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To: Datatech
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The Big Beautiful Bill and Farm Labor: No Federal Tax Break for Agricultural Overtime

I. Introduction

On July 4, 2025, Congress enacted the One, Big, Beautiful Bill Act (Public Law 119-21), marking a sweeping effort to provide new tax relief to working Americans and seniors. The legislation introduces a suite of deductions that aim to reduce the federal tax burden on everyday wage earners and older Americans. Among its headline provisions are novel deductions for *overtime pay* (specifically, the portion of compensation above an employee's regular rate, such as the "half-time" premium under the Fair Labor Standards Act) and for *tips*, along with expanded deductions for interest on car loans and additional relief for senior taxpayers.[1]

Section 70202 of the Act adds new Internal Revenue Code § 225, entitled Qualified Overtime Compensation. It allows an income tax deduction for "qualified overtime compensation," defined as the portion of overtime wages required under section 7 of the Fair Labor Standards Act that is paid in excess of the employee's regular rate. The deduction is capped at $12,500 per taxable year ($25,000 for joint filers), with a phase-out beginning at modified adjusted gross income of $150,000 ($300,000 for joint filers). Employers must separately report qualified overtime compensation on Forms W-2 and analogous information returns, and taxpayers must provide a valid Social Security number to claim the deduction. The taxpayer must file jointly if married and will not apply to taxable years beginning after December 31, 2028. The Secretary of the Treasury is directed to issue regulations to implement the provision and adjust withholding procedures accordingly.[2]

This memo focuses on the implications of the bill's overtime and tax provisions in the agricultural sector. Because many farm and agribusiness employees regularly work overtime, assessing how the new deductions interact with agricultural payroll practices is essential. The analysis here will:

1. Explain how the overtime deduction is structured under the Act (eligibility, limits, reporting requirements),

[1] https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors
[2] https://www.congress.gov/bill/119th-congress/house-bill/1/text

2. Explore how that deduction, and related provisions, interacts with existing agricultural labor rules and tax treatment,
3. Identify why this new deduction does not count towards overtime worked while employed in the agricultural sector.

By laying out this framework, the goal is to ensure that employers in agriculture can make informed decisions and avoid tax risks. It's important not to try to shift regular agricultural wages into "overtime" to help your employees get this deduction. If you file Form 943 and claim qualified overtime for farm workers, you risk penalties from the IRS.[3]

II. Background

The Fair Labor Standards Act (FLSA) extends to agricultural employment but recognizes several significant exemptions. The statute defines "agriculture" broadly to include both primary activities such as cultivation, harvesting, and livestock care, as well as certain secondary operations like on-farm processing. Despite this broad coverage, many farmworkers are exempt from overtime, and in some cases minimum wage, requirements. For example, employers operating small farms with fewer than 500 "man-days" of labor in a calendar quarter, family members working for the farm owner, local hand-harvest laborers, and range livestock workers fall outside the Act's wage protections. These exemptions are detailed further in the Department of Labor's regulations at 29 C.F.R. Part 780, which interpret FLSA sections 3(f), 13(a)(6), and 13(b)(12). In addition to the small farm and hand-harvest exemptions, Part 780 explains that certain agricultural and irrigation work, as well as specific operations like livestock auctions, cotton ginning, sugar processing, and produce transport, are excluded from overtime requirements altogether. The regulations also provide guidance on distinguishing "primary" from "secondary" agricultural activities, applying exemptions on a week-by-week basis, and determining when mixed duties remain covered. Even where exemptions apply, agricultural employers must still meet recordkeeping obligations and, for nonexempt workers, pay at least the minimum wage.[4]

