Fact Sheet

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Updates to questions and answers about the new deduction for qualified overtime compensation

FS-2026-13, August 2026

These FAQs supersede earlier FAQs that were posted in FS 2026-01 on Jan. 23, 2026.

This Fact Sheet updates frequently asked questions for qualified overtime compensation (commonly referred to as No Tax on Overtime).

The updates are as follows:

- Updates throughout, including adding an index, renumbering certain FAQs, and making clarifying revisions to most questions.
- Deletes information that was applicable solely to the 2025 taxable year.
- Provides clarification on the limits and timing of the qualified overtime compensation deduction.
- Provides additional information on coverage and exemptions under the FLSA.
- Provides detailed information on Form W-2, Form 1099-MISC, and Form 1099-NEC requirements applicable to employers and payors of qualified overtime compensation.
- Adds information on federal income tax withholding procedures related to qualified overtime compensation.
- Adds information on the requirement that qualified overtime compensation must be separately reported on Form W-2 to claim the deduction.
- Provides more detailed information on issues applicable to federal employees.

These FAQs are being issued to provide general information to taxpayers and tax professionals as expeditiously as possible. Accordingly, these FAQs may not address any particular taxpayer's specific facts and circumstances, and they may be updated or modified upon further review. Because these FAQs have not been published in the Internal Revenue Bulletin, they will not be relied on or used by the IRS to resolve a case. Similarly, if an FAQ turns out to be an inaccurate statement of the law as applied to a particular taxpayer's case, the law will control the taxpayer's tax liability. Nonetheless, a taxpayer who reasonably and in good faith relies on these FAQs will not be subject to a penalty that provides a reasonable cause standard for relief, including a negligence penalty or other accuracy-related penalty, to the extent that reliance results in an underpayment of tax. Any later updates or modifications to these FAQs will be dated to enable taxpayers to confirm the date on which any changes to the FAQs were made. Additionally, prior versions of these FAQs will be maintained on IRS.gov to ensure that taxpayers, who may have relied on a prior version, can locate that version if they later need to do so.

More information about reliance is available on IRS.gov. *These FAQs were announced in IR-2026-88.*

Background

The One, Big, Beautiful Bill Act (OBBBA), P.L. 119-21, added a new deduction for qualified overtime compensation. Notice 2025-69 clarified for individuals how to determine the amount of their deduction for qualified overtime compensation for the 2025 tax year.

The income tax deduction for qualified overtime compensation is available to certain individuals who are paid overtime compensation under section 7 of the Fair Labor Standards Act (FLSA).

Special rules apply to employees in the Federal Government who are covered by FLSA regulations issued by the Office of Personnel Management. For more information see Federal employee issues.

These FAQs were coordinated with the Department of Labor and the Office of Personnel Management.

Below are answers to some questions about the deduction for qualified overtime compensation.

Topic A: The basics

Q1. What is the deduction for qualified overtime compensation? (updated August 6, 2026)

A1. The deduction for qualified overtime compensation is an income tax deduction available to certain individuals who are paid qualified overtime compensation required under section 7 of the Fair Labor Standards Act (FLSA) (29 USC § 207). It is available whether the individual itemizes or takes the standard deduction. Overtime compensation not required by the FLSA is not eligible for the deduction.

The deduction for qualified overtime compensation does not mean that overtime compensation is excluded or exempt from gross income. Generally, overtime compensation is not excludible or exempted from wages for purposes of employment taxes including income tax withholding, social security, and federal unemployment taxes.

Q2. What is the deduction amount? Are there limits to the deduction? (updated August 6, 2026)

A2. The deduction is up to $12,500 of qualified overtime compensation earned for the year per individual tax return ($25,000 in the case of a joint return). The deduction is reduced if a taxpayer's modified adjusted gross income (MAGI) for the tax year exceeds $150,000 ($300,000 for joint filers). For more information see the instructions to Form 1040 (Schedule 1-A).

Q3. When is qualified overtime compensation paid for purposes of the deduction? (added August 6, 2026)

A3. Generally, the same principles that govern when a payment is treated as wages for purposes of income tax withholding apply to determine when qualified overtime compensation is paid by the employer to the employee.

