



Special Report

Payroll 2025 Year End

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**Bloomberg
Tax**

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Introduction

Year-end for payroll professionals generally starts when the next year's inflation-adjusted or indexed numbers are released in mid-October and ends after most reports and forms for the prior year are completed and filed in February. This time frame of fewer than five months encompasses two broad activities: successfully closing out the old year and establishing a strong start to the payroll process in the new year.

The steps and considerations involved in accomplishing the myriad tasks and activities inherent in a successful year-end are the focus of this special report, 2025 Payroll Year-End. This report has been prepared jointly by employment tax and benefit professionals at KPMG LLP and payroll analysts at Bloomberg Tax.

This report covers a wide array of topics, including sections covering policy issues, remote workers, tax requirements related to 2025 and prior-year legislation, as well as common concerns at year-end that have been identified as historically problematic for employers. The writers have also highlighted frequent problems in correctly reporting items on Form W-2, *Wage and Tax Statement*, inclusive of the reporting treatment of such items as deferred compensation, health savings account contributions, multistate wage allocation, and accounting for fringe benefits, gifts, prizes, and awards.

A list of key 2025 federal and state wage base limits, state unemployment taxable wage bases, and health savings account limits are included in a special By the Numbers section. The report also accompanies an interactive, two-page 2025 Year-End Checklist that payroll teams can share to track issues within their organization.

Payroll professionals know that starting the year-end process in October can bring unneeded pressure to the collecting of information that is needed to reconcile the current year's payroll and prepare for the new year. Instead, starting the next year-end planning process in February allows a payroll team to close out the year-end process on a high note.

Year-End Policy Issues

Keeping abreast of potential legislation while ensuring that reporting obligations for the current year requirements are met will keep payroll professionals busy during the 2025 year-end. Consider and investigate the items in this report to identify potential issues and hopefully mitigate, or at least minimize, any year-end surprises.

2025

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2026

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One Big Beautiful Bill Act

President Donald Trump (R) signed the One Big Beautiful Bill Act, Pub. L. 119-21, into law on July 4, 2025. Several of the law's provisions affect the payroll industry, including a permanent extension of the federal income tax rates established under the 2017 Tax Cuts and Jobs Act, a cessation of employee retention credit refunds after July 4, 2025, and permanently excluding certain amounts of employer-provided educational assistance from employee gross income.

Although the OBBBA was signed into law this year, some of its payroll-related provisions are retroactive to the beginning of tax year 2025, and other provisions make changes starting in 2026. This section details three key provisions of the OBBBA that payroll professionals should be aware of as they go through the 2025 year-end process and prepare for 2026.

Information Reporting Threshold Increase

For payments made in 2026, the monetary threshold for information reporting is increasing to \$2,000 from \$600. This \$2,000 will apply in 2026 for forms such as Form 1099-MISC, Miscellaneous Information, and Form 1099-NEC, Nonemployee Compensation, as well as for wage reporting on Form W-2, Wage and Tax Statement, if no federal income, Social Security, and Medicare tax was withheld.

Starting for 2027, the information return reporting threshold will be adjusted for inflation.

No Tax on Tips

From 2025 to 2028, employees in certain occupations who receive qualified tips may deduct up to \$25,000 of those tips on their federal income tax returns. The \$25,000 maximum deduction amount decreases once an individual's adjusted gross income for the year exceeds \$150,000.

The OBBBA gives the U.S. Treasury Department the authority to determine which occupations qualify to have their tips deducted on their federal income tax returns. The occupations generally must be those that customarily and regularly received tips before Dec. 31, 2024. The department released a proposed list of occupations in the fall, but they have not yet been finalized through the federal rulemaking process. Some of the occupations on that list include wait staff, food servers, gambling runners, concierges, maids and housekeepers, home plumbers and electricians, and taxi or rideshare drivers.

The proposal also clarifies what constitutes a qualified tip. Under the proposal, qualified tips must be paid voluntarily without any consequence in the event of nonpayment, must

not be subject to negotiation, and must be determined by the payor. Service charges do not constitute qualified tips.

The OBBBA requires employers to provide a separate accounting of the total amount of cash tips reported by the employee and the employee's occupation. Employers that fail to comply with these reporting requirements may be subject to penalties.

However, the Internal Revenue Service issued Notice 2025-62 to provide penalty relief to employers for 2025. For tax year 2025, employers will not face penalties for failing to provide a separate accounting of cash tips, although the IRS encourages employers to provide an accounting so employees can claim the deduction on their federal tax returns.

The relief only applies to tax year 2025 because the IRS recognizes that employers might not have the information required to be reported. Additionally, although the IRS has released a draft version of Form W-2, Wage and Tax Statement, for 2026 that incorporates OBBBA changes, the agency will not be updating the 2025 version of the form, making it more challenging for employers to comply with the reporting requirements.

The IRS has stated that employers may report the amount of cash tips to employees through secure methods, including an online portal or additional written statements provided to employees.

When reporting qualified tips, employers should report the total amount of qualified tips received in the year, not just up to the \$25,000 maximum. Employees will limit the maximum amount to be deducted when preparing their federal income tax returns.

No Tax on Overtime

From 2025 to 2028, certain employees may deduct up to \$12,500 of qualified overtime compensation (\$25,000 for joint filers) from their federal income tax returns. The \$12,500 deduction decreases once an individual's adjusted gross income for the year exceeds \$150,000.

Qualified overtime compensation includes the pay that exceeds an employee's regular rate of pay, as determined by the federal Fair Labor Standards Act when calculating overtime compensation. This is sometimes referred to as overtime premium pay. Because the OBBBA relies on FLSA overtime calculations for determining qualified overtime

2025 Payroll Year-End

compensation subject to the deduction, other forms of overtime or extra compensation, such as California's daily overtime law or shift differential pay, are excluded.

The OBBBA requires employers to provide a separate accounting of the total amount of qualified overtime compensation to employees. However, Notice 2025-62 provides penalty relief for employers for 2025. For tax year 2025, employers will not face penalties for failing to provide a separate accounting of qualified overtime compensation for the year, although the IRS encourages employers to provide an accounting so that employees can claim the deduction on their federal tax returns.

The IRS has stated that employers may report the amount of qualified overtime compensation to employees through secure methods, including an online portal or additional written statements provided to employees.

When reporting qualified overtime compensation, employers should report the total amount of qualified overtime compensation received in the year, not just up to the \$25,000 maximum. Employees will limit the maximum amount to be deducted when preparing their federal income tax returns.

Gross Income (Single)	Maximum Tip Deduction	Maximum Overtime Deduction
\$150,000	\$25,000	\$12,500
175,000	22,500	10,000
200,000	20,000	7,500
225,000	17,500	5,000
250,000	15,000	2,500
275,000	12,500	0
300,000	10,000	0
325,000	7,500	0
350,000	5,000	0
375,000	2,500	0
400,000	0	0

Amended Returns and Pending Payroll Adjustments

Amended Returns

Due to the high volume of paper Form 941-X submitted to the IRS under recent pandemic-related credit programs, the IRS has experienced an unprecedented backlog in claims that have not yet been processed. This backlog includes claims submitted through payroll in the regular course of business.

Combine the unprecedented number of amended returns to the government shutdown that extended for more than one month and the IRS has yet to dig out from under the avalanche of amended returns that have been received.

Many employers are unaware of whether their amendments have been processed or even received by the IRS.

Requesting an IRS transcript at year end if amended returns have been filed and not yet processed may be a beneficial exercise to determine if the returns are still in queue or if they have been accepted and are currently in process with the IRS.

Employers might find mismatches between Forms W-2C submitted to employees and the Form 941-X that has not yet been processed. Employees may have questions about their personal tax returns, and states might have questions when matching to federal tax returns. All of this remains an issue until the IRS clears out the Form 941-X backlog.

941-X: Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund
Form 941-X (Rev. April 2025)
Department of the Treasury — Internal Revenue Service
OMB No. 1545-0029

Return You're Correcting...
Check the type of return you're correcting.
☐ 941
☐ 941-SS

Check the ONE quarter you're correcting.
☐ 1: January, February, March
☐ 2: April, May, June
☐ 3: July, August, September
☐ 4: October, November, December

Enter the calendar year of the quarter you're correcting.
(YYYY)

Enter the date you discovered an error.
(MM / DD / YYYY)

Part 1: Select ONLY one process. See page 6 for additional guidance, including information on how to treat employment tax credits.