In 2016, California enacted Assembly Bill 1066, known as the *Phase-In Overtime for Agricultural Workers Act*, which gradually eliminated the longstanding exemptions that excluded farm labor from standard overtime protections. Before AB 1066, agricultural workers were only eligible for overtime beyond 10 hours in a day or 60 hours in a week under Wage Order 14. The new law mandated a phased implementation: beginning in 2019, larger employers (26 or more employees) had to pay overtime for hours exceeding 9.5 per day or 55 per week, with thresholds declining incrementally until full parity (8 hours/day or 40 hours/week) was reached in 2022. Employers (25 or fewer employees) were granted additional years to comply, eventually reaching the same standard by 2025. This law also introduced daily double-time for hours beyond 12 in a day, and extended to agricultural workers other protections like meal periods and

[3] https://www.caseypeterson.com/big-beautiful-bill-overtime/

[4] https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-553/subpart-A/subject-group-ECFRb5efe4232465438

day-of-rest requirements previously reserved for non-farm employees. Early evidence suggests the reforms led some employers to reduce worker hours (to avoid triggering overtime) and that many farmworkers saw declines in weekly pay and hours worked.[5]

III. The "Big Beautiful Bill"

Under Section 7 of the Fair Labor Standards Act, non-exempt employees are entitled to receive overtime compensation at a rate not less than one and one-half times their regular rate of pay for hours worked beyond 40 in a workweek (or the applicable threshold). This obligation may be satisfied either through premium cash payments or, in limited public-sector contexts, compensatory time off at the same premium rate. The "One Big Beautiful Bill Act" incorporates this framework by defining qualified overtime compensation as the portion of overtime wages paid pursuant to Section 7 that exceeds the employee's regular rate of pay i.e., the premium element above straight-time earnings. Notably, the statute excludes tips from this definition, requires that qualifying overtime be separately reported on Forms W-2 or equivalent statements, and limits the tax deduction to the premium portion recognized under the FLSA. In effect, the Act overlays a tax benefit on top of the FLSA's substantive overtime pay rules without altering the underlying entitlement to time-and-a-half compensation.[6]

Although the One Big Beautiful Bill Act establishes a federal tax deduction for "qualified overtime compensation," that benefit is defined narrowly by reference to Section 7 of the Fair Labor Standards Act (FLSA). "Qualified overtime compensation" is the premium portion of wages paid under Section 7, meaning the amount above an employee's straight-time rate, but only when such overtime is legally required. Because the FLSA expressly exempts most agricultural employees from its overtime requirements under Section 13(b)(12), farmworkers covered by this exemption do not generate "qualified overtime compensation" for federal tax purposes. **In other words, if federal law does not mandate overtime pay, then no corresponding deduction is available. Even if overtime is paid voluntarily or mandated by state law, those amounts generally do not fall within the federal definition of "qualified overtime compensation."**[7]

This framework highlights a policy gap: while the federal law incentivizes overtime work through tax relief, it effectively excludes large segments of the agricultural workforce due to the enduring federal exemption. Unless Congress amends the statute to incorporate state-mandated overtime or to narrow the agricultural exemption, the benefit of this tax deduction will bypass most farmworkers.[8]

IV. Practical Implications and Compliance Guidance

[5] https://calmatters.digitaldemocracy.org/bills/ca_201520160ab1066

[6] https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-553/subpart-A/subject-group-ECFRb5efe4232465438

[7] https://www.caseypeterson.com/big-beautiful-bill-overtime/

[8] https://cap.unl.edu/news/key-tax-changes-farmers-and-ranchers-one-big-beautiful-bill/

The enactment of the One Big Beautiful Bill has already generated questions from employers and payroll providers regarding how the new overtime deduction will be reported and administered. Because the Act requires that "qualified overtime compensation" be separately identified on Form W-2, many employers are preparing to update payroll systems and employee communications to ensure compliance. For most non-agricultural industries, this means tracking the premium portion of overtime wages and coordinating with tax preparers so that employees can take advantage of the new deduction. In practice, however, the situation is different for agricultural employers.

This disconnect creates a practical challenge: agricultural employees may hear about the new deduction and expect to see related entries on their W-2s, only to discover that their overtime premiums are not deductible for federal tax purposes. Agricultural employers should anticipate this confusion and proactively communicate the limitation to their workforce so expectations are properly managed.

