



Payroll Insights

Employment tax news to guide you
now and for the future

November 2025



John's Fresh Take: 2025 year-end is right around the corner

With the 2025 tax year-end quickly approaching, now is the time to begin preparing for all your year-end responsibilities. Year-end is a critical time to review payroll processes, ensure compliance, and set the stage for a smooth transition into the next calendar year. To ensure all wages and fringe benefits have been captured for the year, payroll departments should begin working with their compensation and benefits teams to confirm all benefits have been recorded. To help minimize reporting issues, we recommend employers review Form W-2 previews alongside payroll records for the same period. This will allow you to identify and address any discrepancies before W-2s are finalized.

In addition, it will be important to start preparing for 2026 payroll updates, which includes:

- Tip and overtime reporting from the IRS
- 401(k) and health savings account (HSA) contribution limits
- Minimum wage requirements
- State unemployment insurance (SUI) contribution taxable wage bases and rate changes
- New state or local taxes for 2026
- Nontaxable per diem limits.

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Federal updates



IRS provides penalty relief for 2025 overtime and tip credit reporting

Under the OBBBA, employers are required to calculate and report qualified compensation to employees for 2025 through 2028. On November 5, 2025, the IRS released Notice 2025-62, providing for relief from penalties and interest related to employer/payer noncompliance with reporting qualified overtime and tip compensation as required by the OBBBA. The relief applies to both wage reporting on Form W-2, *Wage and Tax Statement*, and nonemployee compensation reported on Form 1099-NEC, *Nonemployee Compensation*.

Recognizing the challenges of implementing new reporting requirements, the OBBBA authorized the IRS to establish transition procedures for 2025. In August 2025, the IRS announced that there would be no changes to 2025 payroll tax returns in connection with OBBBA provisions, but did not specify how the required information should be reported. Notice 2025-62 clarifies that while the OBBBA mandates separate accounting for qualified overtime and tip compensation, employers/payers will not be subject to information reporting penalties for 2025 if they are unable to comply with the reporting requirements.

The IRS encourages employers/payers to provide separate accounting of qualified overtime and tip compensation, even if the employer/payer is unable to include it on Form W-2 or 1099-NEC.

This penalty relief applies only to 2025 reporting. Beginning in 2026, the IRS has issued draft guidance requiring employers to report qualified overtime and tip compensation in Box 12 of [Form W-2](#), for each affected employee.

Social Security wage base rising to \$184,500 for 2026

The Old-Age, Survivors, and Disability Insurance taxable wage base will increase to \$184,500 for 2026, up from \$176,100 for 2025, the Social Security Administration said on October 24, 2025.

The maximum 2026 Social Security component of the Federal Insurance Contributions Act tax payable by each employee will be \$11,439, or 6.2 percent of the taxable wage base, up from \$10,918.20 for 2025. Employers match the employee amount.

Update on paper check refunds and tax payments

The National Taxpayer Advocate (NTA) recently published a [blog post](#) discussing how the Internal Revenue Service (IRS) may implement Executive Order 14247 (the EO), which directs the US Department of the Treasury to phase out paper tax-refund checks and transition federal tax payments to electronic formats. The blog post was published after the IRS released [IR-2025-94](#) (the IRS announcement), which provides:

- Paper tax-refund checks for individual taxpayers will be phased out starting September 30, 2025, to the extent permitted by law.
- The IRS will publish detailed guidance for 2025 refunds and tax payments before the 2026 filing season begins.
- Until further notice, taxpayers should continue using existing forms and procedures, including those filing their 2024 returns on extension of a due date prior to December 31, 2025.
- Taxpayers should continue to use existing payment options until further notice.

While the blog post appears to provide insight into the IRS's implementation of the EO and seems to answer several outstanding questions, it is not official IRS guidance, does not have legal effect, and is subject to change. It is also not clear how the NTA obtained the information contained in the blog post, though it is not unusual for the NTA to receive a briefing from the IRS on topics that are of particular interest to the NTA. Thus, though it is uncertain, the information contained in the blog post may reflect how the IRS is planning on implementing the EO.

