

# Goals for this Webinar:

1. What is “NO Tax on Overtime”?
2. How can NEMRC help you meet your reporting requirements and what can we not do?
3. IRS Options for Reporting: What is the NEMRC Option for 2025?
4. What can you expect for 2026?
5. Just a quick reminder to update payroll to the latest version

Remember this is a transition year so no one is going to be perfect at this and I suspect that there will even be changes. This is a work in progress and the updates and changes we have made have been the best attempt to find something for you to use as a tool this year and going forward. Let's learn from each other!!

# “No Tax on Overtime”

## “No Tax on Overtime”

From the IRS Website

<https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors>

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 that is 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).

# Reporting Qualified OT to Employees

- Employers can make the qualified overtime information available to employees through several methods:
- Box 14 of Form W-2: This is the most common recommended approach. Employers can use a custom label like "Qualified OT" or "TT" in Box 14 to show the total deductible amount. (this is not an option this year)
- **\*\*Separate Written Statement: Employers can provide a separate year-end statement or letter to employees listing the total qualified overtime amount.**
- Online Portal: Information can be made available through a secure online employee portal.

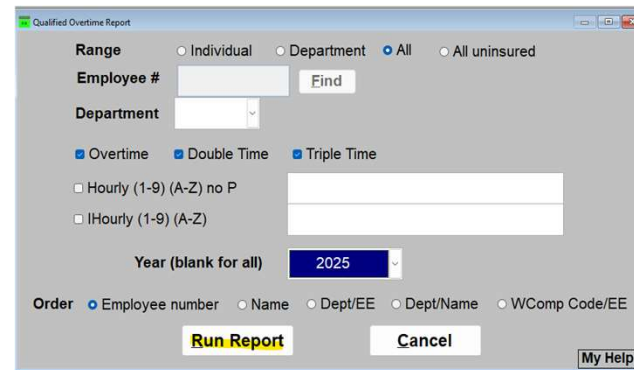
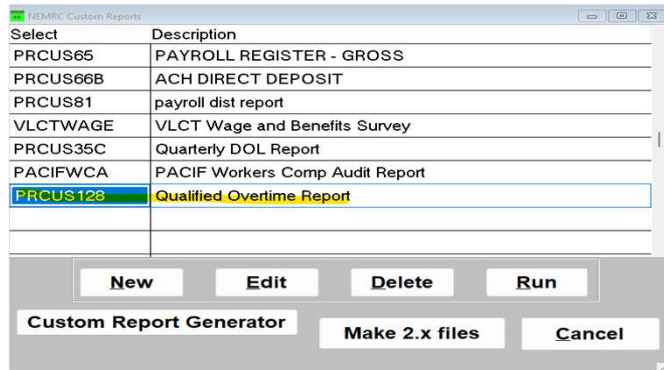
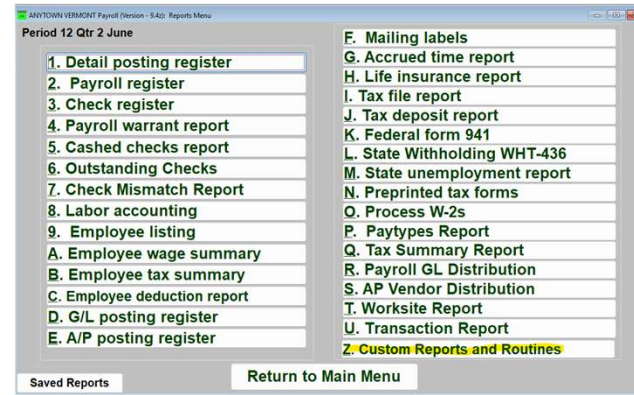
# NEMRC Custom Report

## Qualified Overtime Statement

- Payroll Reports Menu
- Custom Reports and Routines
- PRCUS128: Qualified Overtime
- You will need to know the paytypes that you are going to be reporting on. If you only use the standard overtime paytypes OT, DT and TT, you will be able to select those easily. If you use other paytypes to pay your employees overtime pay, you will need to know what those paytypes are and the factors they are using, example: 1.5(time and half)
- Run Proof Sheet for All Employees and review them for accuracy
- Run Statements for Employees, it will print a separate statement for each employee to be included with their W2