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Topic B: FLSA overtime-eligibility

Q4. Who is an FLSA overtime-eligible employee? (updated August 6, 2026)

A4. For overtime to be required under the FLSA, it must, among other requirements, be paid to an individual who is both covered by the FLSA and not exempt from the FLSA's overtime requirement (an FLSA overtime-eligible employee). An individual who is ineligible for overtime under the FLSA (an FLSA overtime-ineligible employee) does not receive qualified overtime compensation regardless of other laws or circumstances (such as a collective bargaining agreement) providing for overtime pay.

The FLSA covers all employees of certain enterprises having workers engaged in interstate commerce, producing goods for interstate commerce, or handling, selling, or otherwise working on goods or materials that have been moved in or produced for such commerce by any person. In addition, employees are individually covered when engaged in interstate commerce or in the production of goods for interstate commerce, or in any closely-related process or occupation directly essential to such production. See Fact Sheet #14: Coverage Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.

The FLSA contains some exemptions; some apply to specific types of businesses and others apply to specific kinds of work. Because the exemptions are specifically defined under the FLSA, an employer should carefully check the exact terms and conditions for each exemption before applying them.

Employees who are exempt from the FLSA's overtime requirements are FLSA overtime-ineligible. Some common exemptions under the FLSA that apply to overtime requirements include but are not limited to:

- Executive, administrative, and professional employees (including teachers and academic administrative personnel in elementary and secondary schools). See Fact Sheet #17A: Exemption for Executive, Administrative, Professional, Computer & Outside Sales Employees Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
- Outside sales employees. See Fact Sheet #17F: Exemption for Outside Sales Employees Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
- Employees in certain computer-related occupations. See Fact Sheet #17E: Exemption for Employees in Computer-Related Occupations Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
- Certain commissioned employees of retail or service establishments. See Fact Sheet #20: Employees Paid Commissions By Retail Establishments Who Are Exempt Under Section 7(i) From Overtime Under The FLSA | U.S. Department of Labor.
- Employees of railroads and air carriers, taxi drivers, certain employees of motor carriers, seamen on American vessels, and local delivery employees paid on approved trip rate plans. See Fact Sheet #19: The Motor Carrier Exemption under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
- Employees of certain seasonal amusement or recreational establishments. See Fact Sheet #18: Section 13(a)(3) Exemption for Seasonal Amusement or Recreational Establishments Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
- Certain agricultural employees performing certain duties each workweek. See Fact Sheet #12: Agricultural Employment Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.

More information on coverage and exemptions, including exemptions from minimum wage and overtime pay requirements and exemptions from overtime pay only, under the FLSA can be found on the Department of Labor website. See "Exemptions" in the Handy Reference Guide to the Fair Labor Standards Act.

Q5. Is an employee-owner of a business an FLSA overtime-eligible employee? (added August 6, 2026)

A5. Generally, no. An employee who owns at least a bona fide 20-percent equity interest in the enterprise in which they are employed, regardless of the type of business organization (e.g., corporation, partnership, or other), and who is actively engaged in its management, is considered a bona fide executive exempt from 29 USC § 207's overtime requirement and is thus an FLSA overtime-ineligible employee. An employee who owns a smaller interest might still qualify for one of the other exemptions discussed in Question 4.

For more information see Fact Sheet #17B: Exemption for Executive Employees Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.

Topic C: Reporting qualified overtime compensation on Form W-2 and Form 1099-NEC or 1099-MISC

Q6. Is qualified overtime compensation required to be separately reported to individuals on information returns? (updated August 6, 2026)

Yes. Starting in tax year 2026, payors and employers are required to separately report qualified overtime compensation on Form 1099-MISC (box 14), Form 1099-NEC (box 1d), or, more commonly, Form W-2 (box 12, code TT).

Q7. Under what circumstances is qualified overtime compensation reported on Form 1099-MISC or NEC instead of a Form W-2? (added August 6, 2026)

The only circumstance where a payor would report qualified overtime compensation on a Form 1099-MISC or Form 1099-NEC instead of a Form W-2 is when the worker is an employee of the employer for FLSA purposes but treated as an independent contractor for purposes of the Internal Revenue Code.

For information regarding DOL's analysis for determining whether a worker is an employee or independent contractor for FLSA purposes, see Fact Sheet 13: Employment Relationship Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor. For information regarding IRS's analysis of worker classification for Internal Revenue Code purposes, see Independent contractor (self-employed) or employee? | Internal Revenue Service.

Circumstances when qualified overtime compensation is properly reported on Form 1099-MISC or NEC are rare. The FAQs below assume Form W-2 reporting to an FLSA overtime-eligible employee, but similar principles in the FAQs below apply to Form 1099 series information reporting to FLSA overtime-eligible individuals.