- Adjusted employment tax return.** Check this box if you underreported tax amounts. Also check this box if you overreported tax amounts and you would like to use the adjustment process to correct the errors. You must check this box if you're correcting both underreported and overreported tax amounts on this form. The amount shown on line 27, if less than zero, may only be applied as a credit to your Form 941 or Form 944 for the tax period in which you're filing this form.
- Claim.** Check this box if you overreported tax amounts only and you would like to use the claim process to ask for a refund or abatement of the amount shown on line 27. Don't check this box if you're correcting ANY underreported tax amounts on this form.

Part 2: Complete the certifications.

- I certify that I've filed or will file Forms W-2, Wage and Tax Statement, or Forms W-2c, Corrected Wage and Tax Statement as required.
- If you're correcting underreported tax amounts only, go to Part 3 on page 2 and skip lines 4 and 5. If you're correcting overreported tax amounts, for purposes of the certifications on lines 4 and 5, Medicare tax doesn't include Additional Medicare Tax. Form 941-X can be used to correct overreported amounts of Additional Medicare Tax unless the amounts weren't withheld from employee wages or adjustment is being made for the current year.
- If you checked line 1 because you're adjusting overreported federal income tax, social security tax, Medicare tax, or Additional Medicare Tax, check all that apply. You must check at least one box. I certify that:
 - I repaid or reimbursed each affected employee for the overcollected federal income tax or Additional Medicare tax and the overcollected social security tax and Medicare tax for current and prior years. For adjustments to social security tax and Medicare tax overcollected in prior years, I have a written statement from each affected employee that they haven't claimed (or the claim was rejected) and won't claim a refund or credit for the overcollection.
 - The adjustments of social security tax and Medicare tax are for the employer's share only. I couldn't find the affected employee didn't give me a written statement that they haven't claimed (or the claim was rejected) or credit for the overcollection.
 - The adjustment is for federal income tax, social security tax, Medicare tax, or Additional Medicare Tax that I withheld from employee wages.
- If you checked line 2 because you're claiming a refund or abatement of overreported federal income tax, social security tax, or Additional Medicare Tax, check all that apply. You must check at least one box. I certify that:
 - I repaid or reimbursed each affected employee for the overcollected social security tax and Medicare tax. If social security tax and Medicare tax overcollected in prior years, I have a written statement from each affected employee that they haven't claimed (or the claim was rejected) and won't claim a refund or credit for the overcollection.
 - I have a written consent from each affected employee stating that I may file this claim for the employer's share of social security tax and Medicare tax. For refunds of employee social security tax and Medicare tax overcollected in prior years, I have a written statement from each affected employee stating that they haven't claimed (or the claim was rejected) or credit for the overcollection.
 - The claim for social security tax and Medicare tax is for the employer's share only. I couldn't find the affected employee didn't give me a written statement to file a claim for the employer's share of social security or each affected employee didn't give me a written statement that they haven't claimed (or the claim was rejected) or credit for the overcollection.
 - The claim is for federal income tax, social security tax, Medicare tax, or Additional Medicare Tax that I didn't withhold from employee wages.

Worksheet 1. Adjusted Credit for Qualified Sick and Family Leave Wages for Leave Taken After March 31, 2020, and Before April 1, 2021
Keep for Your Records
Rev. 4-2025

Worksheet 2. Adjusted Credit for Qualified Sick and Family Leave Wages for Leave Taken After March 31, 2021, and Before October 1, 2021
Keep for Your Records
Rev. 4-2025

Worksheet 3. Adjusted COBRA Premium Assistance Credit
Keep for Your Records
Rev. 4-2025

Multistate Reporting: Hybrid, Remote, and Traveling Workers

Hybrid and remote work situations are now commonplace and have led to a myriad of payroll reporting and taxation issues as well as other tax implications that payroll and tax professionals have struggled with throughout 2025. Employee travel is now approaching prepandemic levels, and the payroll tax consequences of short-term travel present important tax considerations going forward.

An employee may now be subject to state income tax withholding in their new work location, and that worksite may be one where the company previously had no presence.

The general rule of thumb, established before the pandemic, is that state income tax withholding should be performed based upon the employee's work location. Many states have set thresholds for withholding purposes, dictating that once an employee has passed that threshold, withholding should be performed. For example, New York has a 14-day rule, while California expects state withholding on the first day. An employer should look to the state's rules for state income tax withholding as well as unemployment insurance based upon whether their employee is performing services as a temporary employee in the state, as a traveling employee into the state, as a telecommuter, or as a permanent employee in that jurisdiction.

The Mobile Workforce State Income Tax Simplification Act is one potential answer to the perpetual multistate reporting issue that plagues employers.

This Act, or similar legislation with variations in name (e.g., Mobile Workforce State Income Tax Simplification Act, Mobile Workforce State Income Tax and Fairness Simplification Act), has been introduced in every Congress since 2006. The legislation establishes a 30-day minimum threshold of physical presence in a nonresident state before that state can subject a worker's wages to income tax and require the employer to withhold taxes.

The current bill has been introduced in its various forms with bipartisan support from groups like the American Institute of CPAs (AICPA) and the Council on State Taxation (COST) but has not yet become federal law.

"Convenience of the Employer" Rule

Under the "convenience of the employer" rule applied in Connecticut, Delaware, Nebraska, New Jersey, New York, and Pennsylvania, if employees work from home through the

employer's necessity, the employee will be taxed in the employee's telecommuting location. If, however, the employee telecommutes for their own convenience, the employee's wages for those workdays will be classified as if the employee was working from the employer's physical office.

The Connecticut and New Jersey rules apply to employees who reside in other states that also impose convenience of the employer rules. Note that "convenience of the employer" rules do not override reciprocal agreements between states.

Employee Work-From-Home Expenses

As employees adjusted to hybrid or remote work, they also started incurring expenses for new office setups. They may not have left their original state, but they now were working from home and needed computer monitors, printers, office supplies, internet connections, and other items necessary to function from a remote office. Some employers have offered employees an allowance or reimbursement to cover certain work-from-home expenses or provided additional equipment that can be used at the remote site. Whether these allowances, reimbursements, or the value of provided equipment should be included in employee income—and in what amount—generally depends on the facts and circumstances.

Additionally, other expenses that employers and employees often incur while operating in a business-as-usual mode may look different in the new post-pandemic work environment. For employees working from home, there likely are fewer group lunch meetings or recreational team activities. If an employer still would like to cover the cost of some meals for virtual meetings or happy hours, would that still be excludable from income? Employees who are traveling to the office may have additional expenses if they are relying more heavily on car-ride services or driving personal vehicles and parking to avoid public transportation. If an employer assists with the added expenses, can any portion be provided tax-free?

With the changes to the facts and circumstances around many expenses and benefits, employers have had to reconsider whether and to what extent they may continue to treat them in the same way. Certain expenses that are excludable from income when provided at the office or in a group setting may need to be run through payroll as wages if provided to employees working remotely or in a new environment.

Making matters even more challenging for payroll departments is that more employees are working from home and are now considering themselves either full-time remote or hybrid workers, working from one location several days during the week and then from the office for the remaining days of the week.

Hybrid and remote work arrangements may have withholding and reporting ramifications depending upon where the employee lives and works. This might in turn create income tax nexus issues for unwary employers that now find themselves in new jurisdictions.

Form W-2 Reporting for Hybrid, Remote, or Traveling Employees

Handling the wage and tax allocation/reporting at year-end for the cross-border business traveler may be onerous and technically challenging. Employers of multistate workers and their third-party providers need to effectively manage the overall compliance issues associated with state-to-state, short-term business travel.

When working through the complexities of multistate withholding, practitioners should also consider the different tax treatment of various types of income, such as base compensation, bonus payments, and equity compensation. Employers need to apply, by state, any de minimis treatment, reciprocity, telecommuting regulations, and specific compensation reporting methodologies.

Employers need to capture all the employee-level data detailing how many days each employee performed services in the states where work was performed. If the travel data was tracked throughout the year and the employee's pay allocated accordingly, employers may want to review and make adjustments in December.

