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TO: All Commonwealth of Massachusetts employees
FROM: Tryntje Bumgardner, Assistant Comptroller, Payroll & Payments
DATE: December 3, 2025
SUBJECT: Important New “No-Tax Overtime” Provision under OBBBA

I am writing to inform you of possible impacts to your tax situation from the recently passed One Big Beautiful Bill Act (OBBBA) signed into law in July, 2025.

As part of the OBBBA, a new federal deduction for “qualified overtime compensation” was enacted (retroactive to January 1, 2025). This communication serves to help you understand how the new deduction may impact your overtime pay and tax filing.

What you should know:

- You may be able to deduct up to \$12,500 (or \$25,000 if married filing jointly) of overtime “premium” pay from your federal income taxes.
- This deduction only applies to the overtime portion above your regular rate that’s required under federal (FLSA) law. It does not cover overtime required only by state law or collective bargaining contract.
- All overtime pay is still subject to Social Security (if applicable), Medicare, state, and local taxes.
- Your Form W-2 (or Form 1099) will include the total “qualified overtime compensation” for the year so that you can claim the deduction (if eligible). For 2025, the Commonwealth will use a reasonable method to approximate that amount.
- The deduction is not applied automatically. You will need to claim the deduction on your tax return.
- There are income thresholds and phase-outs; high-earners may see reduced or zero benefit.
- The provision is currently valid for Tax Years 2025 through 2028 (unless extended).
- HR/CMS will be updated to comply with the new requirements.

Please contact your local Payroll department, if you see any anomalies or have questions about your overtime reporting.

If you have questions about how this applies to your tax situation, please consult your tax advisor.