## Reporting Qualified Overtime for 2025

- Payroll
- Main Menu
- Option R. Reports Menu
- Option Z. Custom Reports and Routines
- PRCUS128 Qualified Overtime Report
- Select options
- Choose 2025 for the Year
- Run Report



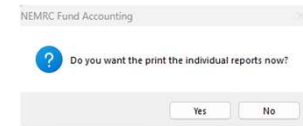
## Proof Sheet: Review for accuracy

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cynthia\_nemrc

All by Employee For Double OT Triple OT OT for Year 2024

Employee Number	Employee Name	Pay Type	Check Date	Qty	Rate	Amount	Qualified OT Amount
HM		OT - Over Time	11/05/24	0.00	39.0000	0.00	0.00
HM		OT - Over Time	11/13/24	0.00	39.0000	0.00	0.00
HM		OT - Over Time	11/18/24	0.00	39.0000	0.00	0.00
						0.00	0.00
KA		OT - Over Time	03/12/24	2.00	47.2500	94.50	31.50
KA		OT - Over Time	11/13/24	3.50	48.6750	170.36	56.79
						264.86	88.29
LL		OT - Over Time	01/17/24	38.00	48.8250	1,855.35	618.45
LL		OT - Over Time	01/23/24	21.00	48.8250	1,025.33	341.78
LL		OT - Over Time	01/30/24	9.50	48.8250	463.84	154.61
LL		OT - Over Time	02/06/24	9.00	48.8250	439.43	146.48
LL		OT - Over Time	02/21/24	9.50	48.8250	463.84	154.61
LL		OT - Over Time	02/27/24	3.50	48.8250	170.89	56.96
LL		OT - Over Time	03/05/24	3.00	48.8250	146.48	48.83
LL		OT - Over Time	03/19/24	10.00	48.8250	488.25	162.75
LL		OT - Over Time	03/26/24	13.00	48.8250	634.73	211.58
LL		OT - Over Time	04/02/24	12.00	48.8250	585.90	195.30
LL		OT - Over Time	04/09/24	14.00	48.8250	683.55	227.85
						6,957.59	2,319.20
PE		OT - Over Time	01/03/24	1.00	46.5000	46.50	15.50
						46.50	15.50
WC		OT - Over Time	01/03/24	4.00	39.0000	156.00	52.00
WC		OT - Over Time	01/17/24	40.50	39.0000	1,579.50	526.50
WC		OT - Over Time	01/23/24	19.00	39.0000	741.00	247.00
WC		OT - Over Time	01/30/24	10.00	39.0000	390.00	130.00
WC		OT - Over Time	02/06/24	6.00	39.0000	234.00	78.00
WC		OT - Over Time	02/21/24	10.00	39.0000	390.00	130.00
WC		OT - Over Time	02/27/24	8.50	39.0000	331.50	110.50
WC		OT - Over Time	03/05/24	5.00	39.0000	195.00	65.00
WC		OT - Over Time	03/19/24	15.00	39.0000	585.00	195.00
WC		OT - Over Time	03/26/24	27.00	39.0000	1,053.00	351.00
WC		OT - Over Time	06/25/24	7.00	39.0000	273.00	91.00
						5,928.00	1,976.00

## Answer Yes for Individual Reports



**Individual Reports:** Include with W2s or handout when asked. That is up to you.

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cynthia\_nemrc

For Year 2024

Employee Number	Employee Name	Amount	Qualified OT Amount
LL		6,957.59	2,319.20

# What about 2026?

- W2 Reporting for 2026: As of right now, the qualified overtime will have to be reported in Box 12 Code TT
- Paytype Maintenance: Each paytype that you use for posting overtime will have to be updated with the new Box 12 Code TT for tracking later.
- As of right now, this is for tracking only, we are not accumulating that total during calculation. We think we will still use the custom report and add a feature to “stuff” the total into that field, or you will have to manually update from the reports.

