

April 2026

Understanding H.R.1 Regulations and Reporting for “no tax on overtime”

HRMS updates *effective December 16, 2025*

Statewide Accounting | Payroll
Advisors



Disclaimer

This is not a policy document. It is intended for instructional purposes only and reflects our knowledge as of the date on the front of this document. HRMS changes as developers implement solutions and upgrades. These procedures and guidelines may change in the future. OFM will communicate changes as they occur. However, if something is not working as you expect, please contact the OFM Help Desk at 360-407-9100 or HeretoHelp@ofm.wa.gov.



Overview:

- **Understanding H.R.1 regulations**
 - New Reporting Requirements created by passage of H.R.1 “no tax on overtime”
 - Qualified vs. unqualified overtime and compensatory time
 - New Wage Types, Absence Types, Compensation Methods and Quota Types
 - Form W-2 reporting for tax years 2026 - 2028
- **Action Needed**
 - Review overtime and compensatory time
- **Questions**

Background

House Report 1 (H.R.1), signed into law on July 4, 2025, as Public Law 119-21 included a provision that has been referred to as “no tax on overtime”. For tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (generally, the “half” portion of “time-and-a-half” compensation) that is required by the Fair Labor Standards Act and reported on a Form W-2, Box 12 TT.

Washington State general government did not implement any changes in HRMS for 2025.

Qualified vs. Unqualified Overtime & Compensatory Time

- Employees must be covered by Fair Labor Standards Act (FLSA) to have any overtime qualify for deduction under H.R.1
- Only overtime earned for hours *worked* over 40 qualify
 - Holidays and leave do not count
 - Employees may earn both qualified and unqualified overtime
- Employees that are engaged in fire protection activities or law enforcement activities who have a work period of at least 7 to 28 days, must exceed the maximum allowable hours before earning overtime under FLSA.

Law Enforcement & Fire Protection

Work Period Length	Maximum Allowable Hours	
	Fire Protection	Law Enforcement
28 days	212	171
27 days	204	165
26 days	197	159
25 days	189	153
24 days	182	147
23 days	174	141
22 days	167	134
21 days	159	128
20 days	151	122
19 days	144	116
18 days	136	110
17 days	129	104
16 days	121	98
15 days	114	92
14 days	106	86
13 days	98	79
12 days	91	73
11 days	83	67
10 days	76	61
9 days	68	55
8 days	61	49
7 days	53	43

Source: [29 CEB 553.230\(c\)](#)

New Overtime Wage Types (WT)

The new overtime and compensatory time Wage Types will calculate the same as the original Wage Types they mirror; the only difference is they will have the wages for the premium portion or equivalent* reported on Form W-2 in Box 12 TT

**Equivalent is used when the premium is not broken out in a separate WT.*

New Overtime Wage Types (WT)

Reference WT	Reference WT Long Text Name	New WT	New WT Long Text
1232	OT FLSA 1.5 All Agy	1432	HR1 OT All Agy 1.5x
<i>1216*</i>	<i>Overtime Premium</i>	<i>1416*</i>	<i>HR1 OT Premium</i>
1176	OT 2.5 (4051)	1476	HR1 OT 2.5 (4051)
1363	OT FLSA Premium	1463	HR1 OT FLSA Premium
1242	OT Shft1 2.0 (4051)	1442	HR1 OT shft1 2.0 (4051)

**system generated WT*

New Overtime Wage Types (WT)

Reference WT	Reference WT Long Text Name	New WT	New WT Long Text
1236	OT 28day 92.9	1436	HR1 OT 28day 92.9
1235	OT 28day 86.9	1435	HR1 OT 28day 86.9
1198	Holiday OT FLSA	1498	HR1 Holiday OT
<i>1197*</i>	<i>Holiday OT Premium</i>	<i>1497*</i>	<i>HR1 Hol OT Prem</i>
1606	Holiday OT 28 Day 92.9	1406	HR1 Hol OT 28 day 92.9
1239	Fire Duty OT	1439	HR1 Fire Duty OT
<i>1220*</i>	<i>Fire Duty OT Prem</i>	<i>1420</i>	<i>HR1 Fire Duty OT Prem</i>

