

CLIENT WEBINAR

OBBB Overtime Compliance Recap

February 4, 2026



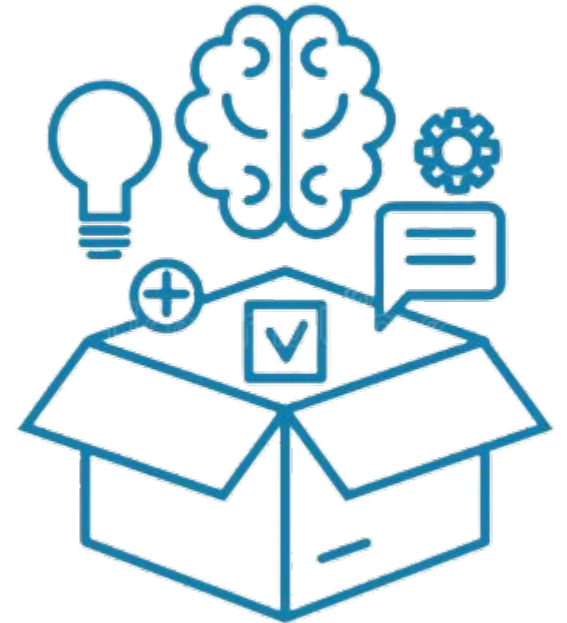


Agenda

- Review of the OBBBA “No Tax on OT” Law including common misconceptions by employers and employees
- 2026 Employer Reporting Requirements & How CTR is assisting employers with calculating overtime premium for accurate reporting on 2026 W2s.
- 2025 Employer Reporting Challenges & How to field questions from employees who are now filing their own taxes

CTR OBBBA RESOURCES

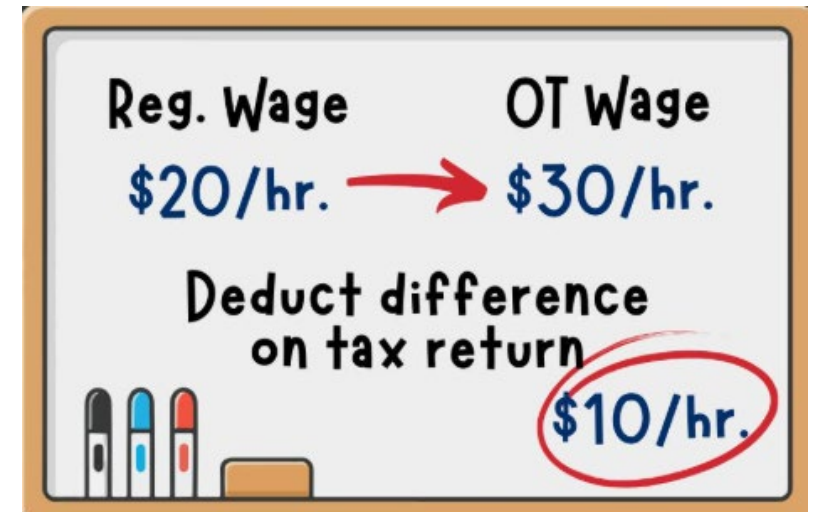
- OBBBA escalation queue with knowledgeable resources to assist you with questions
- Ongoing webinars and educational material as well as sample employee facing letters you can use to assist you with employee conversations
- Proactive client outreach. We are reaching out to clients with complex OT calculations to help ensure they are up to speed and are configuring the system accurately.
- OBBBA Resource Center. <https://ctrhcm.com/obbba-resources>



Key Rules- No Tax on OT

- Passed in July of 2025 but retroactive to January 1, 2025
 - Expectations unknown for first six months
 - Government shutdown delayed guidance
- The amount of overtime that is deductible is capped at \$12,500 (\$25,000 if married filing jointly). Phases out starting at \$150,000/\$300,000
- The deduction only applies to the "premium" portion of the overtime paid.

Example: If overtime is paid at 1.5 times the employee's regular hourly rate, only the premium of .5 is deductible. In this scenario, an employee whose regular rate is \$20 an hour, would have an overtime rate of \$30 an hour – but only the premium portion (the additional ".5" or \$10 an hour) would be deductible.