The screenshot shows the 'Paytype Maintenance' window for an employee named JOHN SMITH. The 'Paytype' is set to 'OVERTIME'. The 'W-2 Box 12 code' is set to 'TT', which is highlighted in yellow. The 'Amount' is 0.0000, and 'Per Diem Units' is 0.00. The 'YTD Max (0=none)' is 0.00. The 'Expense Account' is 1-7-52-10.02, 'FICA Expense' is 1-7-25-11.00, and 'MEDI Expense' is 1-7-25-11.00. The 'W Comp Code' is 'WINTER LABOR'. The 'Amounts to Encumber' table shows MTD, QTD, YTD, FTD, and LTD values. The YTD value is 0.00, and the LTD value is 6957.59. The 'Back to List of Paytypes' and 'Print Screen' buttons are visible at the bottom.

Amount	0.0000	Include in FTD contract	Per Diem Units	0.00	YTD Max (0=none)	0.00
Expense Account	1-7-52-10.02	Find	W Comp Code	WINTER LABOR		
FICA Expense	1-7-25-11.00	Find		SOCIAL SECURITY TAXES		
MEDI Expense	1-7-25-11.00	Find		SOCIAL SECURITY TAXES		

Amounts to Encumber		PAY	FICA	MEDI
MTD	QTD	YTD	FTD	LTD
0.00	0.00	0.00	0.00	6957.59

FLSA Overtime: paying overtime to non-exempt employees, they will be paid **at least 1.5 times their regular rate for all hours worked over 40 in a workweek**, defining "**hours worked**" as all time on duty, on premises, or otherwise permitted to work, with the "regular rate" including hourly pay plus bonuses, shift differentials

Example: Town pays overtime for anything over 40 hours even if the person had leave time during the week, like a holiday or vacation day. The timecard below shows an employee that will be getting paid 12 hours of overtime, per their own policy. But according to IRS regulation, the hours that can be considered for the purpose of calculating qualified overtime, will only be 4.

“Hours worked” was a total of 44, so the 4 will be posted as qualified and the 8 as nonqualified.

Day	Date	Regular Hours	Overtime Hours	Holiday	Vacation	Total
Monday	12/22/2025	8.00				8.00
Tuesday	12/23/2025	8.00	4.00			12.00
Wednesday	12/24/2025	8.00	4.00			12.00
Thursday	12/25/2025			8.00		8.00
Friday	12/26/2025	8.00	4.00			12.00
Total hours		32.00	12.00	8.00		52.00

# Posting a payroll with Both Qualified OT Hours and Non Qualified OT Hours

**NOTE:** This does not mean that the hours and pay will be excluded from the tax calculation. Remember, the employee is still taxed at the time they are paid. They are only able to take a tax deduction on their income tax return when they file. That is why they need to know how much of their Overtime pay qualified for this deduction.

- While posting, you will be able to exclude hours as nonqualified (exclude from Qualified OT), on any paytype that is set up with Box 12 Code TT
- When the PRCUS128 is run at the end of the year, it will exclude any of the hours you marked to exclude.
- Let's go into the software and I will demonstrate for you.

Employee # LL Find Sequence 10859  
SMITH, JOHN

Change green values directly below in grid

Type	Desc (Yellow=Auto)	Earn Qty/Hrs	Rate	Amount	Excl Qual OT	Description	Pay
H1	REG SUMM:32.00 Hrs	32.00	33.5300	1072.96		Find SUMMER WAGES	
OT	OVERTIME:4.00 Hrs	4.00	50.2950	201.18		Find WINTER LABOR	
OT	OVERTIME:8.00 Hrs	8.00	50.2950	402.36	X	Find WINTER LABOR	
F1	RETIREME	0.00	7.0000	0.00		Find RETIREMENT BENEFIT	
D1	RETIREMENT:Gross,Pd	0.00	6.3750	0.00		Find VMERS	
D3	AFLAC:Gross,Pd	0.00	30.3900	30.39		Find AFLAC DEDUCTION	
D4	VSP:Gross,Pd	0.00	4.2900	4.29		Find EYE-MED	
DD	Direct Deposit:Gross,Pd	0.00	600.0000	600.00		Find CHECKING 401-006183-1 CC	
DE	ACH SAVINGS:Nt-Dd,Pd	0.00	100.0000	0.00		Find CHECKING 401-006183-1 CC	

Total Hours: 44.00  
Total Amount: 1676.50

Payroll Ending Date 12/29/2025

Buttons: Add, Change, Delete, Void, Save, Cancel, Open Employee in Maintenance, Save and Calculate