

From IRS.gov: [One, Big, Beautiful Bill provisions | Internal Revenue Service](#)

New deduction: Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (such as the “half” portion of “time-and-a-half” compensation) that is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.

- Maximum annual deduction is \$12,500 (\$25,000 for joint filers).
- Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers).

Taxpayer eligibility: Deduction is available for both itemizing and non-itemizing taxpayers.

Taxpayers must:

- Include their Social Security number on the return and
- File jointly if married, to claim the deduction.

Reporting: Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.

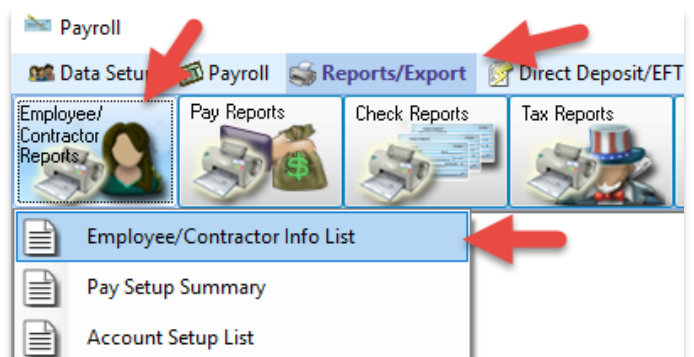
Guidance: The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.”

If you, as an employer, want to report any qualified overtime amounts on W-2s, this document guides you through the steps to calculate the difference and report it in Box 14 of the W-2s.

In order to do so, employees must have been paid any overtime throughout 2025 using a separate Pay Label in Payroll, typically labeled Overtime. That Overtime pay label would also typically show its own hourly pay rate for each affected employee, usually time-and-a-half.

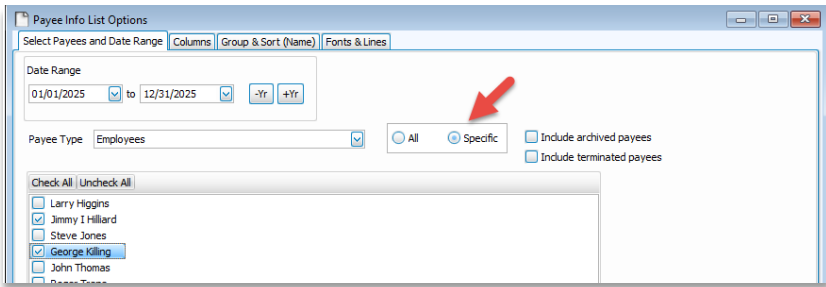
To calculate the Qualified Overtime (Differential):

- In Payroll, choose *Reports/Export>Employee/Contractor Reports*, and *Employee/Contractor Info List*.



- You may choose to limit this report to only *Hourly Employees*, or choose *Specific* and mark only those who received Overtime pay in 2025.

- Click *Print*



- For each employee, subtract *the Regular* pay rate from the *Overtime* pay rate. This is the Hourly Differential (i.e., the “half” in time-and-a-half). Either print this report and make a note of it, or jot down the Differential for each employee.

41st Church of Anytown - Columbus OH Payee Info List For 01/01/2025 thru 12/31/2025						
Friday, December 12, 2025						Page 1 of 1
Name (Last, First)	Department	Soc Sec #/TIN	Main Phone	Pay Type	Pay Period	EFT
Hilliard, Jimmy I						
<i>Standard Pay Rates</i>						
Pay Label Name	Pay Rate	Hours Worked				
Regular	16.00	45.00				
Additional	0.00	0.00				
Overtime	24.00	5.00				
Killing, George						
<i>Standard Pay Rates</i>						
Pay Label Name	Pay Rate	Hours Worked				
Regular	11.00	20.00				
Additional	35.00	0.00				
Overtime	16.50	7.00				

Date Range: 01/01/2025 thru 12/31/2025
Selection: Specific Employees (Not Including Inactive) (Not Including Terminated as of 12/12/2025)
Employees: Jimmy I Hilliard, George Killing
Count: 2
* = Unlisted

- Differential \$8.00

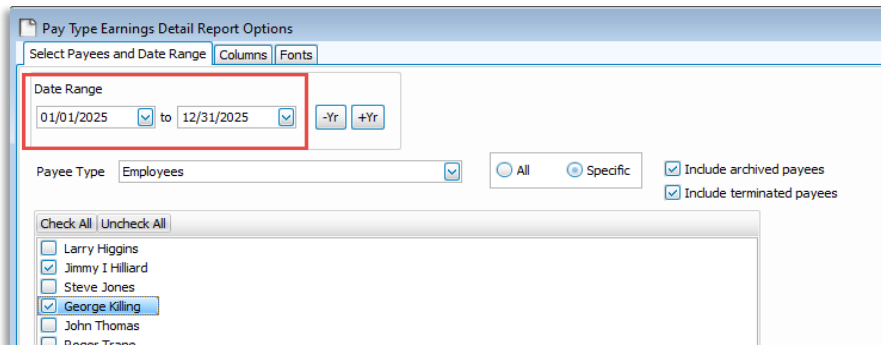
- Differential \$5.50

- Close this report.

- Choose *Reports/Export>Pay Reports>Pay Period Earnings and Pay Type Earnings*.

- Set the *Date Range* to the ENTIRE year of 2025
- You may choose to limit this report to only *Hourly* employees, or choose *Specific* and mark only those who received overtime pay in 2025.