Topic D: Federal income tax withholding from wages

Q8. Must employers reduce wages subject to income tax withholding to account for the qualified overtime compensation deduction? (added August 6, 2026)

A8. No. Overtime compensation (including qualified overtime compensation) is subject to federal income tax withholding. An employer may not reduce withholding on wages to account for the qualified overtime deduction unless the employee furnishes the employer an updated and valid Form W-4 accounting for the employee's expected deduction for qualified overtime compensation.

Q9. How can an employee reduce the amount of income tax withheld from the employee's pay with respect to an expected deduction for qualified overtime compensation? (added August 6, 2026)

A9. An employee may furnish the employer with a new Form W-4 that estimates the employee's expected deduction for qualified overtime compensation.

The 2026 Form W-4 was updated to allow employees to account for the deduction for qualified overtime compensation in step 4(b). For more information, see the step 4(b) deduction worksheet.

Employees may also consider using the Tax Withholding Estimator, which has been updated to allow employees to account for the deduction for qualified overtime compensation.

Topic E: Information for employers

Q10. Must an employer separately include the amount of qualified overtime compensation on a Form W-2 for tax year 2026? (updated August 6, 2026)

A10. Yes, an employer must report the amount of qualified overtime compensation paid to an employee beginning in 2026, on Form W-2 in box 12, using code TT.

Qualified overtime compensation is the amount of overtime compensation **required** under 29 USC § 207 that is **in excess** of the employee's regular rate. Thus, the amount that must be reported on Form W-2, box 12, code TT is the total qualified overtime compensation paid, which, due to other limitations, may not be the amount ultimately deductible by the employee.

Example: Employer paid Employee qualified overtime compensation of $30,000 in 2026. Employer must include $30,000 on Employee's Form W-2 using box 12, code TT even though the overall limit on the deduction for qualified overtime compensation is $12,500 ($25,000 in the case of a joint return).

Q11. Must an employer correct a Form W-2 if it discovers an error made in Form W-2, box 12, code TT? (added August 6, 2026)

A11. Yes. If an employer discovers an error on Form W-2, box 12, code TT, the employer must file Form W-2c, Corrected Wage and Tax Statements (Corrected Wage and Tax Statement) with SSA and furnish Form W-2c to the employee as soon as possible. An employer that files or furnishes an incorrect Form W-2 may be subject to information reporting penalties under section 6721 or 6722, including reduced penalties for timely corrections.

Q12. How does an employer determine the amount of qualified overtime compensation the employer paid to an employee for purposes of the deduction? (added August 6, 2026)

A12. Generally, qualified overtime compensation is determined each workweek. Consistent with guidance provided for tax year 2025, for most employees, qualified overtime compensation paid to an FLSA overtime-eligible employee for the workweek is determined as follows:

Number of FLSA hours worked in excess of 40 hours in a workweek **x**
One-half **x**
Employee's FLSA regular rate of pay **=**
Qualified overtime compensation for workweek

For an employer relying on certain creditable overtime premiums to meet the FLSA overtime requirement, this formula equals the amount of the portion of the overtime premiums credited (and only that portion) plus any additional FLSA overtime premium paid. For purposes of the deduction, see the following FAQs for information on determining the FLSA workweek, calculating FLSA hours worked, and determining an employee's FLSA regular rate of pay.

For general information on overtime requirements under the FLSA, see Fact Sheet #23: Overtime Pay Requirements of the FLSA | U.S. Department of Labor.

If an employer computes FLSA overtime using an alternative method of computation within 29 USC § 207 (rather than the general method set forth in 29 USC § 207(a)), see FAQ 17.

Different rules may apply for federal employees covered by OPM's FLSA regulations. See Federal employee issues for more information.

Q13. What is a workweek for purposes of determining the deduction for qualified overtime compensation? (added August 6, 2026)

A13. A workweek is a fixed and regularly recurring period of 168 hours—7 consecutive 24-hour periods. It may begin on any day of the week and at any hour of the day established by the employer. Generally, each workweek stands alone; for purposes of overtime there can be no averaging of hours over 2 or more workweeks. See Overtime Pay | U.S. Department of Labor.
Different rules may apply for federal employees. See Federal employee issues for more information.