Key Rules- No Tax on OT (cont'd)

- Only overtime that is legally required to be paid under the Federal law known as the Fair Labor Standards Act (“FLSA”) is deductible. Generally, this is overtime that is paid after an employee works over 40 hours in a single work week.
 - Work week should be defined and should not change.
- The IRS does **not** count overtime that is paid pursuant to:
 - a more generous collective bargaining (union) agreement,
 - a more generous company policy
 - employers who pay double time,
 - employers who including vacation and sick time (non-worked hours) into their calculation for OT.
 - employer who pay for "show up," "on-call" or other similar pay where no work is actually performed.
 - employers who pay a shift differential/premium for certain (off less favorable) shifts – such as nights, weekends, holidays.
 - State law requirements that mandate daily or more generous overtime than required by Federal law.
 - Alaska, California, Colorado, Florida, Nevada, and Oregon
- Exempt employees cannot deduct OT (in most cases this means salaried employees)

How Does an Employee Claim the Deduction?

- The employees' W2 will show the amount of qualified overtime premium.
- Employees take this information to their tax preparer. This amount is deducted from their taxable income which will decrease the amount of taxes owed (i.e. increase their refund)
- The deduction only applies to Federal Income tax. Does not apply to Social Security, Medicare, or any state or local taxes



ISSUES EMPLOYERS ARE FACING WITH THIS LAW

ISSUE # 1: It is NOT simply “NO TAX ON OT” as explained in the news. The law as written is actually “No Tax on the Overtime Premium paid to employees for hours worked over 40 in a workweek.”

- Employees will not get a tax refund for the total overtime they see on their paystub. It’s a far lesser amount. It’s just the premium. Employers must be prepared to explain this to employees AND they must have a new method for capturing and reporting that premium amount.
- Many employers pay OT for working on Sundays, Holidays, or undesirable shifts. If these amounts were NOT hours worked over 40 then these amounts won’t count. Employers must be able to explain this to their employees **AND** they must have a method for recalculating OT premium in 2026 to **NOT** include these amounts. We can help!

HOW ARE WE HELPING YOU RE-CALCULATE OT Premium for 2026 W2 Reporting?

STEP 1

- We Built New OBBBA OT Calculators in isolved under the “Accumulators” area of isolved. These are “behind the scenes” calculators that do not effect pay.
- **OBBBA Hours Worked-** You tell us which earnings are “Hours Worked” so the system can calculate the hours worked over 40 hours in a week.
- **OBBBA Regular Accumulator-** You tell us which hours are regular hours—meaning they are NOT paid for working over 40 hours in a week. These earnings will be used to calculate the employees “regular rate” to calculate the OT premium.

Did you miss this task? Don't worry! We went in for EVERY client and made our best effort by the name of the code to determine which earnings should be checked. If we were wrong, we can fix and we can recalculate for 2026.

The screenshot shows the 'Accumulators' form with the following details:

- Accumulator Info:**
 - Accumulator Type: OBBBA Hours Worked (dropdown)
 - * Accumulator Title: BBB Hours Worked (text field)
 - Accumulator Code: (empty text field)
 - ☒ Allow Earnings
 - ☐ Allow Deductions
 - ☐ Override System Defaults
 - Check to override the System Definition and customize with client level values. (checkbox)
- Earnings:**
 - ☒ OVERTIME1
 - ☐ OVERTIME2
 - ☐ OVERTIME3
 - ☐ PATERNITY
 - ☐ PERS USE CAR
 - ☐ PERSONAL
- Memo Calcs:**
 - ☐ 401k Match
 - ☐ Est OT Premium
 - ☐ FLSA OT PREM
 - ☐ Medical Pre-Tax
 - ☐ PA Local Wage F
 - ☐ SERP FICA

The screenshot shows the 'Accumulators' form with the following details:

- Accumulator Info:**
 - Accumulator Type: OBBBA Regular Accumulator (dropdown)
 - * Accumulator Title: BBB Regular Earnings (text field)
 - Accumulator Code: (empty text field)
 - ☒ Allow Earnings
 - ☐ Allow Deductions
 - ☐ Override System Defaults
 - Check to override the System Definition and customize with client level values. (checkbox)
- Earnings:**
 - ☐ Mobile App Inct
 - ☐ NO PAY
 - ☐ OVERTIME1
 - ☐ OVERTIME2
 - ☐ OVERTIME3
 - ☐ PATERNITY
- Memo Calcs:**
 - ☐ 401k Match
 - ☐ Est OT Premium
 - ☐ FLSA OT PREM
 - ☐ Medical Pre-Tax
 - ☐ PA Local Wage F
 - ☐ SERP FICA

HOW ARE WE HELPING YOU RE-CALCULATE OT Premium for 2026 W2 Reporting?

STEP 2

- We need to know the hours worked BY WEEK
- For employers who pay weekly, we have this information. You do nothing different. For employers who use our isolated time system, the hours will come over to our system and will be broken out by week.
- For anyone who is not weekly or does not use isolated time, we devised a method for you to report hours to us by week. You will note that your pay time entry screen now allows all worked hours to be reported by week.

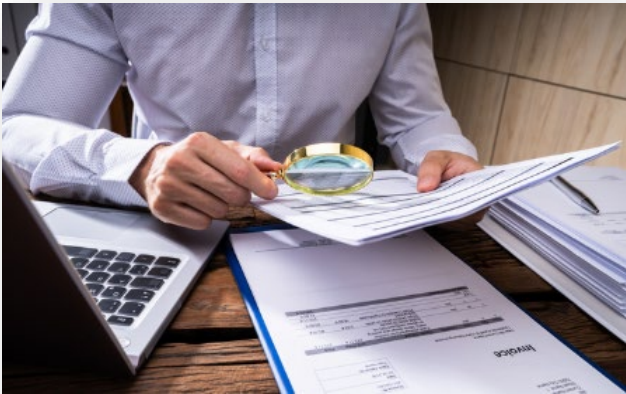
Did you miss this task? Don't worry! We can recalculate any missed payrolls in 2026.

C	D	E	F	G	H	I	J
Key	Name	LaborValue2	LaborValue1	E_Regular_Hours	E_Regular_WeekNumber	E_OT_Hours	E_OT_WeekNumber
1008	Watson, Humphrey			40	1	2.7	1
1008	Watson, Humphrey			40	2	10.2	2

Manually Entering Hours?

Additional Column is now available “Week Number”

- 1. Select Week 1, Week 2, or Week 5 as applicable



Sandy Bo...

Search the menu

Employee Management

Employee Admin Tools

Employee Self-Service

Client Management

My Support Hub

Payroll Processing

Payroll Entry

Client: SLBTRAIN23 - SANDYB-University Training Inc. 2023 Legal: SLBTRAIN23 - SANDYB-University Training Inc. 2023 Pay Group: Biweekly Status: Active

Time Entry Grid

Pay Date: 1/9/2026 Payroll Period: 12/22/2025 - 1/4/2026

Template: Regular - Sandy Org Category: ALL Status: Active

Entry Report

Entry Export

 Value: Employee Type: ALL

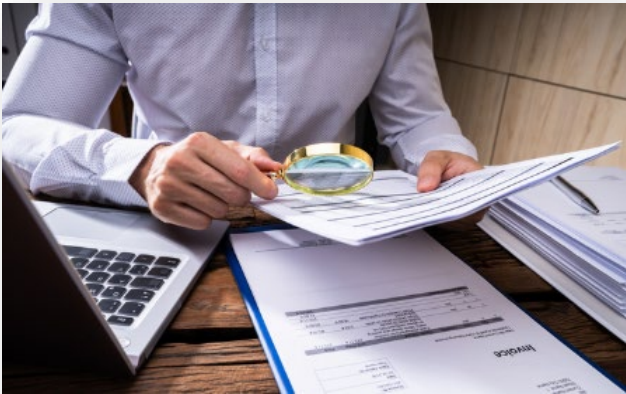
☐ Show Sort ☐ Expand Employee Name ☒ Show Total Hours/Units ☐ Show Total Dollars ☐ Show Total Deductions ☐ Show Total Taxes