December also is a good time to communicate the issue of nonresident taxation to the affected employees.

Specific attention should be paid to local jurisdiction taxation. Localities have also faced changes with remote workforces, and some have instituted new guidelines on how they expect their tax to be implemented.

Reminder: Form W-2 has space to include wage and tax amounts for up to two states. If three or more states are involved, multiple Forms W-2 would be necessary. See the IRS instructions for Forms W-2 and W-3 for details.

Amounts in Box 16, State Wages, should account for unusual reporting requirements. For example, New York requires the amount in Box 16 to be the same as the amount reported in Box 1. When reporting multiple states, including New York, the total reported in Box 16 will not match Box 1. This may confuse employees, so employers should consider providing an explanation to employees when delivering Forms W-2.

The explanation also could be used to alert employees that they may want to seek help from a tax adviser because they may need to file more than one state individual income tax return.

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
NY	XXXXXXXXXX	87000.00	9000.00			
ME	XXXXXXXXXX	120000.00	10000.00			

Form W-2 Wage and Tax Statement

Copy 1—For State, City, or Local Tax Department

2025

Department of the Treasury—Internal Revenue Service

Items of Note

Expiring Tax Reform

Section 125 crossing years: Sometimes, after employees' returns from leaves of absence, money is owed to the employer for pre-tax medical benefits. If the deduction continues into 2026 for amounts owed on insurance coverage from 2025, it must be a post-tax deduction. The employee cannot pay for benefits on a pre-tax basis in a different year than the coverage.

State and local requirements: The focus at year-end for payroll involves the true-up not only for federal tax requirements but also applicable state taxes. While most states that have income taxes generally conform to federal definitions, there are some significant differences. **California** and **New Jersey**, for example, do not follow the federal exclusion for contributions to health savings accounts.

Several states continue to exclude from income some employer-paid moving expenses. These differences, if identified early enough, can translate to a smoother state year-end process and mitigate post-close issue identification and filings of Form W-2c, Corrected Wage and Tax Statement.

FUTA Credit Reductions for 2025

California and the US Virgin Islands have been assessed a Federal Unemployment Tax Act credit reduction for 2025. The credit reduction will be 1.2% in California and 4.5% in the U.S. Virgin Islands.

The reduction will cause employers to pay an effective federal unemployment tax rate of 1.8% in California, or up to \$126 for each employee when applied to the federal unemployment-taxable wage base of \$7,000. In the U.S. Virgin Islands, the reduction will result in a federal unemployment tax rate of 5.1%, or up to \$357 for each employee when applied to the \$7,000 wage base.

Employers in California and the U.S. Virgin Islands must use Form 940 Schedule A to calculate their annual FUTA tax in light of the credit reduction. Form 940 is due by Feb. 2, 2026.

Keep in Mind

Moving expenses are permanently 100% taxable due to the enactment of The One Big Beautiful Bill Act, Public L. 119-21. Exemptions only apply for active military members and members of the intelligence community. However, state regulations on the taxability of these expenses may differ, so the relevant state income tax rules should be monitored and reviewed. Several states do not follow federal treatment on such expenses and may exclude taxes on the benefit.

Qualified transportation fringe benefits may still be provided tax-free to employees, except for bicycle commuting, up to stated monthly limits. Employers, however, may only take a deduction for most expenses related to providing this type of benefit in limited circumstances. As a result, some employers are amending their transportation benefits programs and policies, which may affect their taxability to employees. State treatment of these benefits differ. As a result, those should be reviewed for state unemployment and state income tax withholding purposes.

Family- and medical-leave credits may still be available for some employers, based on wages paid to qualifying employees while on leave that is not Covid-19 related. Specific conditions and requirements must be met. The credit has been extended through Dec. 31, 2025.

For other taxes related to payroll, several jurisdictions are using withholding on employee wages to fund paid-leave programs or, in the case of **Washington**, a payroll tax to fund the state's long-term care program.

At year-end, payroll professionals must also monitor and properly account for such items as minimum wage, paid-leave requirements, unemployment insurance, temporary disability, and workers' compensation, all of which are administered on a state and local basis.

Form W-2 Year-End Basics for 2025

The timely processing of accurate Forms W-2 is a key function of any payroll department. However, several potential pitfalls can easily derail the most basic requirements.

Form W-2 formatting: A common mistake is filing Forms W-2 labeled with the incorrect year. A 2025 form must be filed by Feb. 2, 2026. Entries for approved print copies must be in 12-point Courier font and black ink. Dollar amounts must have a decimal point and two decimal places, without a dollar sign or commas. No negative dollar amounts may be reported. The IRS cautions not to use a copy of Form W-2 downloaded from the IRS website, because it is not a scannable form.

Social Security numbers: Ensure that SSNs have nine digits. Since tax year 2022, the IRS lets employers truncate SSNs on employee copies (i.e., copies B, C, and 2). SSNs may not be truncated on Copy A, which is filed with the Social Security Administration, or on Copy 1, which is filed with the state, city, or local tax department.

Truncated SSNs may be displayed in either of two formats, which must display the last four digits. The truncated digits may be filled either with asterisks or the capital letter X (e.g., XXX-XX-1234 or ***-**-1234).

Employer Identification Numbers are not to be truncated on any copy of Form W-2.

Employee name: The SSA will not process Forms W-2 with misspelled names, incorrect formatting, and SSNs that do not match those in the SSA's system. Employers should consider using the SSA's Social Security Number Verification Service, which is fast, easy, and accurate.

Balance checks: Dollar limits exist for some boxes, including:

- Box 3, Social Security wages, is limited to \$176,100
- Box 4, Social Security tax withheld, is limited to \$10,918.20
- Box 12, Codes D and E is limited to \$23,000 for those younger than 50 and \$30,500 for those 50 and older

Codes: Codes for Box 12 may be a challenge. Report as Code DD the combined cost of the employer-provided health coverage, which includes both the employee and employer portions. Similarly, Code W is to include all employer contributions, including an employee's contributions through a cafeteria plan, to a health savings account. Ensure that earnings and deductions requiring Box 12 reporting include the correct code, especially after a system upgrade.

State and local reporting: Include state account numbers in Box 15 and follow special state reporting rules.

AccuWage Online: SSA can check Form W-2 files before submission for common problems and provide a report on issues that may prevent the submission from being accepted.

22222		a Employee's social security number XXX-XX-0000		OMB No. 1545-0029	
b Employer identification number (EIN)		1 Wages, tips, other compensation 180000.00		2 Federal income tax withheld 22750.00	
c Employer's name, address, and ZIP code NON-ENTRY ANYWHERE, USA		3 Social security wages 176100.00		4 Social security tax withheld 10918.20	
		5 Medicare wages and tips		6 Medicare tax withheld	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial NON-PERSON ANYWHERE, USA		Last name Suff.		11 Nonqualified plans	
		13 Statutory employee ☐		Retirement plan ☒	
		Third-party sick pay ☐		12a D 7500.00	
		14 Other		12b DD 8300.00	
f Employee's address and ZIP code				12c	
				12d	
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
NY	XXXXXXXXXX	87000.00	9000.00		
ME	XXXXXXXXXX	120000.00	10000.00		
				20 Locality name	

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2025

Department of the Treasury—Internal Revenue Service

Awards, Prizes, Gifts

The general nature of the federal tax code is to include the value of all items provided to employees as taxable compensation reported on Forms W-2, unless the items may be excluded by law, regulation, or agency position. Many employers get this wrong, especially at year-end.

Below is a synopsis of some of the items that may be excluded from taxable compensation and reporting.

Length-of-Service, Safety Awards, Gifts

The value of tangible employee achievement awards, such as length-of-service awards and safety awards, may be excluded from wages and reporting, provided requirements are satisfied and subject to limitations.¹ For example, the award must be presented in a meaningful ceremony and the circumstances must not indicate a likelihood that the award is disguised pay.

Awards are made under qualified or nonqualified plans, which have different requirements and carry different limitations. Awards to a single employee in a year are limited to \$400 if not made under a qualified plan; the cumulative amount of awards given to an employee under a qualified plan are limited to \$1,600 in one year, with the average cost of all awards made by the employer not exceeding \$400.