Q14. What are FLSA hours worked for purposes of determining the deduction for qualified overtime compensation? (added August 6, 2026)

A14. Under the FLSA, employees must receive at least the minimum wage and, in general, may not be employed for more than 40 hours in a workweek without receiving at least one and one-half times their regular rates of pay for the overtime hours. The regular rate and the amount employees should receive cannot be determined without knowing the number of hours worked in a particular workweek.

For more information about what time qualifies as "hours worked" under the FLSA, please see Fact Sheet #22: Hours Worked Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.
Different rules may apply for federal employees. See Federal employee issues for more information.

Q15. What is the FLSA regular rate for purposes of determining the deduction for qualified overtime compensation? (added August 6, 2026)

A15. Under the FLSA, an employee's regular rate includes "all remuneration for employment paid to, or on behalf of, the employee." 29 USC § 207(e). The "regular rate" includes all remuneration for employment—whether determined on a piece-rate, salary, commission, or some other basis—except certain payments excluded by the FLSA. The regular rate is calculated by dividing the total pay for employment (except for the statutory exclusions) in any workweek by the total number of FLSA hours actually worked.

For more information, see Fact Sheet #56A: Overview of the Regular Rate of Pay Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor.

Different rules may apply for federal employees. See Federal employee issues for more information.

Q16. If an FLSA overtime-eligible employee is paid overtime compensation not required by the FLSA, what portion of overtime pay is qualified overtime compensation? (updated August 6, 2026)

A16. Some employers may provide overtime pay that is not required by 29 USC § 207 on their own initiative, pursuant to a State law, or under a collective bargaining agreement with a labor union. For example, while the FLSA generally requires overtime pay at one and one-half times an individual's regular rate of pay for hours in excess of 40 in a workweek, an employer may pay more than the amount actually required under the FLSA by providing a non-FLSA overtime premium for different hours (e.g., for hours beyond 8 on a workday, for hours beyond 35 in a workweek, for hours on a weekend or holiday, etc.) or apply a non-FLSA overtime premium to a different rate (e.g., a percentage of the employee's base hourly rate). In such cases, the employer must evaluate the payments in accordance with the FLSA's principles at 29 USC § 207, particularly subsections (e) and (h), to determine the amount required under the FLSA. If an employer pays more overtime pay than required by the FLSA (e.g., "double time" pay that is twice the employee's regular rate of pay), only the amount minimally necessary to satisfy 29 USC § 207 is qualified overtime compensation for purposes of the tax deduction.

Example: Individual A is an FLSA overtime-eligible employee, and 29 USC § 207(a) applies to Individual A's employer with respect to Individual A's employment. Individual A worked 50 hours during a workweek at an hourly rate of $20 per hour with no other remuneration such that the regular rate is $20 per hour for that workweek. Individual A's employer pays overtime at two times the employee's regular rate. This is in excess of the amount required by the FLSA. The employer paid Individual A $400 for overtime worked ($20 per hour x 10 overtime hours = $200 in straight time compensation, plus $20 per hour premium x 10 overtime hours = $200 in overtime compensation). Because only $300 was required to be paid under 29 USC § 207(a) for the 10 overtime hours ($20 per hour x 10 overtime hours = $200 in straight time compensation, plus $10 per hour overtime premium x 10 overtime hours = $100 in overtime compensation), the qualified overtime compensation for purposes of the tax deduction is $100, which is the premium amount required under 29 USC § 207 or, in other words, the "half" amount in the required one and one-half times.

Q17. If an employer computes and pays overtime under the FLSA in accordance with an alternative method of computation within 29 USC § 207 (rather than the general method set forth in 29 USC § 207(a)), how is qualified overtime compensation determined for purposes of the tax deduction? (added August 6, 2026)

A17. FLSA overtime-eligible employees whose overtime is determined by a provision in 29 USC § 207 other than 29 USC § 207(a) are paid qualified overtime compensation when compensation determined by that provision exceeds the regular rate. The overtime premium actually paid in compliance with that provision, rather than a calculation of the amount that otherwise would have been paid under 29 USC § 207(a), is used to determine the qualified overtime compensation for purposes of the tax deduction. Employees to whom provisions of 29 USC § 207 other than 29 USC § 207(a) may apply include, but are not limited to:

- Employees of hospitals or certain residential care facilities (for more information see Fact Sheet #54 – The Health Care Industry and Calculating Overtime Pay | U.S. Department of Labor),
- Public sector employees in fire protection and law enforcement paid on a workweek basis (for more information see Fact Sheet #8: Law Enforcement and Fire Protection Employees Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor), and
- Employees of a political subdivision of a State or an interstate governmental agency who receive compensatory time off in certain circumstances in lieu of cash overtime compensation (for more information see Fact Sheet #7: State and Local Governments Under the Fair Labor Standards Act (FLSA) | U.S. Department of Labor).