NAME	SALARY/RATE	BLOCK	TOTAL HRS/UNITS	PROJECT	POSITION	WEEK NUMBER	PTO-NO TIME (EARN HRS)	REGULAR (EARN HRS)	OT (EARN HRS)	DOUBLE TIME (EARN HRS)
Watson, Humphrey	Rate: 12.0192		93.00					80.00	13.00	
			42.75			Week 1		40.00	2.75	
			50.25			Week 2		40.00	10.25	

Manually Entering Hours? (cont'd)

Additional Column was added “Week Number”

- 1. Select Week 1, Week 2, or Week 5 as applicable



Sandy Bo...

Search the menu

Employee Management

Employee Admin Tools

Employee Self-Service

Client Management

My Support Hub

Payroll Processing

Payroll Entry

Time Entry Grid

Individual Time Entry

Void Third Party Checks

Time Entry Totals

Additional Check Entry Grid

Timecard Import

Labor Entry Grid

Remove Pending Checks

Payroll Entry Setup

Reporting

System Management

Security

< 2 of 2 >

Humphrey Watson

Pay Group: Biweekly

Salary: 3923.08

Work Location: BELLEROSE...

Department: 40 - IT

NoJobLevel:

Employee #: 1008

Status: Active

Hire Date: 12/4/2024

Division: 01 - Operations

Benefit Class:

Individual Time Entry | Pay Date: 1/9/2026 | Payroll Period: 12/22/2025 - 1/4/2026

Check Type

Pay Frequency

Total Hours / Units

Total Earnings

Total

X Regular Check

109.00

0.00

+ Add New

Preview Check

Refresh

Template: Regular - Sandy

Show Accrual Balances

Show State

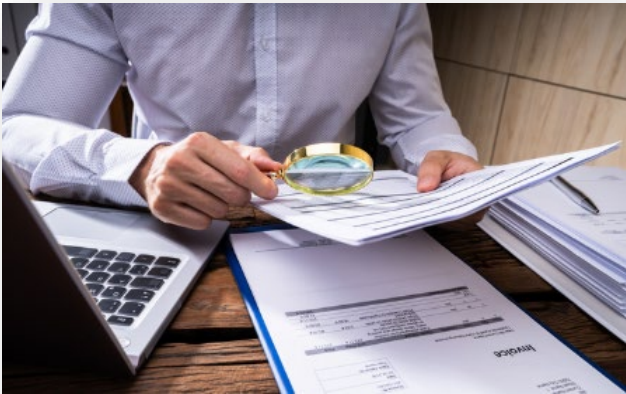
Earning	Rates & Scheduled Pay	Block	Hours / Units	Dollars	Override Rate	Week N...	Department (No Home Value)	Job (40)	Fund (No Home Value)	Date (No Home Value)	Unio (No Home Value)
PTO-NO TIME		<input type="checkbox"/>									
Regular	Rate: 12.0192	<input checked="" type="checkbox"/>	40.00			Week 1					
		<input checked="" type="checkbox"/>	40.00			Week 2					
OT		<input checked="" type="checkbox"/>	2.75			Week 1					
		<input checked="" type="checkbox"/>	10.25			Week 2					
Double Time											
2nd Shift											
Bonus		<input type="checkbox"/>									
Bereavement	Rate: 12.0192	<input type="checkbox"/>									
Birthday Hours		<input type="checkbox"/>									
Cell Phone Reim											
Jury	Rate: 12.0192	<input type="checkbox"/>									
Commission		<input type="checkbox"/>									
Cell Phone		<input type="checkbox"/>									
1099 NonEE Cmpt		<input type="checkbox"/>									
Holiday	Rate: 12.0192	<input checked="" type="checkbox"/>	8.00			Week 2				1/1/2026 - Day 11	
		<input checked="" type="checkbox"/>	8.00			Week 1				12/25/2025 - Day 4	
Total			109.00	0.00							

Importing Hours?