The Tax Reform and Jobs Act clarifies that cash and cash equivalents; gift cards, coupons, and certificates; vacations; meals; lodging; tickets to sporting events; stocks, bonds, and securities; or similar items are not excluded tangible property, and their value must be included as income.²

A **length-of-service award** must be in recognition of at least five years of service, provided the employee did not receive an award in the previous four years. Length-of-service awards given to retiring employees may be excluded from income if they meet the rules and limitations discussed above.

For **safety awards** to be considered tax-free to employees, no more than 10% of employees may qualify for the award. Awards to professional, administrative, and clerical employees are not eligible for tax-free treatment.

Awards for employee suggestions generally are taxable and subject to withholding and employment taxes.

Gifts to employees are included in income and reporting is required, with limited exceptions as described by the Internal Revenue Code and Treasury Department regulations. Gift cards or gift coupons that may be redeemed for cash amounts are considered taxable compensation by the IRS.³

Exceptions lie in terms familiar to payroll professionals – *de minimis* benefits or working-condition fringe benefits. Many tangible items provided by employers to employees may be excluded from taxability to the employee if:

- The item is of low value (IRS does not define the term).
- The benefit is occasional and not consistently awarded, and the item's value is difficult to determine or administratively impracticable to track and apply.

Many other items might remain *de minimis* despite not meeting all the criteria above, including traditional birthday or holiday gifts of property, excluding cash, with a low fair-market value. Additionally, flowers, fruit, books, or similar property may be provided to employees under special circumstances (e.g., illness, outstanding performance, or family crisis), according to Treasury regulations.⁴

Gift Cards/Coupons That Are Cash Equivalents

Employers must pay attention to gift-coupon arrangements. The IRS concluded that an employer-provided gift coupon with a defined face value of \$35 could not be excluded from income as a *de minimis* fringe benefit.⁵

As detailed by the IRS, an employer that previously provided employees with tax-free hams, turkeys, or gift baskets as annual holiday gifts instead distributed \$35 gift coupons redeemable for grocery products at select nearby stores.

The IRS ruled that the gift coupons were to be included as compensation and reported on Forms W-2 because such cash-equivalent fringe benefits have a readily determined value, regardless of whether they may be converted to cash. In short, it was not administratively impracticable to account for coupons that had a face value of \$35.

¹ I.R.C. Section 274(j).

² I.R.C. Section 274(j)(3)(A)(ii).

³ IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

⁴ Treasury Regulation Section 1.132-6(e)(1); IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

⁵ Technical Advice Memorandum 200437030.

Qualified Plans

Qualified deferred compensation plans generally refer to traditional retirement plans, such as 401(k) and pension plans.

The Internal Revenue Code details the limits of a defined contribution plan, including 401(k) plans, for all annual plan additions, such as employer contributions, employee contributions other than rollovers, and allocation of forfeitures. This limit is the lesser of \$72,000 in 2026 (\$70,000 in 2025) and 100% of the participant's compensation.¹

The participant's compensation must be determined under the IRC even if a different definition is used for the plan, such as when calculating the rate of employer contributions. Catch-up contributions for participants who have reached age 50 during the year are not included in the limit.

Note: The limitation year under the plan might not be the calendar year.

The elective deferral limit is \$24,500 in 2026 (\$23,500 in 2025).² Corrections are needed when there are excess deferrals, such as when an individual defers compensation exceeding the limit that may be applied as a catch-up contribution. Corrections generally take the form of distribution of the excess as well as any allocable earnings. Participants who are 50 and older at the end of the year can make an additional "catch-up" contribution up to \$8,000 (\$7,500 in 2024). If excess deferrals are not corrected in a timely manner, the participant may have additional taxable income and the plan's tax qualification status may be at risk.

Under the IRC, there is another limit for defined benefit plans which, when expressed as an annual benefit, is the lesser of \$290,000 in 2026 (\$280,000 in 2025), and 100% of the participant's average compensation for three consecutive highest-paid years.³ A defined benefit plan's formula to determine annual benefits typically does not allow for a situation when the compensation limit would be exceeded, though the plan actuary still would likely monitor benefit payments for compliance.

For Form W-2 reporting, employers are to exclude from Box 1 wages, tips, other compensation, and the amounts deferred from pay by employees pre-tax into a qualified plan during the year, up to the annual limit. These amounts are not excluded for reporting wages in Box 3, Social Security wages, up to the wage base limit of \$184,500 in 2026 (\$176,100 in 2025), and must be included in Box 5, Medicare wages and tips. There is no wage base for Medicare contributions.

Box 12 includes codes to identify payments and deferrals. In Box 13, "Retirement plan" should be checked if the employee is an active participant in a qualified retirement plan for any part of the year. In other words, this box should be checked if the employee is covered for the tax year by a defined benefit plan, eligible to participate or covered by a defined contribution plan, and employer or employee contributions are added to the employee's account.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans			12a	
NON-PERSON ANYWHERE, USA		f Employee's address and ZIP code			13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐ 14 Other			D 7000.00	
								12b	
								12c	
								12d	
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2** Wage and Tax Statement
Copy 1 — For State, City, or Local Tax Department

2025

Department of the Treasury — Internal Revenue Service

¹ I.R.C. Section 415(c).

² I.R.C. Section 402(g).

³ I.R.C. Section 415(b).

Nonqualified Plans

Nonqualified deferred-compensation plans may require administering income tax and Federal Insurance Contributions Act taxes in different years.¹ This may apply to arrangements that provide a right to payment in a future year, such as excess benefit plans, supplemental executive retirement plans, salary and bonus deferral arrangements, restricted stock units, or phantom equity awards.

Nonqualified deferred compensation amounts generally are subject to FICA taxes in the year they become vested under the special-timing rule, but federal income taxation is generally delayed until amounts are paid or distributed.

Separate tracking may be needed for plans that provide for accelerated vesting upon a certain event, such as retirement, because participants may become vested and subject to FICA prior to the plan's general vesting schedule. As a result, FICA taxes may be due before federal income tax.

Vesting provisions may require that deferrals become vested over a period of years. Such deferrals may be subject to FICA over multiple years, even if amounts under the plan are later paid out as a lump sum. Employers should consider whether plan amounts may vest and be paid in different years, and whether any amounts became vested but were not paid out in 2025.

For plan amounts that vested earlier this year and will be paid or distributed in future years, it might not be too late to act for 2025. Under the special timing rule, employers may choose to take a deferred amount into account for FICA tax purposes on any date later than, but within the same year

as, the date the amount was subject to FICA taxes. Once an amount is taken into account under the rule, later payments and earnings generally are not subject to FICA tax. In certain cases, the amount taken into account for FICA may be estimated within three months if interest is included. Box 11 of Form W-2 is used to explain discrepancies between Box 1 and Boxes 3 and 5 by reporting one of the following:

- The amount of a distribution that is included in Box 1 but was taken into account for FICA purposes in a prior year.
- The amount included in Boxes 3 and 5, although not yet subject to income tax.

Do not report amounts in Box 11 if there is a deferral and a distribution in the same year.

If nonqualified compensation amounts were vested in a prior year and not previously considered for FICA taxes, the approach for when and how to handle this may depend on when the amount became vested.

Additionally, employers may report current-year deferrals and earnings under nonqualified deferred-compensation plans subject to IRC Section 409A in Box 12 using Code Y. However, Code Y reporting remains optional for 2025. If any amount of nonqualified deferred compensation must be included in income because of a Section 409A failure, it should be reported in Box 12 using Code Z, in addition to Box 1.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans		12a	
NON-PERSON ANYWHERE, USA					11000.00			
					13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐		12b	
					14 Other		12c	
							12d	
f Employee's address and ZIP code								
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2025

Department of the Treasury—Internal Revenue Service

¹ I.R.C. Section 3121(v).

Supplemental Wages

Payroll professionals often handle special bonuses or other supplemental pay at year-end or early in the following year. Here are tips on how to be ready when word comes down that bonuses will be paid out.

For total supplemental pay up to \$1 million in a year for any employee, employers must use either the aggregate method of withholding or the optional flat rate withholding method. Employers should consistently apply that method for each individual. There is no penalty for changing methods, but allowing employees to decide can be administratively impracticable.