- Click *Print*



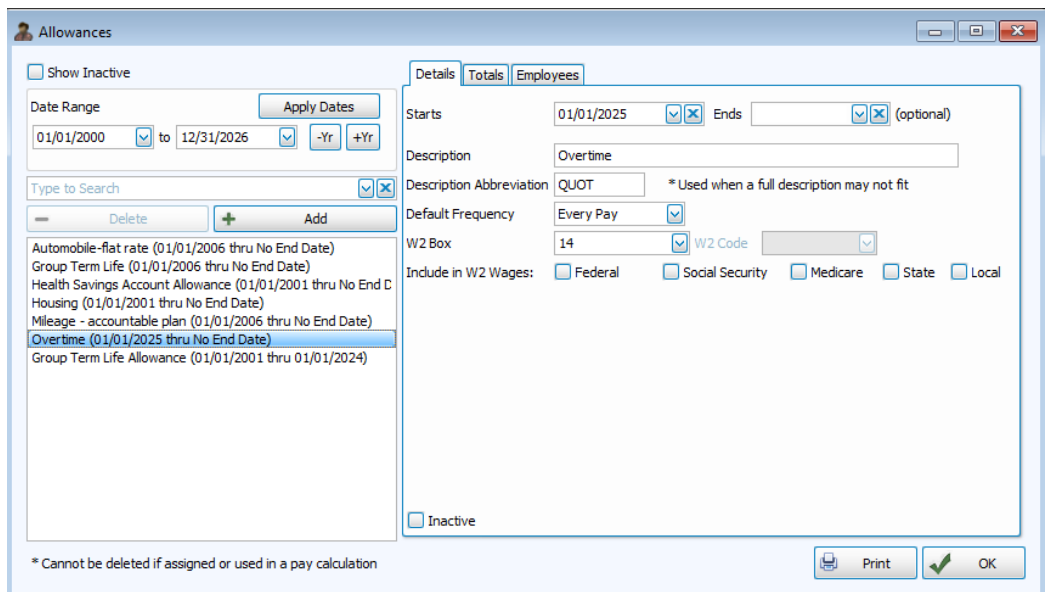
41st Church of Anytown - Columbus OH										
Pay Type Earnings Detail Report For 01/01/2025 thru 12/31/2025										
										Page 1 of 1
Friday, December 12, 2025										
Posted	Employee	Regular Units	Overtime Units	P.T.O. Units	Total Units	Regular Earnings	Overtime Earnings	P.T.O. Earnings	Allowances	Total Earnings
Yes	Hilliard, Jimmy	1,181.50	25.00	0.00	1,206.50	18,904.00	600.00	0.00	160.00	19,664.00
Yes	Killing, George	604.25	35.00	0.00	639.25	6,646.75	577.50	0.00	154.00	7,378.25
Totals		1,785.75	60.00	0.00	1,845.75	\$25,550.75	\$1,177.50	\$0.00	\$314.00	\$27,042.25

Date Range: 01/01/2025 thru 12/31/2025
Selection: Specific Employees (Including Inactive) (Including Terminated)
Employees: Jimmy I Hilliard, George Killing
Count: 2

- For each employee, multiply the Overtime Hours on this report by the Overtime Differential calculated earlier for each employee. This amount is the qualified overtime for the year.
- Close this report.

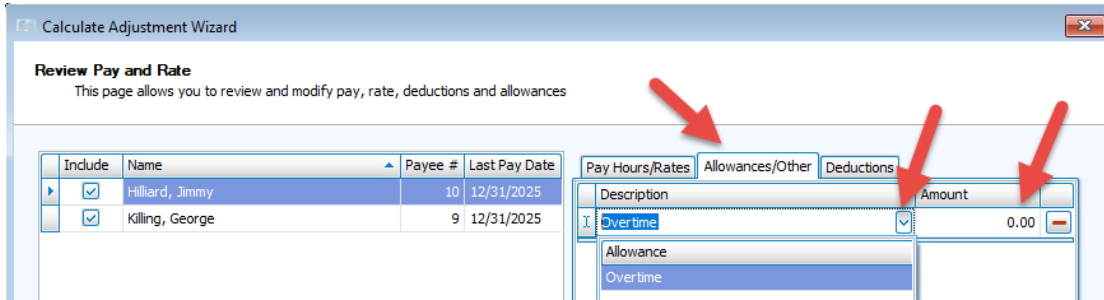
Now set up the Qualified Overtime amounts in your system to appear in Box 14 of the W-2. This is handled by setting up a non-taxable Allowance.

- Click *Data Setup>Allowances*
- Click *Add* to create a new Allowance
- Description: name the Allowance *Overtime*
- Description Abbreviation *QUOT (as an abbreviation for Qualified Overtime)*.
- Default Frequency: *Every Pay*
- W2 Box: choose Box 14
- Include in W2 Wages: *REMOVE* the check marks from EVERY box
- Click OK



Calculate an adjustment to add this new allowance to any employees with overtime, and add the *Differential Amount* to the Allowance for each employee:

- Click on the Payroll tab>*Calculate Adjustment*
- *Warning: Checks are Not Created when calculating adjustments, Click OK.*
- Choose a late 2025 Pay Date (after Overtime is completed)
- On the next screen, select the *Specific* employees who have *Qualified Overtime*
- On the following screen, at the top right, select the Allowances tab



- One by one, for each affected employee, add the Overtime Allowance to *the Allowances* screen and record the dollar amount of the Qualified Overtime.
- After all employees have had their overtime allowance entered with the correct dollar amount, click *Next*
- Print *Reports*, if you would like, click *Next*
- *Mark as Do Not Transfer* to Accounting
- Click *Finish*

When you print W-2s, the affected employees will see their Qualified Overtime amounts in Box 14.

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