

TaxNewsFlash

United States

No. 2026-019
January 23, 2026

IRS issues FAQs addressing new deduction for qualified overtime compensation under OBBBA

The U.S. Department of the Treasury and IRS today issued frequently asked questions (FAQs) in [Fact Sheet 2026-01](#) concerning the new deduction for qualified overtime compensation under Pub. L. No. 119-21 (the “One Big Beautiful Bill Act” (OBBA)), such as who may be eligible to claim the deduction and where to find supplemental information on eligibility and other rules.

As explained in the related IRS release—[IR-2026-10](#) (January 23, 2026)—the FAQs contain additional information about the deduction, provide resources for employees (including federal employees) to assist in determining whether they received qualified overtime compensation under the Fair Labor Standards Act, and contain information regarding the differences in reporting requirements for tax year 2025 and 2026-2028.

Today’s FAQs answer the following questions:

- 1) What is qualified overtime compensation for purposes of the deduction?
- 2) How do I determine whether I am covered by and not exempt from the FLSA? In other words, how do I determine if I am an FLSA overtime-eligible employee?
- 3) I am a federal employee, how do I know whether I am an FLSA overtime-eligible employee?
- 4) What is the deduction amount? Are there limits to the deduction?
- 5) Are there other rules that apply to the deduction?
- 6) Will qualified overtime compensation be separately reported to individuals on Form W-2, Form 1099-NEC, or Form 1099-MISC? Doesn’t qualified overtime have to be separately reported in order for an individual to take the deduction?
- 7) I am an FLSA overtime-eligible employee, and I did not receive information from my employer on how much qualified overtime compensation I received during tax year 2025. How can I find more information to help me determine my deduction for qualified overtime compensation?
- 8) Where can I get more information on the FLSA and overtime pay in general?

Background

For tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the amount (subject to certain limits and phase outs) that exceeds their regular rate of pay (generally, the “half” portion of “time-and-a-half” compensation) and is reported on a Form W-2 or Form 1099.

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