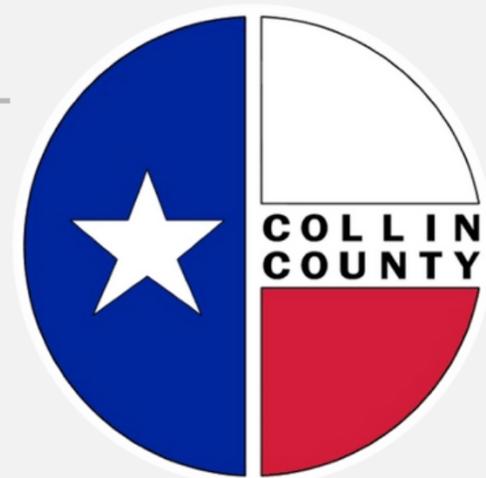




“No Tax on Overtime”

Impact on County Operations and W-2s

Presented By: **Human Resources**



“No Tax on Overtime”

What does it mean?



H.R. 1, An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14, Public Law 119-21 was signed into law on July 4, 2025.

- Section 1 of the Act cites the short title as the “One Big Beautiful Bill Act” (OBBBA).

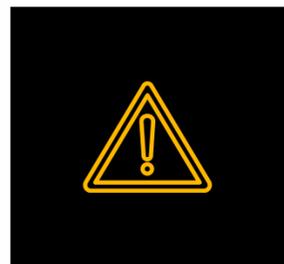


Sec. 70202 establishes a temporary federal tax deduction for qualified overtime compensation received from 2025 to 2028; set to expire after 2028.

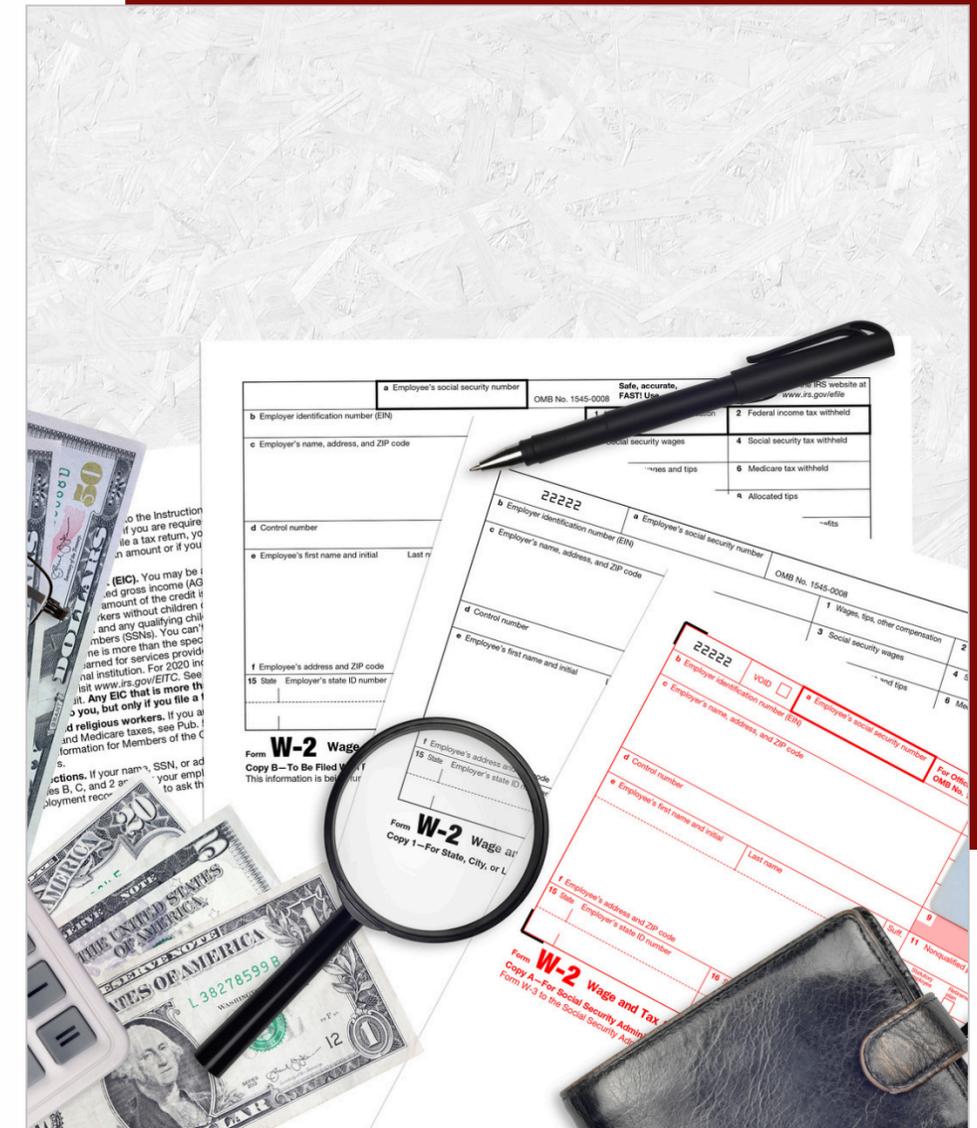
- FICA taxes still apply.



