

Subject Overtime subtraction established

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Summary

Public Law 119-21, also known as the “One Big Beautiful Bill Act,” established a temporary federal deduction for a portion of a taxpayer’s “qualified overtime compensation.” The law defines qualified overtime compensation as the excess paid to an individual under section 7 of the federal Fair Labor Standards Act of 1938.

The deduction is limited to \$25,000 for married joint filers and \$12,500 for other filing statuses. For married joint returns, the deduction is phased out beginning at \$300,000, and the phaseout is complete at \$550,000. For taxpayers with other filing statuses, the deduction is phased out beginning at \$150,000 and is fully phased out at \$275,000. The federal deduction expires after tax year 2028.

H.F. 3524 would establish a Minnesota income tax subtraction that matches the structure of the federal overtime deduction, except the subtraction would continue past 2028, even if the federal deduction expires as currently scheduled.