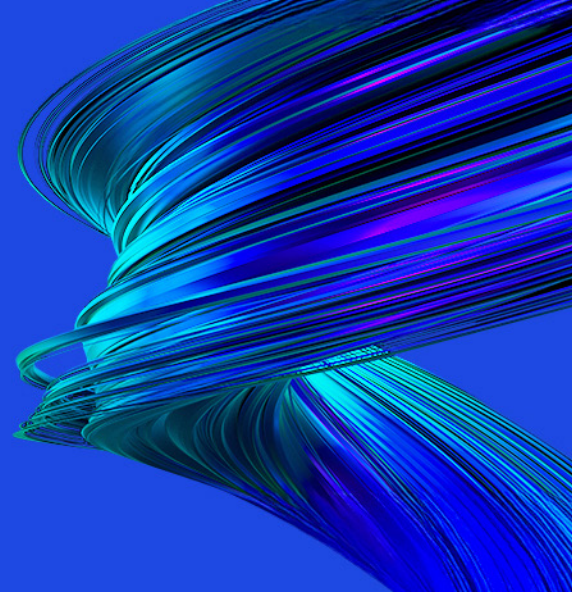


Payroll Insights

Employment tax news to guide you
now and for the future

May 2026



John's fresh take: IRS releases Dirty Dozen scam list for 2026

The Internal Revenue Service (IRS) officially released its 2026 “Dirty Dozen” list of tax scams, an annual guide designed to protect taxpayers, businesses, and tax professionals from evolving financial threats. Timed alongside National Slam the Scam Day on March 5 and backed by the Security Summit partnership, the initiative serves as a crucial reminder to stay vigilant during tax season and beyond.

A notable update is the addition of abusive undistributed long-term capital gains claims. Taking the No. 6 spot previously held by fuel tax credit scams, the IRS is warning against a rise in fabricated Form 2439 claims. Because scammers are constantly looking for new ways to steal money and personally identifiable information, the IRS urges everyone to maintain their guard year-round and always consult trusted tax professionals before making unusual claims. This year’s list consists of:

- 1. IRS impersonation by email and text (phishing and smishing):** Never click links, scan QR codes, or open attachments in unexpected emails or texts claiming to be from the IRS, as they often contain malware or direct you to fake sites. Always report these suspicious messages directly to the IRS.
- 2. Artificial intelligence (AI)-enabled IRS impersonation by phone:** Remember that the IRS generally contacts you by mail first and will never call to demand immediate payment or threaten arrest. Be highly skeptical of urgent robocalls, and independently verify any AI-generated tax advice before acting on it.
- 3. Fake charities:** Always verify that a charity is a qualified, tax-exempt organization recognized by the IRS before donating. Scammers frequently exploit disasters by creating fake charities to steal your money and personal information.
- 4. Misleading tax advice on social media:** Avoid relying on viral “tax hacks” found on social media, as following this misinformation can lead to severe penalties, audits, or criminal charges. Always seek guidance from trusted tax professionals and official IRS resources instead.

- 5. Identity theft involving IRS online account access:** Set up your IRS online account directly through irs.gov rather than using unsolicited third-party “helpers.” Protect your personal information carefully to prevent unauthorized access to your tax records.
- 6. Abusive undistributed long-term capital gains claims:** Be wary of schemes involving Form 2439 that encourage you to claim credits for taxes paid on undistributed capital gains through fabricated investment funds. Making improper or overstated claims can result in audits, enforcement action, and significantly delayed refunds.
- 7. Bogus “self-employment tax credit” promotion:** Do not fall for misleading social media promotions claiming you are eligible for a broad “self-employment tax credit,” as most taxpayers do not actually qualify. Consult a qualified tax professional, to accurately determine your true eligibility for any tax credits.
- 8. Ghost preparers:** Avoid “ghost” preparers who refuse to sign your tax return or provide a Preparer Tax Identification Number, because you are ultimately legally responsible for the filed information. Always choose a reputable tax professional, and never sign a blank or incomplete return.
- 9. Noncash charitable contribution schemes:** Avoid schemes that promise to eliminate your tax liability through highly inflated appraisals of donated property, such as art or conservation easements. Filing tax returns with fabricated or exaggerated information can lead to delayed refunds and IRS enforcement actions.
- 10. Overstated withholding schemes:** Never intentionally inflate your withholding amounts or report false, zero-income figures on incorrect forms just to manufacture a larger refund. The IRS cross-checks these claims against third-party records, and inaccurate filings can result in severe penalties.
- 11. Spear phishing and malware campaigns targeting tax professionals:** Tax professionals must remain vigilant against suspicious “new client” emails containing malicious links or attachments designed to steal sensitive data. Always verify the sender’s identity, and watch for warning signs such as urgent demands or unfamiliar addresses before sharing any information.
- 12. Aggressive or misleading “Offer in Compromise” marketing:** Be extremely cautious of “OIC mills” that charge excessively high fees and overpromise their ability to resolve your tax debt. Instead of falling for high-pressure sales tactics, use the free tools provided by the IRS to check your actual eligibility for the Offer in Compromise program.