Q18. If an employee of a state or local government agency receives compensatory time off in lieu of cash overtime compensation in accordance with 29 USC § 207(o), when is qualified overtime compensation paid to the employee for purposes of the tax deduction? (added August 6, 2026)

A18. Generally, the same principles that govern payment for purposes of determining wages subject to income tax withholding apply to determine when qualified overtime compensation is paid by the employer to the employee. Thus, for purposes of the deduction, qualified overtime compensation for employees who receive compensatory time off in accordance with 29 USC § 207(o) is paid when the employee is paid wages for accrued compensatory time taken during the course of employment (e.g., a day off) or is paid out accrued compensatory time upon termination of employment. Qualified overtime compensation is not paid when the employee earns the compensatory time off in accordance with 29 USC § 207(o). (Note: Section 207(o) does not apply to private employees or Federal employees. See Federal employee issues.)

For purposes of the deduction, the amount of qualified overtime compensation paid for compensatory time earned in accordance with 29 USC § 207(o) is determined by the sum of (as applicable):

- Hours of accrued compensatory time off earned in accordance with 29 USC § 207(o) that is taken or used (e.g., a day off) during the course of employment and paid as wages multiplied by the rate(s) applicable to those hours determined under 29 USC § 207(o)(3)(B), divided by three.
- Hours of accrued compensatory time off earned in accordance with 29 USC § 207(o) that is paid out (or cashed out) as wages upon termination of employment, multiplied by the rate applicable to those hours determined under 29 USC § 207(o)(4), divided by three.

Example: Individual A is an FLSA overtime-eligible employee who works for a State or local government agency. The employer gives compensatory time at a rate of one and one-half hours for each overtime hour worked under 29 USC 207(o). In 2025, Individual A worked overtime hours that were accrued as compensatory time off in accordance with section 207(o). In 2026, Individual A used the accrued compensatory time to take the day off, which the employer paid as wages in 2026 in accordance with the employee's regular pay schedule. For purposes of determining the amount of qualified overtime compensation paid for the day off in 2026, the employer must determine the hours of accrued compensatory time off used and paid as wages, multiply those hours by the applicable rate in 29 USC § 207(o)(3)(B), and divide by three.

Example: Individual B is an FLSA overtime-eligible employee who works for a State or local government agency. The employer gives compensatory time at a rate of one and one-half hours for each overtime hour worked under 29 USC 207(o). In 2026, Individual B terminated employment with Individual B's employer and was paid for unused compensatory time accrued under 29 USC §207(o). For purposes of determining the amount of qualified overtime compensation paid in 2026, the employer must determine the hours of unused compensatory time off cashed out and paid as wages, multiply those hours by the applicable rate in 29 USC § 207(o)(4), and divide by three.

Topic F: Information for employees

Q19. If an employee received a Form W-2, Wage and Tax Statement with qualified overtime compensation reported in box 12, code TT, how does the employee report the amount of qualified overtime compensation on the employee's individual income tax return for tax years 2026-2028? (added August 6, 2026)

A19. The amount of qualified overtime compensation reported on Form W-2, box 12, code TT is the amount of overtime compensation that is required by the FLSA that is in excess of the regular rate and is not necessarily fully deductible. The Schedule 1-A (Form 1040) or successor and its instructions compute the deductible amount of qualified overtime compensation. Schedule 1-A (Form 1040) or successor first requires taxpayers to report the full amount of qualified overtime compensation on Form W-2 box 12, code TT and then takes into account relevant deduction limits such as the overall limit of $12,500 of qualified overtime compensation earned for the year per individual tax return ($25,000 in the case of a joint return) and any reduction applicable if the taxpayer's modified adjusted gross income (MAGI) exceeds $150,000 ($300,000 for joint filers). The amount reported on the last line of Part III of Schedule 1-A (Form 1040) is the deductible amount of qualified overtime compensation.