Even though there is uncertainty regarding the extent to which the information contained in the blog post reflects the position of the IRS, we wanted to provide you with key takeaways from the blog post:

- Returns for pre-2025 tax years will not be affected.
- **WNT-GMS observation:** As detailed in [GMS Flash Alert 2025-175](#), the IRS announcement does not provide any new information regarding the implementation of the EO. Furthermore, the IRS announcement does not directly state that the EO doesn't apply to 2024 tax returns that are set up for paper check refunds and are currently in process or yet to be filed. However, the IRS announcement does indicate that taxpayers who are filing their 2024 returns on extension should continue to use existing forms and procedures until further notice, which would include Form 8888, *Allocation of Refund*, the form that permits

a taxpayer to request a paper check refund. Thus, though not explicitly stated, the language of the IRS announcement could be interpreted to mean that taxpayers who select refunds via paper check on their 2024 returns in accordance with IRS directions are still eligible to receive paper refund checks for refunds issued after September 30, 2025. The NTA blog post appears to support such interpretation, as the post states, “The IRS will begin implementing the EO for [2025 tax returns](#). For 2024 and prior tax returns, there will be no change in how taxpayers receive payments from or make payments to the IRS.”

- Taxpayers who do not provide bank account details or request an exception for 2025 returns will face refund delays.
 - **WNT-GMS observation:** The EO aims to transition all federal disbursements and receipts to digital formats, with certain exceptions. Exceptions are provided for individuals lacking banking access, emergency situations, and specific national security and law enforcement activities. No guidance has been issued with respect to what constitutes “lacking banking access” or the requirements a taxpayer must satisfy to qualify for an exception. While the NTA blog post does not offer any new information on these exceptions, it does indicate that the IRS is considering limited exceptions where electronic payment and collection methods are not feasible, and lists taxpayers with foreign bank accounts and ITIN holders as taxpayers who may require an exception.
- For 2025 returns that do not contain direct deposit information, it is anticipated that the IRS will send a letter (1) requesting direct deposit information and (2) providing information on how to request an exception.
- If a taxpayer does not provide direct deposit information or obtain an approved exception, the IRS will hold off on issuing a paper check refund for six weeks after a 2025 return is filed.
 - **WNT-GMS observation:** If the implementation process for 2025 returns outlined in the blog post is followed by the IRS, taxpayers may still be able to receive paper refund checks with respect to their 2025 tax returns even if they do not qualify for an exception. However, the paper check will not be issued until six weeks after the return has been filed.
- There is no immediate change to how taxpayers pay the IRS, although additional updates are anticipated starting in 2027.

- **WNT-GMS observation:** As noted above, it is unclear if the IRS will ultimately follow the implementation plan described in the blog post. Thus, clients should be advised that the above process is subject to change and not final until the IRS issues additional guidance prior to the 2026 filing season. The WNT-GMS team is available to answer your questions or assist with client calls or presentations.

IRS drafts updated Form 8846 for expanded tip credit

On October 6, 2025, the [IRS released](#) a draft of the 2025 Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*, which employers use to claim the FICA tip credit. The update incorporates the One Big Beautiful Bill Act (OBBBA), expanding eligibility beyond food and beverage employers to include beauty service businesses—such as barbering, hair care, nail care, aesthetics, and spa treatments.

Tip credit reporting in Box 12 of 2026 draft W-2

The third draft of the 2026 Form W-2, released on October 14, 2025 by the IRS, adds an additional Box 12 code for reporting tips that do not qualify for the deduction provided in the OBBBA.

New code TS was added to the list of Box 12 codes in the draft and is used to report tips when the employer is a “specified service trade or business” as defined in the act. These tips do not qualify for the act’s deduction.

For the definition of a specified service trade or business whose employees would be eligible for the tip credit, the act refers to Internal Revenue Code section 199A(d)(2)(a), which itself refers to section 1202(e)(3)(a). Together, both sections create a high-level list of some service-industry fields including health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing or managing investments, and trading in securities, partnership interests, or commodities. Section 1202(e)(3)(a) also includes “any trade or business where the principal asset of such trade or business is the reputation or skill of [one] or more of its employees.” Regulations in section 1.199A-5(b)(2) go into more detail about the listed fields.