The aggregate method combines supplemental wages with regular pay and tax is withheld using the applicable withholding tables for the payroll period in which the aggregated wages are paid. Such additions to pay may mean the total amount is taxed at a higher-than-normal rate for that pay cycle.

Those applying the optional flat rate withholding method must use a 22% withholding rate. To use the flat-rate method, income tax must have been withheld from the employee's regular wages during the calendar year the supplemental pay

was paid or in the preceding year. The supplemental wage payment must either not be paid concurrently with regular wages or separately stated on payroll records.

For accumulated supplemental wages exceeding \$1 million, the employer must withhold at a rate of 37%. Employers may not use the aggregate method for amounts exceeding \$1 million. If the employees' accumulated supplemental amounts were less than \$1 million before a supplemental payment, and this payment would cause them to exceed the \$1 million threshold, the employer has two choices:

- Tax the amount that is less than \$1 million at 22% and the amount that exceeds \$1 million at 37%.
- Tax the entire amount at 37%.

The flat-tax rates were reduced starting in 2018 by the tax code overhaul. Employers should ensure their systems have been correctly applying the 22% and 37% rates.

Many states also allow flat rate withholding for supplemental pay. For state income taxation, see the state supplemental wage chart.

States With Flat Supplemental Wage Rates (2025)

State	Withholding Rate
Alabama	5%
Arkansas	3.9%
California	6.6 or 10.23%
Colorado	4.4%
Georgia	5.19%
Idaho	5.3%
Illinois	4.95%
Indiana	3%
Iowa	3.8%
Kansas	5%
Kentucky	3.5%
Maine	5%
Maryland	3.2 - 8.95%*
Michigan	4.25%
Minnesota	6.25%
Missouri	4.7%

2025 Rates Listed are Subject to Change

* Rates Vary by Amount or Type of Payment

State	Withholding Rate
Montana	5%
Nebraska	5%
New Mexico	5.9%
New York	11.7%
North Carolina	4.35%
North Dakota	1.5%
Ohio	3.5%
Oklahoma	4.5%
Oregon	8%
Pennsylvania	3.07%
Rhode Island	5.99%
South Carolina	6%
Vermont	6.6 - 11.1%*
Virginia	5.75%
Wisconsin	3.54 - 7.65%*



Health Savings Accounts

Health savings accounts, available only when qualified high-deductible health insurance plans are offered, provide a tax-favored savings mechanism to offset the costs of health care.¹ Although the basic rules on HSA contributions and reporting are fairly straightforward, these rules may cause some confusion at year-end in a few areas:

Form W-2 Reporting

Employers generally are required to report HSA contributions made in the year on the employee’s Form W-2, in Box 12 with Code W.

Box 12 should report all employer contributions to the HSA in the applicable year, including employee contributions through an IRC Section 125 cafeteria plan and those designated as made for the prior year. Employee contributions made to an HSA outside of a Section 125 cafeteria plan are generally included in gross income and should be reported as wages on Form W-2 in Box 1. If the wrong amount is reported in Box 12, such as not counting employee contributions made through a cafeteria plan, Form W-2 should be amended to provide the correct amount.

Note that some states, including California and New Jersey, do not exempt contributions to HSAs from state income tax.

Maximum Annual Contribution

The tax-free limits on combined employer and employee HSA contributions are indexed for inflation.

The HSA contribution limits for 2026 are \$4,400 for self-only coverage and \$8,750 for family coverage. Those 55 and older can contribute an additional \$1,000 as a catch-up contribution.

Recovering HSA Contributions Made in Error

In general, employers may not recoup funds deposited into an employee’s HSA. In some cases, employers may recover contributions made in error, but action generally must be taken before the end of the year.

Employer contributions inadvertently made to employees who were never considered eligible may be recovered through a request made to the relevant financial institution.

Employer contributions exceeding the maximum annual contributions allowed because of errors, including administrative mistakes and employee elections not processed on time, may be corrected by requesting that the funds be returned. To the extent not recovered by the end of the tax year, excess employer contributions must generally be reported as wages on the employee’s Form W-2.

e Employee's first name and initial		Last name		Suff.	11 Nonqualified plans		12a	
NON-PERSON ANYWHERE, USA					13 Statutory employee Retirement plan Third-party sick pay		W 6900.00	
							12b	
							12c	
							12d	
f Employee's address and ZIP code								
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Form **W-2** Wage and Tax Statement
Copy 1 — For State, City, or Local Tax Department

2025

Department of the Treasury—Internal Revenue Service

¹ I.R.C. Sections 106(d), 223.

Group-Term Life Insurance

Employers generally are required to impute amounts as taxable income for employer-provided group-term life (GTL) plans that exceed \$50,000 in benefit value.¹ Although federal income taxes are not withheld for this income, FICA taxes generally must be withheld when the income is assigned, and these amounts are reportable on Form W-2. The cost of the additional benefit value, in addition to being added to taxable compensation on Form W-2 in Boxes 1, 3, and 5, must be reported in Box 12, using Code C. The amount included as wages is reduced by any amount paid by the employee with after-tax dollars for the insurance. These rules may be different for key employees if they are favored under the GTL plan.

While the basic calculation for employers providing GTL is not difficult, one area that often is forgotten is when employers offer employees the ability to purchase additional GTL coverage, often referred to as "optional life" or "supplemental life." When employees pay for the entire additional coverage, the employee-purchased coverage amount may need to be added to the calculation for the overall valuation of GTL.

Under the IRC, amounts carried directly or indirectly by the employer through arranged payments, negotiated rates, and other arrangements for the coverage to be available should be included when calculating the attributed income. These amounts may be figured using IRS Uniform Table 1, which is included in Publication 15-B, *Employer's Tax Guide to Fringe Benefits*.

More complexity occurs when supplemental term life insurance rates qualify under the "straddle test," in which case that coverage should be included in the overall GTL calculation. Under the straddle test, at least one employee is charged a rate lower than the IRS Uniform Table I rates and at least one employee is charged a rate higher than those in the IRS Uniform Table I.

If all age bracket rates charged to the employees are higher or are all lower than the IRS Uniform Table I rates, the amounts generally are not considered carried by the employer. Thus, the coverage should not be included in the overall group-term life calculation.

e Employee's first name and initial			Last name			Suff.			11 Nonqualified plans			12a			
NON-PERSON ANYWHERE, USA									13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐			1020.00			
												12b			
												12c			
												12d			
f Employee's address and ZIP code															
15 State	Employer's state ID number		16 State wages, tips, etc.			17 State income tax			18 Local wages, tips, etc.			19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement
Copy 1 — For State, City, or Local Tax Department

2025

Department of the Treasury — Internal Revenue Service

¹ I.R.C. Section 79(a).

SECURE 2.0: Effective 2026

The SECURE 2.0 Act, a law designed to expand and improve retirement savings options, was signed into law in December 2022. Though some of the act's provisions have already taken effect or will take effect in the distant future, a few noteworthy ones will be rolled out in 2026.

Roth Catch-Up Contributions

Employees whose FICA wages for the preceding calendar year exceeded \$150,000 must make any catch-up contributions as post-tax contributions starting Jan. 1, 2026. For 2025, the wage limit was \$145,000.

This provision was initially to go into effect in 2024, but the IRS provided an administrative transition period that postponed the effective date to 2026. During that transition period, catch-up contributions satisfied the requirement even if they were not Roth contributions. Additionally, any plans during the transition period that did not provide for Roth contributions were treated as having satisfied the requirement.

Increased Catch-Up Contribution Limits

In addition to the catch-up contributions for employees over age 50, the SECURE 2.0 Act created a special catch-up contribution effective starting in 2025 that applies to employees ages 60 to 63. For 2026, this special catch-up contribution limit is \$5,250 for SIMPLE plans and \$11,250 for 401(k), 403(b), and 457 plans, unchanged from 2025.

However, regular catch-up contributions, which apply to employees over age 50, are generally increasing for 2026. The limit for 401(k), 403(b), and 457 plans is \$8,000 for 2026, up from \$7,500 for 2025. The catch-up contribution limit for SIMPLE plans is \$4,000 for 2026, up from \$3,500 for 2025. For SIMPLE plans for employees of companies with 25 or fewer employees, the catch-up limit is \$3,850 for 2026, unchanged from 2025.