Deduction up to \$12,500 (single filing) or up to \$25,000 (joint filing) per year from taxable income.



There is a phase out for taxpayers with a Modified Adjusted Gross Income over \$150,000 (single filing) or \$300,000 (joint filing).



YTD 2025 - approximately 553 County employees have earned overtime compensation.

Transition

The IRS will provide transition relief for both taxpayers and employers adapting to new reporting and compliance requirements. This only applies to tax year 2025.

2025

- A qualified overtime estimate will be reported in a designated box of the W-2, providing the closest number possible given the OBBBA requirements being released late in the year.
- No decisions are needed to comply with the requirements for tax year 2025.

2026 - 2028

- Qualified overtime will be reported in the designated box in the W-2.
- Certain County business processes must be considered to determine how we will comply with this reporting requirement going forward.
- **We must have a decision AND system/business process changes in place prior to January 1, 2026.**



Collin County Overtime

84

Certain law enforcement employees may be eligible to receive overtime pay after working 84 hours in a 14-day work period.
(84/14)

Current positions* on 84-hour/14-day work periods are:

- Deputy Sheriff (and Recruit)*
- Detention Officer*
- Jail Sergeant
- Sergeant*
- Juvenile Supervision Officer**
- Lead Juvenile Supervision Officer**
- Juvenile Detention Unit Supervisor**

*Not all, but most of these positions are 84-hour/14-day work periods. The rest are on a 40-hour workweek.

**These positions qualify under the law enforcement FLSA overtime exemption as “security personnel in correctional institutions.”

40

Everyone else
Employees who are not on a qualifying 84-hour/14-day work period schedule may be eligible for overtime pay after exceeding the 40-hour workweek.
(40/week)

40-hour employees with overtime on their annual W-2 include those who work in the following departments:

- Medical Examiner
- Animal Control
- Facilities
- Some SO law enforcement positions
- Constables*
- Road and Bridge
- Elections

*Though a law enforcement position, their overtime hours are incurred working election security and they are subject to a 40-hour workweek, earning OT after 40 hours of work.

NOTE: The County is not required to pay overtime and can instead award compensatory time off to regular employees.

Temporary employees and election workers are not eligible for accruals including compensatory time off and are paid overtime.

Qualified Overtime

WHAT IS “QUALIFIED OVERTIME” ACCORDING TO OBBBA?

- Only Overtime that meets Fair Labor Standards Act (FLSA) requirements
 - Hours over 40 in a 40-hour workweek for standard employees and certain law enforcement activities.
 - Hours over **86** for those in a 14-day work period for certain law enforcement activities and schedules.
- Only the “extra” paid above the employee’s standard hourly rate.



What is the issue?

OBBBA changes W-2 reporting requirement for OT

CURRENT

- All annual overtime paid is included with gross wages on the W2.
- Paycheck shows overtime rate at 1.5x the standard rate.
 - This limits our ability to report OBBBA-qualified overtime (0.5 of the standard rate) to the W-2.

