IRS



All overtime pay will remain included in Box 1 as part of total taxable wages as well as reporting the premium portion in Box 12



Friendly Reminders

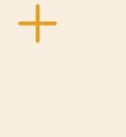




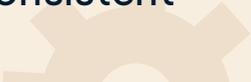
FLSA TIMEKEEPING RULES



Hours Information

- Time and day workweek begins
 - Hours worked **each day**
 - Total hours worked each workweek
- 

Workweek Definition

- An employer must define a fixed workweek:
1. 7 consecutive 24-hr periods
 2. The workweek may begin on any day/time
 3. It must remain consistent
- 



Overtime

- Must be paid at 1.5x  regular rate
- Regular rate must contain certain bonuses and incentive pay
- Employers must maintain records showing how overtime was calculated 

Common Timesheet Violations

1

Failing to record all hours worked

2

Off-the-clock work (before/after shifts)

3

Automatic meal deduction without verification

4

Averaging hours across two weeks

5

Altering time records without documentation

6

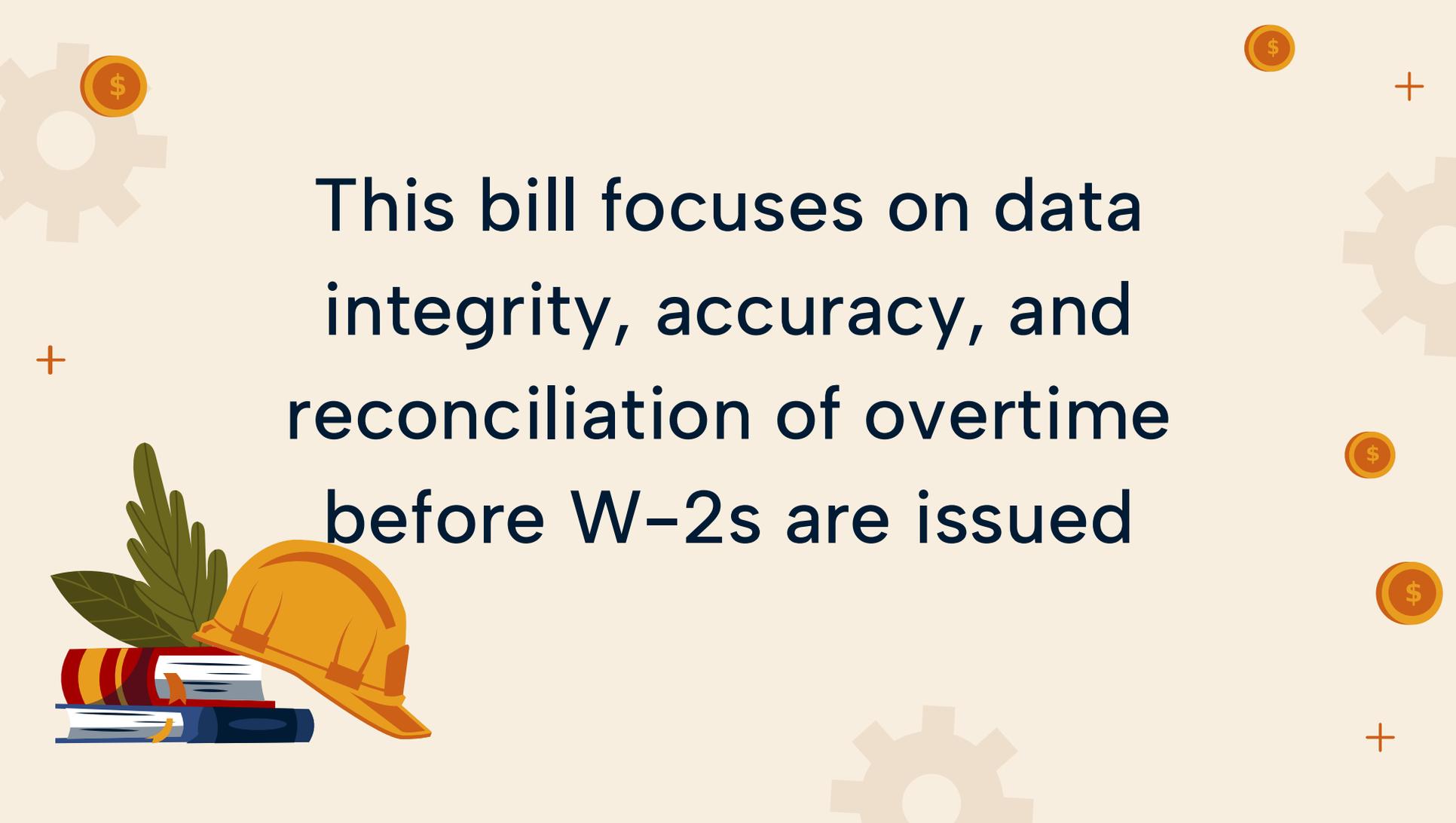
Retaliating against employees who report time issues



Takeaways



This bill focuses on data integrity, accuracy, and reconciliation of overtime before W-2s are issued



Districts should:

1. Ensure all overtime is posted in the correct pay period.
2. Require supervisors to certify overtime data
3. Enforce audit trail requirements
4. Mandate year-end overtime reconciliation



Thanks!

Do you have any questions?

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