You must change the File used to Import Hours.

Using Time Import Version 1 – i.e. 1(one) Row per Earning

- 1. Add a new Column “WeekNumber”
- 2. Enter 1, 2, 3, 4, or 5 as applicable



	A	B	C	D	E	F	G
1	Legal	PayGroup	Key	Name	PayItem	Hours	WeekNumber
2	SLBTRAIN2	Biweekly	1008	Watson, Humphrey	EREG	40	1
3	SLBTRAIN2	Biweekly	1008	Watson, Humphrey	EOT	2.75	1
4	SLBTRAIN2	Biweekly	1008	Watson, Humphrey	EREG	40	2
5	SLBTRAIN2	Biweekly	1008	Watson, Humphrey	EOT	10.25	2
	SLBTRAIN2	Biweekly	1040	simson, jennifer			

Importing Hours? (cont'd)

You must change the File used to Import Hours.

Using Time Import Version 2 – i.e. 1(one) Column per Earning



- 1. Add a new Column for EACH corresponding Earning
 - “E_Regular_Hours” – Create Column “E_Regular_WeekNumber”
 - “E_OT_Hours” – Create Column “E_OT_WeekNumber”
- 2. Enter 1, 2, 3, 4, or 5 as applicable

C	D	E	F	G	H	I	J
Key	Name	LaborValue2	LaborValue1	E_Regular_Hours	E_Regular_WeekNumber	E_OT_Hours	E_OT_WeekNumber
1008	Watson, Humphrey			40	1	2.7	1
1008	Watson, Humphrey			40	2	10.2	2

Reviewing your FLSA OT Premium for 2026

Some Additional Key Points:

- This is a behind-the-scenes calculation. Your employees will NOT see this information on their Paystub. This gives you time to review before it is posted on 2026 W2s.
- Please review these amounts for accuracy. We have put together a helpful excel FLSA overtime premium calculator. For anyone that registered, we will e-mail this to you by the end of the week.
- Only non-exempt employees should show **FLSA OT PREM**. Exempt employees are not eligible for OT. If you are seeing amounts post for exempt employees, this means that you are entering hours for exempt employees or perhaps one of your earnings codes should be de-selected. We can help you fix this.

Client ID: SLBTRAIN23 - SANDYB-University Training Inc. 2023					
Pay Group: Biweekly					
Check Date: 2/6/2026					
Run Date: 2/3/2026					
SLBTRAIN					
ctr, ctr	1115 Main Street PITTSBURGH, PA 15201				Hourly Rate:
Emp #: 1081	XXX-XX-7889				Status:
REGULAR CHECK		Gross Wage: 1,791.63		Paid Gross: 1,791.63	
Earnings	Rate	Hrs/Units	Dollars	YTD Hrs/Units	YTD Dollars
OT	28.1250	5.00	140.63	5.00	140.63
Regular	18.7500	70.00	1,312.50	70.00	1,312.50
Double Time	37.5000	8.00	300.00	8.00	300.00
2nd Shift	19.2500	2.00	38.50	2.00	38.50
FLSA OT PREM*		0.00	46.88	0.00	46.88
Totals:		85.00	1,791.63	85.00	1,791.63

You must review these calculations for accuracy. We wish we could handle this task for our clients because we love to provide extra value but, sadly, there is no way CTR can. Only you can tell us which hours in your system are worked and what they are for.

What if you only pay OT for hours worked over 40 in a workweek?

ISSUE 2: I only pay OT to employees for hours worked over 40 hours in a week. Why do I need to do all this work “recalculating?”

Short Answer: Good Point! BUT you still must calculate the OT premium to put on the W2 because the YTD total on the paystub is overstated.

- Another option-- For 2025 employers did not have the time to put their calculation methods in place. The IRS allowed employees to use a reasonable estimate of 1/3 of total OT to capture the OT premium. This could work assuming you pay FLSA OT (over 40 hours in a week and nothing more generous)
- If you would like to use the 1/3 method, we can override Box 12 on the W-2s with this amount.
- Legal Disclaimer: The IRS has not officially indicated that the 1/3 method is allowable for 2026 reporting.