In the draft, code TP is used to report tips when the employer is not a specified service trade or business, and those amounts can be used to calculate the act’s deduction for tips.

The instructions for Box 14b, reporting the Treasury Tipped Occupation Code for tipped employment, were changed to indicate that code 000 should be used when tips do not qualify for the deduction.

Additionally, the description of code TA was changed from "Employer contributions to your Trump account" to "Employer contributions under a section 128 Trump account contribution program paid to a Trump account of an employee or a dependent of an employee."

IRS updates electronic filing specs for 2025 information returns

On September 23, 2025, the IRS released the [2025 Publication 1220](#), detailing electronic filing specifications for the following forms:

- Form 1097, *Bond Tax Credit*
- Form 1098 Series
- Form 1099 Series
- Form 3921, *Exercise of Incentive Stock Options*
- Form 3922, *Transfer of Stock Acquired Through an Employee Stock Purchase Plan*
- Form 5498 Series
- Form W-2G, *Certain Gambling Winnings*

The Filing Information Returns Electronically (FIRE) system will close for the 2027 filing season. The new Information Returns Intake System (IRIS) portal will become the sole electronic filing option.

- **Golden parachute reporting:** Forms reporting excess golden parachute payments (Box 3 of Form 1099-NEC, *Nonemployee Compensation*) can no longer be filed via FIRE; they must be filed through IRIS or on paper. Corrections for FIRE-filed forms must be made on paper.
- **State program changes:** Oregon joins and Missouri exits the combined federal/state filing program.
- **Ongoing updates:** Publication 1220 will be updated throughout the season, with changes listed in Exhibit 2 of Part E.

IRS issues notice on 2025–2026 per diem rates

On September 23, 2025, the IRS issued a [notice](#) detailing the annual per diem rates for business travel expenses for the 2025–2026 fiscal year, effective October 1, 2025.

- Special Transportation Industry Meal & Incidental Expenses (M&IE) rates:
 - \$80 per day for travel within the continental US
 - \$86 per day for travel outside the US
- Incidental Expenses Only Deduction rate:
 - \$5 per day for both domestic and international travel
- High-Low Substantiation Method rates:
 - High-cost localities: \$319 per day
 - Other US localities: \$225 per day

Department of labor issues wage and hour opinion letters

On September 30, 2025, the Department of Labor released four new opinion letters on wage and hour issues, continuing its initiative to reinvigorate the opinion letter program established under the Trump administration. These opinion letters are intended to clarify how the department interprets specific laws and regulations in light of particular factual scenarios.

The latest Wage and Hour Division letters cover a variety of topics such as [calculating FMLA](#) leave entitlements for correctional law enforcement employees in certain situations, determining whether oyster shuckers may participate in [tip pools](#), assessing if emergency pay for firefighters can be excluded from the [regular rate of pay](#) when calculating overtime, and evaluating [joint employer liability](#) for overtime payments. These letters provide detailed guidance and analysis for employers facing similar compliance questions. With the Trump administration's commitment to maintaining and expanding the opinion letter program, employers can expect the Department of Labor to continue issuing such guidance.

State updates



FUTA credit reduction states finalized

The Federal Unemployment Tax Act (FUTA) imposes a tax of 6 percent on the first \$7,000 of wages paid to each employee annually. Employers may generally claim a credit of up to 5.4 percent for contributions made to state unemployment insurance funds, resulting in a typical net FUTA tax rate of 0.6 percent. However, this credit can be reduced if a state has outstanding federal loans used to fund its unemployment benefits program and has not repaid them by the federal deadline.

On November 10, 2025, the IRS announced that for tax year 2025, employers in California and the U.S. Virgin Islands will be subject to FUTA credit reductions of 1.2 percent and 4.5 percent, respectively, due to their states' outstanding federal loan balances. These increased rates will result in additional FUTA tax liability for employers in these jurisdictions.

Employers in Connecticut and New York, which were also subject to credit reductions in 2024, repaid their loans and will not be subject to a reduction for 2025.