State IRC Conformity With OBBBA

Although the OBBBA is a federal law, its effects will trickle down to the state level in many instances. For state income tax purposes, the OBBBA's tip and overtime provisions affect *federal taxable income* (as defined by the Internal Revenue Code) and are not reflected in *federal adjusted gross income* (also defined by the IRC). Generally, this means that states using *federal adjusted gross income* as the basis for determining state taxable income will not be affected, while those that use *federal taxable income* could end up with qualified overtime compensation and tips being exempt from state income taxation.

Colorado, Idaho, Iowa, Montana, North Dakota, Oregon, and South Carolina use *federal taxable income* as the starting point for their state income taxes, so they are the ones that will be most impacted by the OBBBA's tip and overtime provisions.

Idaho and South Carolina have static conformity with the Internal Revenue Code as of Jan. 1, 2025. This means that both states' income tax laws conform to the IRC definition of *federal taxable income* before the enactment of the OBBBA. As a result, these states might not be affected by the tip and overtime provisions for the moment, but they will have to consider the provisions when they next consider updating their conformity date with the IRC.

For Idaho and South Carolina, this could mean adopting the no tax on tip and overtime provisions into their income tax laws or decoupling from the IRC in this specific instance. Decoupling means that a state does not adopt a specific provision of the IRC. The states could also decide to keep IRC conformity as of the start of 2025, which would have the same effect as decoupling in this instance but would prevent any other IRC changes made after Jan. 1, 2025, from applying for state income tax purposes.

State legislatures may take matters into their own hands and enact legislation excluding tips and overtime compensation from income for state income tax purposes. Dozens of state

legislatures across the country, including many that are not directly affected by OBBBA's no tax on tips and overtime provisions, have introduced such bills for consideration in the last couple of years. However, the only state that successfully enacted such a law was Alabama in 2023, when it temporarily exempted overtime compensation for certain employees from Jan. 1, 2024, through June 30, 2025.

Colorado, Iowa, Montana, North Dakota, and Oregon have rolling conformity with the IRC, which means that their state income tax laws automatically follow the version of the IRC currently in effect. Rolling conformity simplifies state taxation but requires states to be proactive if they wish to decouple from federal tax law in certain circumstances.

Colorado did act proactively when the governor signed H.B. 25-1296 into law on May 16, nearly two months before the OBBBA became law. A provision of H.B. 25-1296 adds the amount of any overtime compensation excluded or deducted from an individual's federal gross income to that individual's federal taxable income for determining that person's state taxable income. In other words, any exempt overtime compensation under the OBBBA is added back into an employee's federal taxable income after the fact for state income tax purposes. Additionally, although H.B. 25-1296 only appears to address overtime compensation, a fiscal note on the bill published Aug. 26, states that the law also requires exempt tip income under the OBBBA to be added back to Colorado taxable income.

Iowa, Montana, North Dakota, and Oregon have not decoupled from the OBBBA's no tax on tip and overtime provisions, but they have released findings showing that these provisions will result in significant state revenue losses if no action is taken. Like many other states, these four will have to decide whether the popularity of the provisions outweighs the potential revenue losses, or vice versa.

State Payroll Developments

Colorado's 2026 withholding formula and certificate were updated to include changes related to the One Big Beautiful Bill Act, P.L. 119-21, specifically related to tax on overtime pay. A legislative change Colorado made in 2025 means that the state continues to tax overtime pay even with the deduction allowed at the federal level. Existing employees do not have to fill out a new withholding certificate, Form DR 0004, Colorado Employee Withholding Certificate, for 2026.

Illinois' required break time for employees to express breast milk for their nursing infants must be paid time starting Jan. 1, 2026. Break time used to express breast milk must be paid at the employee's regular rate of pay, and employers may not reduce an employee's compensation during the break time or require employees to use paid leave.

Indiana's earned wage access services law goes into effect starting Jan. 1, 2026. Providers of earned wage access services allow employees to receive income that they have earned but remains unpaid by their employer, such as wages earned before their normally scheduled payday.

Providers will be required to be licensed by the Indiana Department of Financial Institutions before they can provide earned wage access services in the state. Indiana's law also allows these services to be provided without violating state wage deduction laws.

Minnesota passed a law in 2025 amending its meal and rest break and earned sick and safe time laws effective Jan. 1, 2026.

Rest breaks must be at least 15 minutes for every four consecutive hours of work, and meal breaks must be at least 30 minutes for employees working for at least six consecutive hours. Rest breaks must be long enough for employees to use the nearest restroom, even if the amount of time needed is longer than 15 minutes.

Earned sick and safe time must generally be accrued before employees can use it, but starting Jan. 1, 2026, employers are allowed to advance earned sick and safe time to employees based on the number of hours an employee is anticipated to work for the remainder of the year. If the advanced amount is less than the amount that would have been accrued based on actual hours worked, the employer must make up the difference.

If an employee uses leave for more than two consecutive scheduled workdays, the employer may require reasonable documentation for the need for leave. Currently, employers can only require this documentation after three consecutive scheduled workdays of leave.

Although employers may not require employees to find replacement workers to cover hours used as earned sick and safe time, employees may voluntarily seek or trade shifts with one another to cover hours taken as earned sick and safe time.

New Mexico requires Forms W-2 to be filed electronically starting in 2026, under H.B. 218. Previously, employers were required to file electronically if they had at least 25 employees.

The bill also moved other quarterly state tax due dates to the 25th of the month after the end of the quarter instead of the end of the month, matching existing deadlines. This includes the deadlines for the worker's compensation fee, which is paid to the Department of Taxation and Revenue, and Form TRD-31109, Employer's Quarterly Wage, Withholding, and Workers' Compensation Fee Report. Those forms will be filed electronically and their electronic versions combined.

Oregon employers must explain to newly hired employees how earnings and deductions are shown on itemized statements starting Jan. 1, 2026. The explanation must be in writing and include information on the regular pay period, types of pay rates, benefits deductions and contributions, and the types of deductions that may apply. Employers must provide information on the purpose of deductions, any allowances claimed as part of the minimum wage, any employer-provided benefits that may appear on itemized statements, and all payroll codes used for pay rates and deductions.

The explanation does not need to be written in complete sentences and may be provided via email, on a website, or with a physical document posted in a central location. The method that employers choose to deliver the information must be easily accessible to employees at the time of hire.

Washington increased the abandonment period of employee reimbursements for unclaimed property purposes to three years, from one year, after they become payable to employees, effective July 27.

Starting Jan. 1, 2026, employers must attempt to notify employees if the unclaimed amount owed is at least \$50, down from \$75. Also starting Jan. 1, 2026, employers must report wages or reimbursements in the aggregate if the reported amount is at least \$5, down from \$50.

In a separate law, **Washington's** deadline for employers to submit voluntary contributions to reduce their unemployment insurance tax rates is being shorted to March 1 from March 31. The March 1 deadline will be in effect from 2026 to 2035, at which point the voluntary contribution deadline will revert to March 31.

International Payroll

Ireland's auto-enrollment pension scheme is planned to begin Jan. 1, 2026. The scheme covers employees who earn at least 20,000 euros (US\$23,038.70) per year, are at least age 23 but under age 60, and are not part of another scheme. Employees who do not meet the age or earning requirements can opt into coverage. Covered employees are enrolled automatically by the National Automatic Enrolment Retirement Savings Authority (NAERSA) based on payroll data submitted to Irish Tax and Customs.

Employers will be required to register for NAERSA's online portal in December using the same login credentials as for Irish Tax and Customs' Revenue Online Service.

The initial contribution rates for the first three years of the program will be 1.5% for employers, 1.5% for employees, and 0.5% from the government, and contributions will be required on annual wages of up to 80,000 euros. However, contributions will not stop until the payroll period after the 80,000 euro threshold is passed, meaning contributions may be owed on some additional wages.

Irish Tax and Customs is also running an employee misclassification disclosure program through Jan. 30, 2026, following the Irish Supreme Court case *The Revenue Commissioners v Karshan (Midlands) Ltd. t/a Domino's Pizza*, which set out a new test for classifying workers as employees or self-employed for tax purposes. The program allows employers to pay outstanding income tax and social tax liabilities based on "bona-fide classification errors" in 2024 and 2025 when those taxes were incorrectly not withheld from a worker's pay.

