Kansas
Department of Administration

2025 W-2 Forms

NO TAX ON OVERTIME

What State of Kansas Employees Need to Know

Overview

The *One Big Beautiful Bill Act*, signed into law on July 4, 2025, created a federal income tax deduction known as "No Tax on Overtime." This deduction applies to certain overtime and compensatory time earnings but does not change your paycheck withholding. The tax benefit is received when you file your federal income tax return. The effective time period for this tax deduction includes tax years 2025-2028.

Who Qualifies

- Hourly employees covered by the Fair Labor Standards Act (FLSA)
- State of Kansas employees entitled to 1.5× pay for hours physically worked over 40 in a workweek

How the Deduction Works

- Overtime and compensatory time remain subject to all required payroll taxes (Social Security, Medicare, and federal income tax withholding).
- The State of Kansas will continue withholding federal income taxes based on your Form W-4.
- The deduction is claimed when you file your federal income tax return.
- This is an above-the-line deduction, available whether or not you itemize.

What Earnings Qualify

- FLSA-required overtime pay
- Paid compensatory time

Important Details

- Only the additional 0.5 portion of overtime pay qualifies (not the full 1.5 overtime rate).
- Generally, one-third (1/3) of compensatory time paid qualifies.

Deduction Limits

- **$12,500** maximum for single filers
- **$25,000** maximum for joint filers
- Limits may be reduced based on **adjusted gross income (AGI)**

How You'll Be Notified

- Your qualifying overtime deduction amount will appear on your 2025 Form W-2, Box 14
- Code: OB3 OT

Additional Information

- Calculations are based on **IRS Notice 2025-69**, available on the IRS website.