Labor Relations Bulletin
FROM THE NATIONAL ELECTRICAL CONTRACTORS ASSOCIATION
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Understanding the Overtime Provisions of the "One Big Beautiful Bill"

The "One Big Beautiful Bill Act" (OBBB), signed into law by President Trump on July 4, 2025, includes new federal income tax deductions for qualified overtime compensation. While these provisions do not change underlying wage and hour requirements under the Fair Labor Standards Act (FLSA), they create new tax benefits for eligible employees and impose additional reporting requirements on employers.

Summary of Key Tax Deduction Provisions

The OBBB creates two new above-the-line federal income tax deductions for tax years 2025 through 2028:

- **Qualified Overtime Deduction**: Allows eligible employees to deduct up to $12,500 annually ($25,000 for married filing jointly) of qualified overtime compensation from federal taxable income.
- **Income Limitations**: The deduction phases out for individuals with modified adjusted gross income (MAGI) exceeding $150,000 ($300,000 for married filing jointly), reducing $100 for every $1,000 over the threshold.
- **Federal Tax Only**: These deductions apply only to federal income tax. For payroll taxes such as Social Security and Medicare, state taxes and local taxes, all regular provisions apply.
- **Employer Reporting**: Employers must track and separately report qualified overtime compensation on Form W-2.

Qualified Overtime Compensation Requirements

FLSA Overtime Only: The deduction applies exclusively to overtime compensation required under the FLSA, specifically. This means the premium portion of pay above the regular rate for hours worked beyond forty in a workweek (the "half" in "time-and-a-half").

What does <u>not</u> qualify:

- Overtime paid pursuant to state law requirements (e.g., daily overtime in California)
- Overtime paid under collective bargaining agreements that exceed FLSA minimums
- Voluntary overtime premiums paid by employer policy
- Shift differentials, weekend premiums, or other non-FLSA overtime

Premium Portion Only: Only the premium amount above regular hourly rates qualifies. For example, an employee earning $20/hour straight time and $30/hour overtime can only deduct the $10/hour premium portion.

Impact on NECA Contractors and CBAs

No Changes to Underlying Wage Requirements: The OBBB does not modify FLSA overtime requirements, salary exemption thresholds, or any collectively bargained wage provisions. All existing CBA terms regarding overtime triggers, rates, and classifications remain in effect.

Form W-2 Reporting: Beginning with the 2025 tax year reporting, employers must separately identify qualified overtime compensation on Form W-2. The Treasury Department will issue guidance on specific reporting requirements.

Transitional Relief for 2025: For 2025 only, employers may use "any reasonable method" specified by the Treasury Secretary to approximate qualified overtime amounts, providing flexibility during the transition period.

Recordkeeping: Employers should maintain records distinguishing FLSA-required overtime from other premium pay to support accurate W-2 reporting.

Best Practices for Compliance

- Review Payroll Systems: Ensure capability to separately track FLSA-required overtime from other premium pay for W-2 reporting.
- Consult Legal Counsel: Given the complexity of determining qualified amounts, particularly in multi-state operations with varying overtime laws, legal guidance is recommended.
- Monitor Treasury Guidance: Watch for additional regulations and guidance from the Treasury Department and IRS on implementation details.

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