*system generated WT

Compensatory Time Earned

Reference WT	Reference WT Long Text	New Wage Type (WT)	New Wage Type Long Text	Absence Quota Type (+) Accrues to
1344	Comp Time Earned at 1.5	1444	HR1 Comp Time Earned 1.5x	53
1345	Comp Time Earned at 2.0	1445	HR1 Comp Time Earned 2.0	54

Compensatory Time Taken

Reference Absence Type/Wage Type	Reference Long Text	New AT/WT	New Long Text	Absence Quota Type
9385/1378	Comp Time Sup Ben PFML	9067/1478	HR1 Comp Sup Ben PFML/HR1 Comp Time Sup Ben PFML	53
9069/1338	Comp Time taken-all	9068/1438	HR1 Comp Time Taken	53
9385/1378	Comp Time Sup Ben PFML	9088/1488	HR1 Comp 2x Sup Ben PFML	54
9069/1338	Comp Time Taken-all	9087/1486	HR1 Comp 2x Taken	54

Compensatory Time Cash-out

Reference Compensation Method/Wage Type	Reference WT Long Text	New Compensation Method /Wage Type	New Wage Type Long Text	Absence Quota Type
9006/1393	Comp Time Payout	9017/1493	HR1 Comp Time Payout	53
9013/1399	2250 Comp Payout NotSubj	9018/1489	HR1 WSP CompPyout NotSubj	53
9006/1393	Comp Time Payout	WT 1484	HR1 Comp Time Payout 2.0	54

Form W-2 Reporting

- Overtime recorded under the new WTs will be reported in Box 12 TT on the Form W-2
- Compensatory time is not reportable until the employee uses one of the new H.R.1 Absence Types, or the balance is cashed out from one of the new H.R.1 Quota Types.
 - Quota Type 53 - 1/3 of the amount paid will be reported on Form W-2, box 12 TT
 - Quota Type 54 - 1/4 of the amount paid will be reported on Form W-2, box 12 TT

Actions Needed

- Understand the new Wage Types and Absence Types and what qualifies under the H.R.1 bill.
- Update any agency shadow systems or internal forms used for reporting leave and/or hours worked.
- Communicate changes to your employees.
- Resources:
 - [State Agency Payroll | Washington | OFM](#)
 - [No Tax on Overtime FAQs](#)

Do not change any codes for overtime or compensatory time for dates prior to 12/16/2025.

Actions Needed – Paid overtime

- Review overtime earned 12/16/2025 to present. When applicable, update overtime earned that meets the H.R.1 qualification to the new WTs.
 - This should not change the amount paid to the employee.
 - Wages for the premium portion or equivalent will be reported on Form W-2 in Box 12 TT

Reminder - Do not change any overtime codes prior to 12/16/2025 – we only want to update 2026 W-2 reporting.

Actions Needed – Compensatory Time Balances

- What makes up the Compensatory Time (Quota Type 35) balance as of **12/15/2025**?
- If there is qualified Comp Time earned included in that balance:
 - [Use procedure Quota- Removing Accrued Leave](#) to reduce Quota Type 35 by the amount of qualified comp time.
 - Time Quota Compensation IT0416
 - Start date 12/16/2025
 - Compensation Method - 1000 Free Compensation
 - Do Not Account
 - [Generate Quota Accrual Manually](#) to add balance to Quota Type 53 or 54 for the qualified comp time.
 - Quota Corrections IT2013
 - Start date 12/16/2025

Actions Needed – Compensatory Time

- What about comp time from 12/16/2025 to present?
 - Comp Time earned
 - Comp Time taken
 - Comp Time cashout
- When applicable, update comp time that meets the H.R.1 qualification to the new Wage Types, Absence Types, and/or Compensation Methods.
- Resources:
 - [Attendance System Change Report_ZHR_RPTTM084.pdf](#)
 - [Leave Requests.pdf](#)
 - [CATS_Display_Working_Time_CATS_DA.doc](#)

Questions?

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