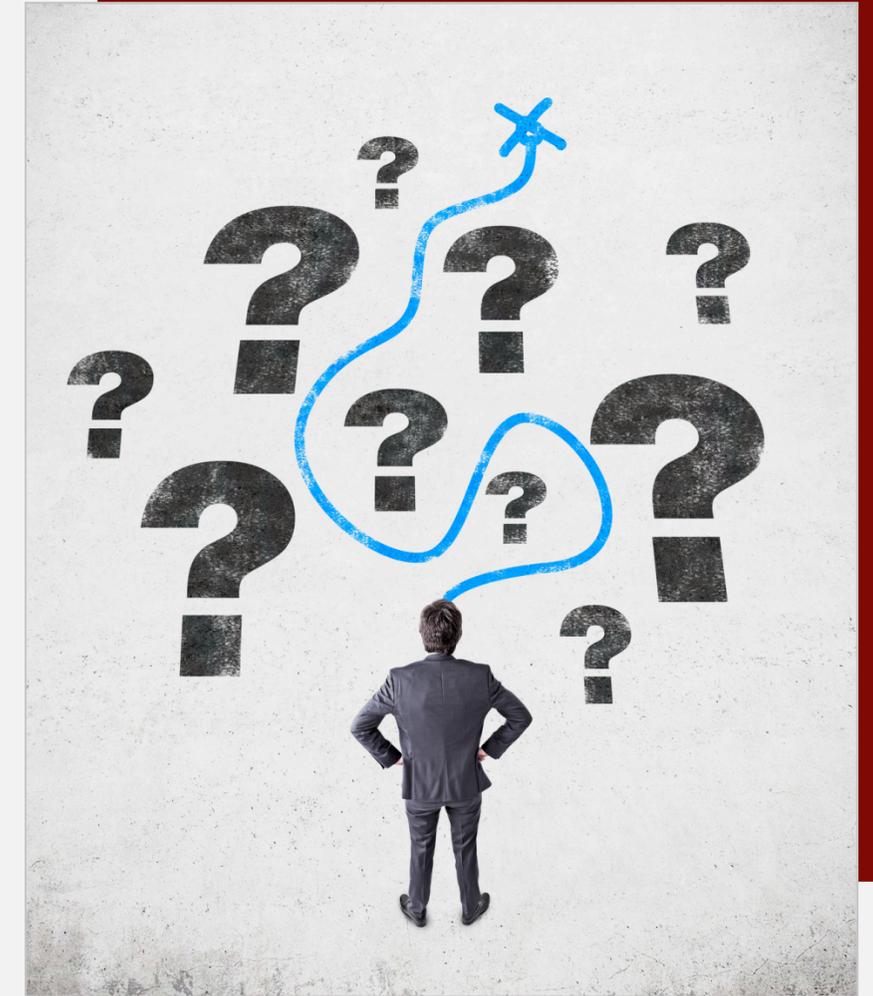
NEED

- Overtime that meets FLSA requirements will be reported separately on the W2.
- Paycheck needs to show premium portion of the overtime rate (0.5 of standard rate) separately.

- The 0.5 premium rate issue can be solved through system rules/modifications.
- The FLSA-required overtime issue requires consideration by Court.

Primary impact is to law enforcement assigned to 84-hour, 14-day work periods.

This currently impacts 478 County employees.



Proposed Solutions for Tax Year 2026 - 2028

OPTION 1 NO OVERTIME

40 **84** COMP TIME

 OVERTIME

- No overtime - provide compensatory time off only.
- Impacts all employees regardless of schedule.

- Continues to benefit employees at the 40/week or 84/14 threshold through awarding compensatory time off.
- No longer provides overtime pay to any employees who are currently overtime eligible.
- Employees may have come to rely on overtime pay.
- Reduces overtime budget costs; increases comp time liability if not managed.*

- No system changes required.
- Reduced time required for Timekeepers to complete payroll.
- Reduces coding errors, increases monitoring need for comp time limits.
- Simplifies tax reporting.

OPTION 2 OT AT 86

40 **84** COMP TIME

86 OVERTIME

- Increase OT threshold to 86 for 84-hour/14-day schedule employees.
- No change for 40-hour workweek employees.

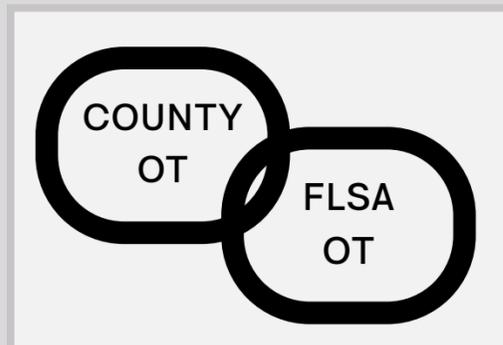
- Continues to benefit employees at the 40/week or 84/14 threshold through awarding compensatory time off.
- Continues to provide overtime pay at 40 hours for 40/week employees.
- Continues to provide overtime pay, but after 86 hours instead of 84 for 84/14 employees.
- Some impact (2 hours) on employee perception/ take-home pay.
- Minor reduction in overtime cost; minor increase in comp time liability.

- No system changes required.
- No change in work demand for Timekeepers.
- Increased monitoring to ensure compliance with new law.
- Minor obligation increase for allowing comp time off due to anticipated increased accruals.
- Potential for employees working additional hours to get overtime.

*May require mandatory time off when a certain threshold of compensatory time off is reached, resulting in increased demand on staffing management.

Proposed Solutions for Tax Year 2026 - 2028

OPTION 3 SPLIT OT CODE



- Timekeepers track OT with two different codes.

- Continues to benefit 40/week employees at the 40-hour threshold for both compensatory time off and overtime pay.
- Continues to benefit 84/14 employees at the 84-hour threshold for both compensatory time off and overtime pay.
- Least impact on employee perception/ take-home pay.
- No change to overtime cost or comp time liability.

- Moderate system changes required.
- Significantly increased risk of coding errors and need for monitoring/audits.
- Significantly increased work demand for Timekeepers.

OPTION 4 MATCH FLSA



- Change County threshold for both compensatory time off and overtime to match FLSA.

- Continues to benefit 40/week employees at the 40-hour threshold for compensatory time off and overtime pay.
- No longer any benefit for 84/14 employees at 84-hour threshold, increases to 86 for both compensatory time off and overtime pay.
- Employees may see this as a benefit reduction.
- Minor reduction in both overtime cost and comp time liability.

- Most system changes and modifications required.
- No change in coding error risk or monitoring.
- No change in work demand for Timekeepers.
- Minor reduction to the need for allowing comp time off due to anticipated reduced overall balances.
- Simplifies tax reporting.