Employers affected by these credit reductions must calculate the additional FUTA tax liability on Schedule A, *Multi-State Employer and Credit Reduction Information*, which is filed with Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. Both the form and any additional payment are due to the IRS by February 2, 2026.

Minnesota Paid Family and Medical Leave (PFML): Premiums and tax treatment

Minnesota's [PFML program](#) begins January 1, 2026, and employers should prepare for new reporting and payment requirements. The tax treatment below applies to state plans only; the tax treatment if you're going through a private plan may differ.

Premiums and payments

- **Premium rate:** 0.88 percent of employee wages, split between employer and employee
- **Quarterly payments:** Paid leave premiums will be due quarterly, starting April 30, 2026, based on wages paid in Q1.

- **Electronic payments:** After submitting a quarterly wage detail report, employers will see screens that calculate both UI taxes and paid leave premiums. Payments can be made electronically from the employer account.

Comparison:

- **UI taxes:** Calculated separately and due each quarter
- **Paid leave premiums:** Calculated separately

Tax treatment

Premiums on W-2:

- Employee contributions included on W-2; do not reduce taxable wages
- Employer contributions above the minimum treated as wages and subject to employment taxes

- **Employer deductions:** Premiums deductible as excise tax (\$164) or business expense (\$162)

Benefits:

- Taxable; employees can opt for withholding (5 percent state, 10 percent federal)
- **Family leave:** Not wages; reported on Form 1099
- **Medical leave:** Split treatment—half taxable as wages (third-party sick pay), half excluded from gross income. Employers must include taxable portions on Form W-2 and pay Social Security and Medicare taxes.

Rhode Island clarifies OBBBA provisions for state taxes

The [Rhode Island Division of Taxation](#) confirmed that the federal OBBBA provisions—allowing deductions of up to \$25,000 in tips and \$12,500 in overtime for federal income tax—do not apply to Rhode Island state income tax. The advisory explains these exclusions only affect federal returns because they do not alter federal adjusted gross income, which Rhode Island uses as the basis for state tax calculations. Therefore, tips and overtime remain taxable for state purposes.

Michigan announces interest rates for tax underpayments and overpayments

The [Michigan Department of Treasury](#) set the interest rates for tax underpayments and overpayments for January 1–June 30, 2026. A daily rate of 0.0002324, based on an annual rate of 8.48 percent, will apply to tax deficiencies or excessive claims during this period.

New Mexico implements electronic filing and deadline changes for withholding returns

Starting January 1, 2026, [New Mexico](#) will require electronic filing for all withholding returns, including annual W-2 statements, under H.B. 218. Previously, electronic filing was only mandatory for employers with 25 or more employees.

The law also moves the deadline for quarterly workers' compensation fee returns and Form TRD-31109, *Employer's Quarterly Wage, Withholding, and Workers' Compensation Fee Report*, to the 25th of the month following the quarter. These forms must now be filed electronically.

Vermont releases unemployment insurance taxable wage base for 2026

As announced by the [Vermont Department of Labor](#), the unemployment taxable wage base will increase from \$14,800 to \$15,400 for the 2026 tax year. Earlier this year, Vermont released employer unemployment insurance tax rates effective from July 1, 2025, through June 30, 2026. Unlike most states, Vermont sets its unemployment tax rates based on a fiscal year running from July 1 to June 30, rather than the calendar year.

Washington releases unemployment insurance taxable wage base for 2026

[Washington's Employment Security Department](#) announced that the unemployment insurance taxable wage base is set to increase from \$72,800 to \$78,200 for 2026. The department will calculate unemployment tax rates for employers and send notifications by mail in December. These tax rates are determined by factors such as the employer's payroll size and the unemployment benefits paid to former employees.

West Virginia issues updated employer withholding guidelines

[West Virginia's Tax Division](#) has released revised guidelines regarding employer withholding requirements. The updated guidance details employers' responsibilities to withhold personal income tax from employee wages, specifies deadlines for remittance and filing, and outlines the requirements for providing Forms W-2 to employees and completing a year-end reconciliation. Beginning January 1, 2025, employers with 10 or more employees, as well as those utilizing a payroll service, must file all required information electronically or risk incurring penalties.



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