From a compliance standpoint, agricultural employers do not need to make changes to their W-2 reporting practices because their employees' overtime pay will not qualify for the deduction. That said, employers should remain diligent in meeting state wage-and-hour obligations, such as those imposed by AB 1066 in California, and continue to maintain accurate records of hours worked, overtime premiums paid, and employee classifications. Employers may also find it prudent to retain internal memoranda or distribute explanatory notices to workers clarifying why their W-2s will not reflect deductible overtime, thereby reducing the risk of disputes or misunderstandings during tax season.

Ultimately, the One Big Beautiful Bill creates a new benefit for many workers, but its exclusion of agriculture underscores a persistent policy gap between federal and state treatment of farm labor. Agricultural employers cannot offer their employees the federal tax relief tied to overtime premiums, but they can mitigate confusion through careful communication, ensure strict compliance with state law, and monitor any future legislative developments that might expand the scope of the deduction.

V. Conclusion

The One Big Beautiful Bill represents a significant expansion of federal tax relief for many wage earners, but its overtime provisions are narrowly tethered to Section 7 of the FLSA. As a result, the overwhelming majority of agricultural employees, despite often working long and irregular hours, will not benefit from the new deduction. For agricultural employers, the immediate compliance obligation is limited: no changes to W-2 reporting are required, since their overtime premiums do not qualify as "qualified overtime compensation." Nevertheless, employers should remain vigilant in meeting their state wage-and-hour obligations, particularly under California's AB 1066, and should consider proactive employee communications to dispel any misconceptions about the availability of the federal tax benefit. Looking ahead, agricultural businesses are well-advised to coordinate with their payroll providers and tax professionals to ensure clarity in reporting, to prepare compliance checklists that distinguish between state and

federal obligations, and to monitor future legislative developments that may close the policy gap between agricultural and non-agricultural overtime. In doing so, employers can safeguard compliance, avoid employee disputes, and be prepared should Congress ultimately revisit the agricultural exemption in federal labor and tax law.

Sincerely,

/s/ Sophia Calamari

Sophia Calamari
ROSASCO LAW GROUP

SEE BELOW FOR EMPLOYEE VERSION

Employee Notice: Why Agricultural Overtime Does Not Qualify for the New Federal Tax Deduction

What is the new law?

On July 4, 2025, Congress passed the **One Big Beautiful Bill Act**. This new law gives certain workers a federal tax break by letting them deduct part of their **overtime pay** from their taxable income. To qualify, the overtime must be the "extra half-time pay" required by federal law (the Fair Labor Standards Act, or FLSA).

Why does it not apply to agriculture?

The federal overtime law (FLSA) does **not** cover most farmworkers. Agriculture has long been treated differently, and under Section 13(b)(12) of the law, agricultural employees are generally **exempt from federal overtime requirements**. That means that even if you earn overtime under **California law** (for example, after 8 hours in a day or 40 in a week), that overtime is not considered "federally required" overtime.

Because the new tax deduction only applies to federally required overtime, farmworkers do not qualify for the deduction, even if you see extra overtime pay on your paycheck.

What does this mean for my paycheck and taxes?

- You will still receive overtime pay as required by **California law (AB 1066)**.
- Your W-2 form will not show a "qualified overtime" amount for federal tax purposes.
- You will not be able to claim the new federal tax deduction for overtime pay.

What stays the same?

- You keep all the **overtime rights under California law**, including daily and weekly overtime and double-time pay.
- Your paycheck will continue to reflect those overtime hours.
- You may still qualify for other parts of the Big Beautiful Bill (unrelated to your employment with us, check with your CPA).

Why are we telling you this?

We know many employees are hearing about this new tax benefit and may be expecting to see it on their W-2s. We want to be clear: because of the way federal law is written, **agricultural overtime does not qualify**. **This is not a decision by your employer, it is built into the federal law itself.**

Key takeaway

You will continue to earn overtime under California law, but the new federal tax deduction for overtime pay **does not apply** to agricultural work. If you have questions about your individual tax situation, please speak with a tax professional.