THE BOTTOM LINE

What No Tax on Overtime Means for Restaurant Workers

From 2025 to 2028, hourly restaurant workers who earn overtime pay (time-and-a-half) may qualify for a federal tax deduction of up to $12,500 on their premium pay (the "half" in time-and-a half).

HOW IT WORKS

NO TAX ON OVERTIME

You are eligible for the No Tax on Overtime tax deduction if you are a non-exempt, hourly employee who earns time-and-a-half their hourly rate when working more than 40 hours a week. Beginning in 2025, employers will track how much **premium overtime pay** (the "half" in time-and-a-half) each employee earns. Their employer will provide this amount on their W-2 form tax form.

The tax filing process will change slightly for an employee with premium overtime in 2026. The IRS has proposed a new form that will help employees determine the tax deduction amount to deduct from their income before other deductions like mortgage interest.

For example, a cook who earns $50,000 in a year ($40,000 in regular wages plus $10,000 in overtime pay would be eligible for the tax deduction on approximately $3,333 in **premium overtime pay**. Under the new rule, the cook will only pay taxes on **$46,667** instead of $50,000 — thanks to the $3,333 tax credit for premium overtime pay.

Eligible Jobs

Among restaurant workers who are typically paid hourly rates, 33% of cooks, 38% of bartenders, 27% of waitstaff and 22% of fast food and counter workers work 40+ hours per week.

Source: National Restaurant Association analysis of hourly wage and tip data.

For the 2025 tax year, most eligible hourly employees will see the benefit of the No Tax on Overtime policy as a refund on their federal tax return.

The size of the refund will depend on:

- How much federal income tax was withheld from their paychecks throughout the year
- Other tax deductions they can claim when filing their federal taxes (like childcare or education deductions)

WHAT TO EXPECT FROM NO TAX ON OVERTIME

	FY2024 Taxes	FY2025-2028 Taxes
Annual Earnings	$50,000 ($40K base wages + $10K overtime)	$50,000 ($40K base wages + $10K overtime)
Income Subject to Federal Income Tax	$50,000	$46,667 *($40K base wages + $6,667 overtime pay taxable less* the overtime premium income of ~$3,333)
Effective Rate	11.3% (approximate)	Approximately 11.3%
Federal Income Tax Owed	$4,016 (approximate)	$3,628 (approximate tax owed on $46,667 taxable income)
Employee Tax Savings		$388 ($4,016-$3,628)

NATIONAL RESTAURANT ASSOCIATION

RESTAURANT EMPLOYEES

WHAT THEY SHOULD KNOW

Who qualifies?

Non-exempt, hourly employees who earn time-and-a-half pay for **working more than 40 hours per week.**

How much is deductible?

Up to $12,500 ($25,000 for joint filers) of premium overtime pay (the extra pay on top of their normal hourly rate) **can be deducted from federal taxable income.** All premium pay over $12,500 ($25,000 for joint filers) will be taxed as normal.

Are there income limits?

For hourly employees making more than $150,000/year (or $300,000 if filing jointly), **the deduction is reduced** by $100 for every $1,000 over $150,000/$300,000 of income.

No employee tracking required.

Employers will report the amount of premium overtime pay on employees' W-2 forms. **Employees will not need to track it themselves.**

New IRS form for filing.

A new form will be required to **help employees calculate their tax deduction.** It will be included in the information they are asked for when they file online and will be detailed in the printed instructions if filing by hand.

Other taxes still apply.

FICA contributions (for Medicare and Social Security) and state and local taxes **will still be withheld** from employees' paychecks.

State taxes may vary.

Some states follow federal tax rules automatically, while others don't. **It's still unclear** whether states will offer similar deductions for overtime pay.

Total Savings

National Restaurant Association economists estimate that for FY2025, the No Tax on Overtime policy could return up to $420 million back in the pockets of restaurant workers across the country.

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