Example: Employer paid Individual A qualified overtime compensation of $10,000 in 2026. Employer reported qualified overtime compensation of $10,000 on Form W-2 in box 12 using code TT. Individual A should include the full $10,000 of qualified overtime compensation on Part III Schedule 1-A (Form 1040). Individual A should then complete the rest of Part III of Schedule 1-A (Form 1040) to determine Individual A's deduction for qualified overtime compensation.

Q20. Can an employee deduct qualified overtime compensation that is not separately reported on the employee's Form W-2? (added August 6, 2026)

A20. Under section 225(a) of the Internal Revenue Code, an employee can only deduct qualified overtime compensation that the employee's employer included on a properly furnished Form W-2. For tax year 2025, Notice 2025-69 provided relief from that requirement, meaning employees might not see an entry for qualified overtime compensation on their Form W-2 for 2025 even though they earned qualified overtime compensation. However, no relief is available for tax years after 2025. Consequently, for tax years after 2025, employees may not consider any amount of qualified overtime compensation in excess of what is reported on Form(s) W-2, box 12, code TT in determining their deduction.

Q21. If the employer overstated the amount on Form W-2, box 12, code TT, may the entire amount reported on Form W-2, box 12, code TT be considered in determining the deductible amount? (added August 6, 2026)

A21. No, the employee is only entitled to consider the amount of qualified overtime compensation paid during the taxable year in determining the deductible amount. If the amount reported on Form W-2, box 12, code TT is overstated, the employee may only consider the actual amount of qualified overtime compensation paid to the employee by the employer.

Example: Employer paid Individual A qualified overtime compensation of $5,000 in 2026. However, Employer erroneously reported $10,000 of qualified overtime compensation on Individual A's Form W-2 in box 12, code TT. Individual A may not include more than $5,000 on Schedule 1-A in determining Individual A's deduction for 2026.

Q22. If an employee reasonably believes that the employer omitted or understated the amount of qualified overtime compensation on the employee's Form W-2, box 12, code TT, what can the employee do to consider the omitted or understated amount of qualified overtime compensation for purposes of determining the deduction? (added August 6, 2026)

A22. The employee **must** request from the employer a Form W-2c (Corrected Wage and Tax Statement) that properly reports the qualified overtime compensation using box 12, code TT in order to determine the employee's deduction for qualified overtime.

Section 225(a) requires qualified overtime to be separately reported on the employee's Form W-2 for qualified overtime compensation to be deductible by the employee. Thus, any amount not reported on Form(s) W-2, box 12, code TT may not be considered for purposes of the deduction. Consequently, if the employer is unwilling or unable to provide the employee with a Form W-2c to correct an omitted or understated amount of qualified overtime compensation, the employee is not entitled to use the omitted or understated amount of qualified overtime compensation to determine the employee's deduction even if the employee was paid qualified overtime compensation in excess of the amount reported on Form W-2, box 12, code TT by the employer.

Example: Employer paid Individual A qualified overtime compensation of $10,000 in 2026. However, Employer only reported $5,000 of qualified overtime compensation on Individual A's Form W-2 in box 12, code TT. Individual A informed the individual's Employer of the error, and Employer furnished Individual A with a Form W-2c correcting the error and properly reporting qualified overtime compensation of $10,000. Upon being furnished the Form W-2c with the corrected entry, Individual A may include $10,000 of qualified overtime compensation on Schedule 1-A (Form 1040) in determining Individual A's deduction in 2026.

Example: Employer paid Individual B qualified overtime compensation of $10,000 in 2026. However, Employer only reported $5,000 of qualified overtime compensation on Individual B's Form W-2 in box 12, code TT. Individual B informed Employer of the error, and Employer was unwilling or unable to furnish Individual B with a Form W-2c correcting the entry in box 12, code TT. Based on the requirement under section 225(a) that qualified overtime compensation be separately stated on Form W-2 in box 12, code TT, Individual B may only include $5,000 of qualified overtime compensation on Schedule 1-A (Form 1040) in determining Individual B's deduction in 2026.

Q23. If the employer is unwilling or unable to provide the employee with a Form W-2c correcting the amount of qualified overtime compensation the employee was paid, can the employee use a substitute Form W-2 (Form 4852) in order to be able to determine the deduction for qualified overtime compensation on Schedule 1-A (Form 1040)? (added August 6, 2026)

A23. No. Section 225(a) allows as a deduction an amount equal to the qualified overtime compensation received during the taxable year and included on statements furnished pursuant to section 6051(a)(19) (which in this case would be the Form W-2). Form 4852 does not satisfy the requirement under section 225(a) because it is not furnished pursuant to section 6051(a)(19). Thus, any amount of qualified overtime compensation reported on Form 4852 cannot be used to determine the deductible amount of qualified overtime compensation.

