




Pennsylvania
Office of the Budget

MEMO

TO: All Human Resource Directors
for Agencies Served by the
Bureau of Commonwealth Payroll Operations

FROM: Stephen R. Burns 
Director
Bureau of Commonwealth Payroll Operations

DATE: July 16, 2025

RE: BCPO Payroll Memo #25-03, One Big Beautiful Bill Act (OBBBA) – No Tax on Overtime

On July 4, 2025, [H.R. 1](#), the One Big Beautiful Bill Act (OBBBA), was signed into law. The following information is being shared with you from [PayrollOrg](#) (PAYO), formerly the American Payroll Association:

The OBBBA contains several provisions that will affect payroll. Here are highlights from Title VII, Subtitle A, specifically regarding *No tax on overtime* (Chapter 2, §70202):

The legislation provides a temporary exemption of federal income taxation of overtime pay. The exemption would apply only to the overtime premium. The legislation establishes a deduction, subject to certain limitations, equal to the “qualified overtime compensation received during the taxable year” up to \$12,500 (\$25,000 for joint filers). The amount allowed as a deduction will be reduced by \$100 for each \$1,000 an individual earns above \$150,000 (\$300,000 for joint filers).

“Qualified overtime compensation” means overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 (FLSA) that is in excess of the regular rate at which such individual is employed. The OBBBA specifically limits the qualified overtime compensation to the standards set forth in the FLSA.

Although specifics are not fully available yet, the overtime premium would be limited to the premium portion only, the half or 0.5 portion of the time and a half. For example, an employee who is paid \$15 per hour would receive \$22.50 per hour for time and a half overtime. The overtime premium eligible for the tax deduction in this instance would be \$7.50.

The legislation also includes a requirement for employers to report the overtime compensation on Form W-2, *Wage and Tax Statement*. This provision is retroactive to January 1, 2025, and expires on December 31, 2028.

The Internal Revenue Service is expected to issue regulations or other guidance for employers to implement the reporting requirements for the “no tax on overtime” provision and BCPO will issue any updates to you as they become available.

Employees should not expect any changes to their biweekly net pay as a result of this legislation as this is a deduction that eligible employees would claim when filing their tax return. Employees should consult their personal tax advisor with questions regarding their eligibility for this federal tax deduction or any tax filing related questions.

Any questions on this memo can be sent to BCPO at ra-ob-bcpo@pa.gov.

c: John Kaschak, Deputy Secretary for Comptroller Operations, Office of the Budget
Jason Swarthout, Acting Deputy Secretary for Human Resources and Management, Office of Administration
Michele Wiest, IES Business Operations Payroll/Travel Manager, Office of Administration
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