

**Federal Update: P.L. 119-21
Subtraction for Overtime Pay
Individual Income Tax**

	FY 2026	FY 2027	FY 2028	FY 2029
			(\$000s)	
General Fund	(\$180,100)	(\$185,800)	(\$197,300)	(\$203,100)

Assumed to be effective for tax years 2025 through 2028.

Federal Public Law 119-21 created a deduction for qualified overtime compensation received during the taxable year. Qualified overtime compensation is overtime paid to an individual that is in excess of the individual's regular wage, as required under the Fair Labor Standards Act of 1938 (FLSA). Qualified overtime pay must be included on the employee's Form W-2 or the nonemployee's Form 1099-NEC.

The federal deduction is effective for tax years 2025 through 2028 and is limited to \$12,500 per year (\$25,000 per tax year for married joint filers). The deduction is reduced by \$100 for every \$1,000 of modified adjusted gross income that exceeds \$150,000 (\$300,000 for married joint filers). Taxpayers must file with a social security number to be eligible, and married taxpayers must file a joint return to claim the deduction. The deduction may be claimed whether the taxpayer itemizes deductions or claims the standard deduction.

The federal deduction does not affect adjusted gross income, the starting point for calculating Minnesota taxable income, and will not have an impact on Minnesota tax liability.

The proposal is to create a Minnesota subtraction equal to the federal deduction.

- The estimate is based on estimates prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025.
- The estimate was apportioned to Minnesota based on Minnesota's share of the United States population. The estimate was adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- The first fiscal year impact will depend on the timing of enactment. This estimate assumes that the proposal would be enacted before the tax year 2025 filing season begins. If it were enacted later than that, some or all of the fiscal year 2026 impact would shift into fiscal year 2027.

Minnesota Department of Revenue
Tax Research Division
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