

Qualified Overtime – Federal Income Tax Deduction – Reporting

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Teamwork is able to report the data point "Qualified Overtime" as it pertains to the Federal Income Tax Deduction in the 2025 tax law update.

Qualified overtime can report to a CSV of the payroll output, or mapped directly to integrated payroll providers.

Merchant's must validate with their payroll processor that the data is being properly calculated, i.e. which software is calculating the overtime "premium" required for tax computations.

Fed Income Tax Deduction Summary

1) What the BBB actually changed

The law created a new federal income tax deduction for "qualified overtime".

- Workers can deduct up to \$12,500 of qualifying overtime income (double for joint filers).
- But only a specific portion of overtime qualifies:
 - The extra "half-time premium" required under the federal Fair Labor Standards Act (FLSA)
 - Not the full overtime paycheck
- And critically:
 - Overtime that exists only because of state law (like California rules) does NOT qualify

2) Why this creates a reporting issue

Because of that distinction, employers now have to separate overtime into two buckets:

✓ Federally Qualified Overtime

- Required under federal law (FLSA: >40 hours/week)
- Eligible for the federal tax deduction

☒ Non-qualified overtime

- Overtime required only by state law
 - Not eligible for the deduction
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3) Why California businesses are especially affected

California has much stricter overtime laws than federal law, for example:

- Overtime after 8 hours in a day (not just 40/week)
- Double time in some situations

Those extra rules mean:

☒ A large portion of overtime paid in California is NOT “federally qualified”

So employers must:

- Track which overtime hours are federal vs. California-only
 - Report them separately (e.g., on payroll records, potentially W-2 breakdowns or supporting documentation)
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4) Why this matters for taxes

This separation matters because:

- Employees can only deduct the federally qualified portion
- If employers don't properly classify it:
 - Employees may lose tax benefits

- Employers risk incorrect reporting/compliance issues

In short:

☒ The federal tax break forces a new layer of payroll accounting detail

5) The practical impact

For California businesses, this means:

- Payroll systems must be updated to:
 - Identify FLSA overtime vs. CA overtime
 - Accounting and HR need to:
 - Track “qualified overtime” separately
 - Employees may:
 - Ask for breakdowns to claim deductions
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Bottom line

There isn't a separate “California reporting law” in the BBB.

What's happening is:

☒ The federal tax deduction only applies to FLSA overtime,
☒ California has extra overtime rules,
☒ So businesses must track and report overtime in a more detailed way to support those federal tax deductions.

This article is for informational purposes only and should not be considered legal or tax advice; merchants should consult their own qualified legal or tax professionals regarding the 2025 “BBB” and any applicable requirements.