Q24. If an employee does not have a social security number valid for employment but received qualified overtime compensation reported on Form W-2 using box 12, code TT, may the employee use the amount of qualified overtime compensation in determining the deduction? (updated August 6, 2026)

A24. No. To claim a deduction for qualified overtime compensation under section 225(d), the employee who received qualified overtime compensation must have a valid social security number. A valid social security number for purposes of the deduction is one that is valid for employment and that is issued by the SSA before the due date of the employee's individual income tax return (including extensions).

Q25. If an employee is married, must the employee file jointly with the employee's spouse to claim the deduction? (updated August 6, 2026)

A25. Yes, if the employee is married (within the meaning of section 7703), the employee and the employee's spouse must file a joint return to claim the deduction. If both spouses receive qualified overtime compensation, both spouses must have a valid social security number and must include both social security numbers on the tax return claiming the deduction. For more information, see FAQ 24 above.

Topic G: Federal employee issues

Q26. How does a federal employee know whether the employee is FLSA overtime-eligible? (updated August 6, 2026)

A26. FLSA eligibility for federal employees is typically documented on the employee's Standard Form 50, Notification of Personnel Action; see block 35, "FLSA Category"; "E" means exempt or FLSA-ineligible and "N" means nonexempt or FLSA overtime-eligible. Under 29 USC 204(f), the Office of Personnel Management (OPM) administers the FLSA for most federal employees. See OPM FLSA regulations and OPM FLSA fact sheet.

Although OPM administers the FLSA for most federal employees, there are some exceptions. For example, DOL's FLSA regulations and guidance cover employees of the Library of Congress, United States Postal Service, the Postal Regulatory Commission, and Tennessee Valley Authority. See 29 USC 204(f). Additionally, the Office of Congressional Workplace Rights regulates the FLSA for legislative branch employees generally. See OCWR Rules and Regulations - Fair Labor Standards Act for more information. Questions 27-30 below deal with federal employees covered by OPM's FLSA regulations.

Q27. Is compensatory time off for FLSA overtime-eligible federal employees authorized under 5 USC § 5543 considered qualified overtime compensation? (added August 6, 2026)

A27. Qualified overtime compensation does not include the value of compensatory hours earned or used by employees during the course of employment with an agency. However, a portion of the payment for the unused 5 USC § 5543 compensatory time off hour—at the end of the 26-pay-period timeframe for using compensatory time off, transfer to a different Federal agency, or separation from Federal service—is qualified overtime compensation. As provided in 5 CFR 551.531(g), the dollar value of compensatory time off when it is liquidated is the amount of overtime pay the employee otherwise would have received for the hours of the pay period during which compensatory time off was earned by performing overtime work. One half of the employee's "hourly regular rate of pay" as calculated under 5 CFR 551.511 times all overtime hours worked for which the employee received compensatory time off that is being liquidated would be considered qualified overtime compensation. (See 5 CFR 551.512 regarding computation of FLSA overtime pay.)

Q28. What are hours worked for purposes of determining the deduction for qualified overtime compensation for federal employees? (added August 6, 2026)

A28. For FLSA overtime-eligible federal employees, the counting of time as hours of work for the purpose of deriving the number of FLSA overtime hours is determined under OPM regulations (5 CFR part 551, subpart D). Overtime hours are derived after comparing hours of work to the applicable FLSA overtime threshold. (For most employees, there is an 8-hour daily overtime threshold and a 40-hour weekly overtime threshold.) In general, time spent by an employee performing an activity for the benefit of an agency and under the control or direction of an agency is hours of work. This includes time during which an employee is required to work or suffered or permitted to work, except that, for employees with a flexible work schedule, hours of work are limited to hours that are officially ordered in advance and do not include credit hours. Also, hours for periods of paid nonduty status (such as paid leave, paid holiday time off, and use of compensatory time off) are treated as hours of work for purposes of applying OPM's FLSA regulations to covered federal employees. Hours when compensatory time off is earned are not considered hours of work for FLSA purposes (see 5 USC 5543 and FAQ 27).