What about 2025 OT Premium Reporting?

ISSUE 3: This law was enacted in July of 2025 and made retro-active to January 1, 2025. This means that employees can claim the tax deduction on 2025 taxes BUT employers had no mechanism in place to do all of these calculations.

- The IRS recognized this and put out LATE guidance in November of 2025 stating that employers and employees could make a “reasonable good faith effort” in reporting this information to the IRS. The IRS issued 30 pages of guidance for employees on various methods they could use to calculate estimated OT premium
- The guidance also provided penalty relief to employers for failing to provide this estimate on the employees’ W2 for 2025 but they “encouraged” employers to provide pay statements, documentation, or some method to assist employees.
- **Employer Conundrum-** Do I provide a good faith estimate that employees will undoubtedly question OR do I provide nothing and have EVERY employee ask me what to do?

2025 Estimated OT Premium

- On December 4th 2025, we sent a notice to clients indicating that isolved would make a good faith estimate of OT Premium for 2025. To assist us in this effort, employers must tell us which are worked hours following Step 1 noted earlier.
- We emailed clients with more complex earnings individually as a reminder.
- We made an estimated OT premium report available for clients to review this information. This is the Overtime and Tips Export.
- In addition, we sent a reminder in early January and documentation in W2 packets discussing this estimate
- We also gave employers the option to block this information



Dear Friend,

As many of you are aware, according to the One Big Beautiful Bill ("OBBA"), employees will no longer pay federal income tax on qualified tips and overtime premium up to the IRS limit. This will impact your employees' 2025 taxable earnings as well as 2026. For 2025 year-end reporting, the IRS and Department of Labor are accepting a reasonable calculation method to estimate employees' overtime and tips and will not be assessing penalties for employers. (<https://www.irs.gov/pub/irs-drop/n-25-82.pdf>) CTR will be creating a memo earning that will capture the estimated overtime premium. This amount will be reported in Box 14 of the W-2 and will be labeled Est OT Premium. If you prefer to opt out from including this information on your employee's W2s, you must contact your support representative before the final payroll of the year. In addition, a client level report will be added detailing employee OT and Tips for 2025.

CTR will be creating 2 custom accumulators for the OT portion of the report. The OBBA Hours worked accumulator should be comprised of actual worked hours including overtime, in accordance with the OBBA. The OBBA Regular Earnings accumulator should be comprised of actual worked hours excluding overtime.

These accumulators will be established using a reasonable effort to determine which hours are considered worked hours based on the naming of your earning pay items. To ensure accurate OT reporting for 2026, it is critical that you review the earning pay items included in the OBBA Accumulator. The OBBA Accumulator will be available in your system for review 12/15/2025. You can find this accumulator by searching the menu for "accum" and selecting "Client Management>Payroll>Accumulators". Search for the OBBA accumulators and click the View icon under Actions to review. If you have any changes to the OBBA Accumulators you must notify your designated client rep before your first payroll in January.

For 2026, overtime premium will be calculated and stored at the time payroll is processed.

The Tips portion of the report will use earnings coded in your system as "Tips". These should be "Qualified Tips" (voluntary cash or charged tips) per the IRS guidelines. (<https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors>). To confirm your earning(s) for Tips are identified as such, from Client Reports - Run the 'Earning List' report. Review the "Type" for the earning. It can be any of the following to be included ("Tips Credit Card Paid", "Tips Credit Card", "Tips CC Paid (not in gross)", "Tips Not Paid", "Tips Allocated", "Indirect Tips", "Indirect Tips Paid")

Thank you for being a great partner,
CTR Payroll | HR

Your Employees are Asking Questions. Now what?

ISSUE 4: You now have employees going to file their taxes. They do not understand what the amount means. They just know that it is LESS than what the OT reads on their paystub. They are coming to you.

Added Complexities

- Turbo Tax and other tax advisors are providing various forms of information--- some indicating that the employee could take 1/3 of their total OT even in cases where this amount would be grossly over-stated.
- You are now realizing that you did NOT do the pre-work nor did you verify the amounts. Now what?