In **Australia**, the Australian Capital Territory is planning to increase its payroll tax rates starting Jan. 1, 2026, pending the Payroll Tax Amendment Bill 2025 completing the legislative process.

The bill increases the payroll tax rate for businesses that pay more than A\$150 million (US\$98,086,500) in wages in Australia

to 8.75% instead of 6.85% starting Jan. 1, 2026. The territory's 1% surcharge, which previously applied to businesses that paid more than A\$100 million in wages in Australia, would not apply past A\$150 million.

For the 2026-27 financial year from July 1, 2026, to June 30, 2027, rates for businesses that pay more than the minimum taxable amount of A\$1.75 million and up to A\$150 million in wages in Australia would range from 6.75% to 7.85%, depending on the amount of wages paid.

The **Czech Republic** is planning to introduce a single monthly return for employers filed with the Czech Social Security Administration, which includes payroll tax reporting and is intended to replace 25 monthly returns employers must file with different agencies. The system of the single monthly return is planned to launch April 1, 2026, and the return will be due for each month by the 20th of the following month, matching the current timeline for social taxes.

Employers will generally be required to file returns for January, February, and March 2026 from April 1 to June 30, 2026, unless they are participating in a pilot program offered by the Ministry of Labor and Social Affairs. Deposits for those months will still have to be made on time.

The change to the system of the single monthly return will also require employers, starting July 1, 2026, to at least have begun registering employees by the time they start work and to complete registration within eight days after the start of work.

The start of contributions to **Thailand's** Employee Welfare Fund was postponed by the government by one year to Oct. 1, 2026, citing several economic reasons. When contributions begin, the contribution rate will be 0.25% for both employers and employees for five years before increasing to 0.5% for both.

By the Numbers

Federal Limits

	2026	2025
Social Security (OASDI) Wage Base	\$184,500	\$176,100
Basic Deferral Limits		
Section 401(k), 403(b)	\$24,500	\$23,500
Catch-Up (Age 50 and older)	\$8,000	\$7,500
Catch-Up (Ages 60-63)	\$11,250	\$11,250
SIMPLE	\$17,000	\$16,500
Section 457	\$24,500	\$23,500
Defined Contribution Maximum Annual Addition	\$72,000	\$70,000
Defined-Benefit Plan Limits	\$290,000	\$280,000
Compensation Limits, Credits, and Triggers		
Qualified Plans	\$360,000	\$350,000
Highly Compensated Employee	\$160,000	\$160,000
Compensation Limit	\$535,000	\$520,000
Dollar Limit for Key Employee (Top-Heavy Plan)	\$235,000	\$230,000
Compensation Amount for Control Employee	\$145,000	\$140,000
Foreign-Earned Income Exclusion Limit	\$132,900	\$130,000
Adoption Assistance	\$17,670	\$17,280
Per Diem Rates		
Standard	\$178	\$178
High-Low Method	\$319, \$225	\$319, \$225
Health Plan Limits		
Health Flexible Spending Arrangements	\$3,400	\$3,300
Health Savings Account Contributions—Single	\$4,400	\$4,300
Health Savings Account Contributions—Family	\$8,750	\$8,550
Federal Vehicle Valuations		
<i>Mileage Rates (Per Mile)</i>		
Business	TBD	70 cents
Charitable	14 cents	14 cents
Medical	TBD	21 cents
Luxury Car Definition		
<i>(Ineligible for Cents-Per-Mile Use Valuation)</i>		
Fair-Market Value Greater Than Listed for Employer-Provided Vehicles First Made Available in 2025 and 2026	TBD	\$61,200
Tax-Free Transportation Benefits (Monthly)	\$340	\$325
Fleet Average Maximum Value		
Fair-Market Value (Before Averaging) Cars & Trucks	TBD	\$61,200

By the Numbers

2026 Hourly Minimum Wage Rates

Jurisdiction	Base Hourly Minimum Wage
Federal	\$7.25
Federal Contractor	TBD
Alabama	\$7.25
Alaska	\$13; \$14 eff. 7/1
Arizona	\$15.15
Arkansas	\$11
California	\$16.90
Colorado	\$15.16
Connecticut	\$16.94
Delaware	\$15
District of Columbia	\$17.95 *
Florida	\$14; \$15 eff. 9/30
Georgia	\$5.15
Hawaii	\$16
Idaho	\$7.25
Illinois	\$15
Indiana	\$7.25
Iowa	\$7.25
Kansas	\$7.25
Kentucky	\$7.25
Louisiana	\$7.25
Maine	\$15.10
Maryland	\$15
Massachusetts	\$15
Michigan	\$13.73
Minnesota	\$11.41
Mississippi	\$7.25

‡ Varies by Employer Size, Location, Benefits Provided

* Subject to Change

** Exceptions Apply

Jurisdiction	Base Hourly Minimum Wage
Missouri	\$15
Montana	\$10.85
Nebraska	\$15
Nevada	\$12
New Hampshire	\$7.25
New Jersey	\$15.92, \$15.23, \$14.20 ‡
New Mexico	\$12
New York	\$17, \$16 ‡
North Carolina	\$7.25
North Dakota	\$7.25
Ohio	\$11
Oklahoma	\$7.25 **
Oregon	\$14.05, \$15.05, \$16.30 ‡ *
Pennsylvania	\$7.25
Puerto Rico	\$10.50
Rhode Island	\$16
South Carolina	\$7.25
South Dakota	\$11.85
Tennessee	\$7.25
Texas	\$7.25
Utah	\$7.25
Vermont	\$14.42
Virginia	\$12.77
Washington	\$17.13
West Virginia	\$8.75
Wisconsin	\$7.25
Wyoming	\$5.15

By the Numbers

Unemployment Insurance Wage Bases

State	2026	2025
Alabama	\$8,000	\$8,000
Alaska	TBD	\$51,700
Arizona	\$8,000	\$8,000
Arkansas	\$7,000	\$7,000
California	\$7,000	\$7,000
Colorado	\$30,600	\$27,200
Connecticut	\$27,000	\$26,100
Delaware	\$14,500	\$12,500
District of Columbia	\$9,000	\$9,000
Florida	\$7,000	\$7,000
Georgia	\$9,500	\$9,500
Hawaii	TBD	\$62,000
Idaho	TBD	\$55,300
Illinois	\$14,250	\$13,916
Indiana	\$9,500	\$9,500
Iowa	\$20,400	\$39,500
Kansas	\$15,100	\$14,000
Kentucky	TBD	\$11,700
Louisiana	\$7,000	\$7,700
Maine	\$12,000	\$12,000
Maryland	\$8,500	\$8,500
Massachusetts	\$15,000	\$15,000
Michigan	TBD	\$9,000, \$9,500
Minnesota	TBD	\$43,000
Mississippi	\$14,000	\$14,000
Missouri	\$9,000	\$9,500
Montana	TBD	\$45,100

State	2026	2025
Nebraska ¹	\$9,000, \$24,000	\$9,000, \$24,000
Nevada	\$43,700	\$41,800
New Hampshire	\$14,000	\$14,000
New Jersey	\$44,800	\$43,300
New Mexico	TBD	\$33,200
New York	\$13,000	\$12,800
North Carolina	TBD	\$32,600
North Dakota	TBD	\$45,100
Ohio	\$9,000	\$9,000
Oklahoma	TBD	\$28,200
Oregon	\$56,700	\$54,300
Pennsylvania	\$10,000	\$10,000
Puerto Rico	\$7,000	\$7,000
Rhode Island ¹	TBD	\$29,800, \$31,300
South Carolina	\$14,000	\$14,000
South Dakota	\$15,000	\$15,000
Tennessee	\$7,000	\$7,000
Texas	\$9,000	\$9,000
Utah	TBD	\$48,900
Vermont	\$15,400	\$14,800
Virginia	\$8,000	\$8,000
Washington	\$78,200	\$72,800
West Virginia	\$9,500	\$9,500
Wisconsin	\$14,000	\$14,000
Wyoming	\$33,800	\$32,400

Changes for 2026 are in **bold**.

Wage bases that decreased are in **bold italic**.