Q29. What is a work period for purposes of determining the deduction for qualified overtime compensation for federal employees? (added August 6, 2026)

A29. An FLSA overtime-eligible federal employee's FLSA overtime hours and pay are determined based on the applicable work period. For most employees, the work period is the employee's "regularly scheduled administrative workweek," which is a fixed and recurring period of 168 hours—seven consecutive 24-hour periods. It need not coincide with the calendar week but may begin on any day and at any hour of a day. Certain categories of federal employees have special FLSA work periods. For example, the default work period for GS-0081 firefighters covered by 5 U.S.C. 5545b is their biweekly pay period, and the FLSA biweekly overtime threshold is 106 hours.

Q30. How is the regular rate computed for purposes of determining the deduction for qualified overtime compensation for federal employees? (added August 6, 2026)

A30. For FLSA overtime-eligible federal employees whose FLSA overtime pay is computed on a workweek basis, the hourly regular rate is computed by dividing the total remuneration paid to an employee in the workweek by the number of hours in the workweek for which such compensation is paid.

The total remuneration includes all remuneration for employment except the following:

(1) Payments as rewards for service the amount of which is not measured by or dependent on hours of work, production, or efficiency (e.g., a cash award for a suggestion made by an employee and adopted by an agency);

(2) Reimbursements for travel expenses, or other similar expenses, incurred by an employee in furtherance of an agency's interest, which are not related to hours of work;

(3) Payments made in recognition of services performed during a given period, if both the fact that payment is to be made and the amount of the payment are determined at the sole discretion of the agency (i.e., discretionary cash awards or bonuses);

(4) Contributions by an agency to a fund for retirement, insurance, or similar benefits;

(5) Extra compensation provided by a premium rate paid for hours of work performed by an employee in excess of eight in a day, or in excess of the normal workweek applicable to the employee;

(6) Extra compensation provided by a premium rate paid for hours of work performed by an employee on a Sunday or a holiday where such premium rate is at least one and one-half times the employee's rate of pay for work performed in nonovertime hours on other days; or

(7) Extra compensation provided by a premium rate paid for hours of work performed by an employee outside his or her regular working hours, where such premium rate is at least one and one-half times the employee's rate of pay for work performed in nonovertime hours.

Under OPM's FLSA regulations (5 CFR 551.512), an employee's FLSA overtime pay entitlement is the sum of—

(1) the straight-time rate of pay times all overtime hours worked, where the straight-time rate is generally equal to the employee's rate of pay for his or her position (excluding any premiums, differentials, or cash awards or bonuses)—normally, the employee's hourly base rate plus the hourly value of a locality payment or special rate supplement; and

(2) one-half times the employee's hourly regular rate of pay times all overtime hours worked.

For an example of an FLSA overtime pay calculation, see OPM's How to Compute FLSA Overtime Pay fact sheet. Employees should consult with their agency's HR or payroll office if they have questions about FLSA overtime pay computations.

The one-half portion (paragraph (2) of the above formula) is the qualified overtime compensation used in determining an employee's qualified overtime compensation deduction.

Topic H: Other questions and resources

Q31. Are residents of a U.S. territory eligible to claim a deduction for qualified overtime compensation with the IRS? (added August 6, 2026)

A31. Residents of U.S. territories who file a U.S. Form 1040 or Form 1040-NR may be eligible for the deduction, but the amount may be reduced or disallowed depending on the resident's modified adjusted gross income and territory-sourced excluded income. The deduction for qualified overtime compensation may be claimed only with respect to income that is included in the resident's U.S. gross income.

Accordingly, a resident of a U.S. territory may not claim this deduction on a U.S. tax return if the entirety of their overtime compensation is excluded from their U.S. gross income.
For more information, see Publication 570.

Q32. Where can I get more information on the FLSA and overtime pay in general? (updated August 6, 2026)

A32. More information on the FLSA is available on the U.S. Department of Labor's website, including Wage and Hour Division (WHD) Fact Sheets, Overtime Pay: General Guidance, and Handy Reference Guide to the Fair Labor Standards Act. For employers seeking a comprehensive package of compliance assistance materials, the WHD's Payroll Audit Independent Determination (PAID) program's training for employers includes both written materials and short videos. Additionally, if an employer completes the training and discovers a minimum wage or overtime violation, there is an opportunity to self-report and work efficiently with WHD to correct the mistakes.

For Federal employees covered by OPM-issued FLSA regulations, see the OPM FLSA fact sheet titled How to Compute FLSA Overtime Pay.