The screenshot displays the H&R BLOCK 2025 tax software interface. The top navigation bar includes icons for 'Take Me To', 'Forms', 'New/Open', 'Save', 'Print', 'E-File Status', and 'Help Center'. The main header shows 'My taxes for 2025' with a 'Premium' status. The left sidebar contains a 'FEDERAL REFUND' section with a 'LATEST CHANGE' of '\$0' and a 'STATE REFUND' of '\$0'. The main content area is titled 'Tell us about the overtime included in your wages' and includes a detailed explanation of overtime pay eligibility. A 'Qualifying overtime paid' field is shown with a redacted value and a 'LEARN MORE' link. The bottom of the screen features 'Back' and 'Next' buttons, and a 'SHOW FORM' link.

HERE ARE SOME OPTIONS...

- **CTR Official Letter:** We mailed a letter with the client W2s and emailed the same letter stating to clients that the information in Box-14 was merely a “**Good Faith Reasonable Estimate.**” Employees may also use their last paystub and calculate using the IRS guidance.
- **Sample Letter You Send to Employees-** In addition, we have also provided a sample letter that you can put on your own letterhead. This letter reviews key components of the OBBBA “Not Tax on OT” law. It also indicates that the value supplied on the W2 is simply a “reasonable estimate” based on information available in the system AND that employees may use alternative methods. [which in some cases could just be 1/3 of their total OT premium on their paystub].



CTR PAYROLL | HR

553 Keystone Dr Warrendale PA 15086
724-772-2400

01/14/2026

Re: W-2 information pertaining to the One Big Beautiful Bill “No Tax on Overtime”

