



Pennsylvania
Office of the Budget

MEMO

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

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

DATE: December 12, 2025

RE: BCPO Payroll Memo #25-07, One Big Beautiful Bill Act (OBBBA) – No Tax on Overtime

On November 21, 2025, the Internal Revenue Service (IRS) issued Notice 2025-69, [Guidance for Individual Taxpayers who received Qualified Tips or Qualified Overtime Compensation in 2025](#). The intent of this IRS notice is to clarify how workers may determine the amount of their deductions and provides a series of examples and scenarios that workers may encounter. The IRS is still in the process of updating income tax forms and instructions for taxpayers to use this filing season that will assist them in claiming deductions.

The IRS has deemed tax year 2025 as a transition period and while not required to do so, the Commonwealth will be issuing a separate letter to eligible employees who received FLSA qualified overtime compensation during tax year 2025. The letter will be sent via US Mail in mid-January 2026 to the employee's mailing address on record in SAP.

It is important to note that under the OBBBA, FLSA qualified overtime compensation includes only the half (½) time portion of overtime pay received above an employee's regular hourly rate and does not include overtime paid in excess of the FLSA requirements pursuant to a policy or collective bargaining agreement.

From this point forward, the Office of Administration will continue to communicate with the Human Resource community regarding this topic to assist with answering employee inquiries. However, because the Commonwealth cannot offer tax guidance to employees, employees who have questions related to the OBBBA deduction provisions should be directed to the IRS Notice 2025-69 or the employees' personal tax advisor.

c: John Kaschak, Deputy Secretary for Comptroller Operations, Office of the Budget
Jason Swarthout, Deputy Secretary for Human Resources and Management, Office of Administration
Lisette Lindsay, IES Business Operations Human Resources Manager
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