¹ In Nebraska and Rhode Island, experienced employers assessed the maximum unemployment tax rate are assigned a higher wage base.

By the Numbers

2026 Family-Leave Insurance Chart

Jurisdiction	Taxable Wage Base	Employer Contribution	Employee Contribution
California	N/A	N/A	1.3%
Colorado	\$184,500	0.88%, N/A ‡ *	N/A
Connecticut	\$184,500	N/A	0.5%
Delaware	\$184,500	0.8%, 0.32% *	N/A
District of Columbia	N/A	0.75%	N/A
Kentucky±	N/A	Varies	Varies
Maine	\$184,500	1% ‡ *	N/A
Maryland (eff. 2027)	OASDI wage base	TBD ‡	TBD%
Massachusetts	\$184,500	0.42%, N/A ‡	0.46%
Minnesota	\$184,500	0.88%, 0.22% *	N/A
New Hampshire ±	N/A	Varies	Varies (no more than \$5 weekly)
New Jersey	\$171,100	N/A	0.33%
New York	\$1,833.63 per week	N/A	0.432%
Oregon	\$184,500	40% of contribution ‡	60% of contribution
Rhode Island	TBD	N/A	TBD
Vermont ±	N/A	Varies	Varies
Virginia ±	N/A	Varies	Varies
Washington	\$184,500	28.57% of 1.13% premium	71.43% of 1.13% premium

* Employers may deduct part of the contribution from employees' wages

± Voluntary program

‡ Varies by employer size

By the Numbers

Local Minimum Wages

State	Locality	2026	2025
Arizona	Flagstaff	\$18.35	\$17.85
	Tucson	\$15.45	\$15
California	Alameda *	\$17.46 to 6/30; TBD eff. 7/1	\$17 to 6/30; \$17.46 eff. 7/1
	Belmont	\$18.95	\$18.30
	Berkeley *	\$19.18 to 6/30; TBD eff. 7/1	\$18.67 to 6/30; \$19.18 eff. 7/1
	Burlingame	\$17.86	\$17.43
	Cupertino	TBD	\$18.20
	Daly City	TBD	\$17.07
	East Palo Alto	\$17.90	\$17.45
	El Cerrito	\$18.82	\$18.34
	Emeryville *	\$19.90 to 6/30; TBD eff. 7/1	\$19.36 to 6/30; \$19.90 eff. 7/1
	Foster City	\$17.85	\$17.39
	Fremont *	\$17.75 to 6/30; TBD eff. 7/1	\$17.30 to 6/30; \$17.75 eff. 7/1
	Half Moon Bay	\$17.91	\$17.47
	Hayward ‡	\$17.79, \$16.90	\$17.36, \$16.50
	Los Altos	\$18.70	\$18.20
	Los Angeles *	\$17.87 to 6/30; TBD eff. 7/1	\$17.28 to 6/30; \$17.87 eff. 7/1
	Los Angeles County *	\$17.81 to 6/30; TBD eff. 7/1	\$17.27 to 6/30; \$17.81 eff. 7/1
	Malibu *	\$17.27 to 6/30; TBD eff. 7/1	\$17.27
	Menlo Park	\$17.55	\$17.10
	Milpitas *	\$18.20 to 6/30; TBD eff. 7/1	\$17.70 to 6/30; \$18.20 eff. 7/1
	Mountain View	\$19.70	\$19.20
	Novato ‡	\$17.73, \$17.46, \$16.90	\$17.27, \$17, \$16.50
	Oakland	TBD	\$16.89
	Palo Alto	\$18.70	\$18.20
	Pasadena *	\$18.04 to 6/30; TBD eff. 7/1	\$17.50 to 6/30; \$18.04 eff. 7/1
	Petaluma	\$18.31	\$17.97
	Redwood City	\$18.65	\$18.20
	Richmond	\$19.18	\$17.77
	San Carlos	\$17.75	\$17.32
	San Diego	\$17.75	\$17.25
	San Francisco *	\$19.18 to 6/30; TBD eff. 7/1	\$18.67 to 6/30; \$19.18 eff. 7/1
	San Jose	\$18.45	\$17.95
	San Leandro †	\$16.90	\$16.50
	San Mateo	\$18.60	\$17.95
	San Mateo County	\$17.95	\$17.46
	Santa Clara	\$18.70	\$18.20
	Santa Monica	\$17.81 to 6/30; TBD eff. 7/1	\$17.27 to 6/30; \$17.81 eff. 7/1
	Santa Rosa	\$18.21	\$17.87
	Sonoma ‡	TBD	\$18.02, \$16.96
	Sonoma County	\$23.15 to 6/30; TBD eff. 7/1	\$18.10 to 6/30; \$23.15 eff. 7/1
	South San Francisco	\$18.15	\$17.70
	Sunnyvale	\$19.50	\$19
	West Hollywood	\$20.25	\$19.65

2025 Payroll Year-End

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Local Minimum Wages (cont'd)

State	Locality	2026	2025
Colorado	Boulder	\$16.82	\$15.57
	Boulder County	\$17.99	\$16.57
	Denver	\$19.29	\$18.81
	Edgewater	\$18.17	\$16.52
Illinois	Chicago *	\$16.60 to 6/30; TBD eff. 7/1	\$16.20 to 6/30; \$16.60 eff. 7/1
	Cook County *	\$15 to 6/30; TBD eff. 7/1	\$15
Maine	Portland	\$16.75	\$15.50
	Rockland	\$16	\$15.50
Maryland	Howard County ‡	\$16, \$15.50 to 6/30; \$16 eff. 7/1	\$16, \$15
	Montgomery County *‡	\$17.65, \$16, \$15.50 to 6/30; TBD eff. 7/1	\$17.15, \$15.50, \$15 to 6/30; \$17.65, \$16, \$15.50 eff. 7/1
	Prince George's County †	TBD	\$15
Minnesota	Minneapolis *	\$16.37	\$15.97
	St. Paul *‡	\$16.37, \$15, \$13.25 to 6/30; \$16.37, \$14.25 eff. 7/1	\$15.97, \$14, \$12.25 to 6/30; \$15.97, \$15, \$13.25 eff. 7/1
New Mexico	Albuquerque †	\$12	\$12
	Bernalillo County †	\$12	\$12
	Las Cruces	\$13.01	\$12.65
	Santa Fe **	TBD	\$14.60 to 2/28; \$15 eff. 3/1
	Santa Fe County **	TBD	\$14.60 to 2/28; \$15 eff. 3/1
New York	New York City	\$17	\$16.50
	Nassau, Suffolk, Westchester counties	\$17	\$16.50
	Rest of the state	\$16	\$15.50
Oregon *	Nonurban counties	\$14.05 to 6/30; TBD eff. 7/1	\$13.70 to 6/30; \$14.05 eff. 7/1
	Portland metro area	\$16.30 to 6/30; TBD eff. 7/1	\$15.95 to 6/30; \$16.30 eff. 7/1
	Standard rate	\$15.05 to 6/30; TBD eff. 7/1	\$14.70 to 6/30; \$15.05 eff. 7/1
	Bellingham	\$19.13	\$17.66 to 4/30; \$18.66 eff. 5/1
	Burien ***	\$21.63, \$20.63	\$21.16; \$21.16, \$20.16 eff. 7/1
Washington	Everett ‡	\$20.77, \$18.77 to 6/30; \$20.77, \$19.77 eff. 7/1	\$20.24, \$18.24 eff. 7/1
	King County ‡	\$20.82, \$19.82, \$18.32	\$20.29, \$18.29, \$17.29
	Renton ‡	\$21.57, \$20.57 eff. 6/30; \$21.57 eff. 7/1	\$20.90, \$18.90 to 6/30; \$20.90, \$19.90 eff. 7/1
	SeaTac	\$20.74	\$20.17
	Seattle	\$21.30	\$20.76
	Tacoma †	\$17.13	\$16.66
	Tukwila ‡	\$21.65	\$21.10, \$20.10 to 6/30; \$21.10 eff. 7/1

* Minimum wage rates effective July 1, 2025, through June 30, 2026

‡ Varies by employer size or other factors

† Minimum wage in effect is state minimum wage

** Rates are effective March 1 through Feb. 28

*** Has two separate minimum wage laws; city seeking clarification in court

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