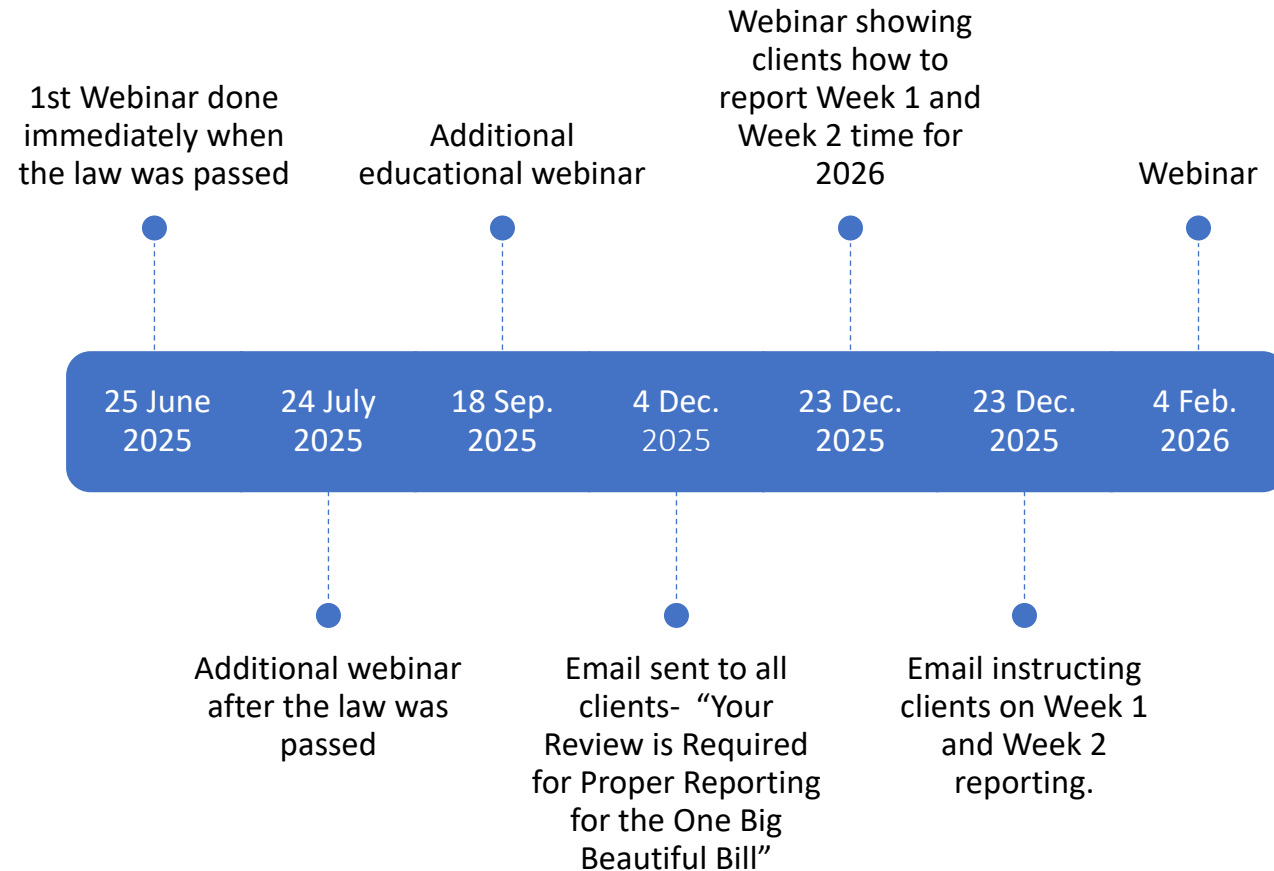
Dear Client,

Enclosed you will find your company’s 2025 W-2s. There is an important difference this year from prior years – the optional reporting of estimated overtime premiums in Box 14. In prior CTR communications, employers were informed what these amounts mean and that they could opt to block this information by contacting their CTR representative. See <https://ctrhcm.com/obbba-resources>.

If your company opted to block this information, it will not be displayed on the employee’s W-2. The IRS, however, has encouraged employers to provide a separate statement, on-line portal or similar secure methodology to convey this overtime premium information to employees, if it is not on the W-2.

If your company did not opt to block this estimated OT information on the W2, it is included on the employee’s W-2 in Box 14 and is listed as “Est OT Premium”. Given that this law was enacted in July 2025 but made retroactive to January 1, 2025, the IRS recognized that employers and payroll companies did not have an opportunity to establish appropriate tracking methods retroactive to January 2025 to capture the exact OT premium allowable under the OBBBA¹. Accordingly, the IRS is only requiring employers to provide a

Resources




<https://ctrhcm.com/obbba-resources>



OTHER RESOURCES

- <https://www.irs.gov/newsroom/treasury-irs-provide-guidance-for-individuals-who-received-tips-or-overtime-during-tax-year-2025>
- <https://www.irs.gov/pub/irs-drop/n-25-69.pdf> (30 Page guidance for employees with calculation examples)
- ctrhcmsupport-OBBA@ctrhcm.com



CTR Quick Guide

Manual Calculation of the FLSA Overtime Premium

Please note: it is never guaranteed that a manual calculation will match, exactly, the computerized calculation because of rounding and other differences.

Step	What is included	Amount	Notes
1	All dollars paid from earnings eligible under FLSA		These will include any dollars paid that are associated with actual physical work and will not include items excluded from the FLSA like Holiday, Vacation, Sick, etc. They will include any premiums paid and any rate differences.
2	Total hours actually physically worked by employee		Same as above but will not include any hours used to calculate premiums, etc., since those hours are already recorded under a physical work earnings code.
3	Divide dollars in 1 by hours in 2 for Average Rate		This determines the average rate per hour
4	Multiply Average Rate in 3 by 0.5 for Hourly Premium		This is the half-time premium that would be used to determine total overtime pay but is the only amount eligible for the tax deduction.
5	Actual eligible overtime hours for the week		These are the actual physical hours work that exceed the FLSA limit of 40 in a work week for most employees.
6	Multiply Hourly Premium in 4 by hours in 5 for total Premium amount for the week		This is the amount that will be accumulated for the FLSA Overtime Premium to be reported at year end.

A photograph of a smiling woman with blonde hair wearing a denim jacket, with a blurred man in the background. The image is framed by orange bars at the top and bottom.

Thank You