Ultimately, the best defense against these evolving threats is a combination of healthy skepticism and professional guidance. As these scams become more sophisticated (leveraging everything from AI voice mimicry to viral social media trends), it is more important than ever to rely on verified information and trusted advisers rather than “too good to be true” shortcuts. If you have any questions about the 2026 Dirty Dozen list or wish to review your current tax strategies for potential risks, please don’t hesitate to reach out to our team. Staying proactive is the key to protecting your financial integrity and ensuring a smooth, compliant filing season.



Key federal payroll developments for employers

Employers should continue monitoring recent federal developments that may affect payroll reporting, withholding, and future payment practices. The “One Big Beautiful Bill Act” (OBBBA) introduced the widely discussed “no tax on tips” and “no tax on overtime” provisions; however, these rules do not eliminate taxation on such wages. Instead, eligible employees may claim federal income tax deductions on their individual returns, while employers generally should continue withholding and reporting wages under existing payroll tax rules. Employers should also be aware that the law created new annual reporting requirements related to qualified tip income and eligible overtime amounts so employees can substantiate deduction claims. Given the retroactive effective date of January 1, 2025, employers should confirm they have processes in place to track and report these amounts accurately.

Looking ahead, employers may also want to monitor developments under the Guiding and Establishing National Innovation for the US Stablecoins Act, which established a regulatory framework for stablecoins—digital assets designed to maintain a stable value by being pegged to a reserve asset, such as the US dollar. While immediate payroll impacts remain limited, the law could eventually influence cross-border payment methods and employee pay preferences.

In addition, recent federal executive orders focused on AI may lead to a more consistent national framework for AI regulation. Employers using or evaluating AI-driven payroll tools should continue monitoring guidance in this area, as greater regulatory uniformity could help reduce administrative complexity and support broader technology adoption.

Treasury and IRS finalize “no tax on tips” regulations

On April 10, 2026, the Treasury Department and the IRS issued [final regulations](#) on Section 224 of the Code relating to the deduction for qualified tips, also known as “no tax on tips,” as discussed above. The final regulations expand the list of tipped occupations to include visual artists and floral designers in the personal services category and add gas pump attendants in the transportation and delivery category. The final regulations also add anti-abuse rules, definitions for the terms “tips” and “payer,” and a clarification that qualified tips must be reported on an information return to be eligible.

As required by the statute, the proposed regulations provided that an amount received by an individual in the course of a specified service trade or business (as defined in Section 199A[d][2] and hereinafter referred to as “SSTB”) is not a qualified tip. Due to the difficulty that some taxpayers may have in determining whether their tips were received in the course of an SSTB, Treasury and the IRS issued transition relief in Notice 2025-69 for purposes of IRS enforcement and administration with regard to the SSTB requirement. Notice 2025-69 provided that it would treat all taxpayers as receiving tips not in the course of an SSTB until January 1 of the calendar year following the issuance of final regulations regarding the determination of an SSTB and associated employer information reporting. The preamble of the final regulations makes clear that they do not address the SSTB exclusion; thus, the transitional relief under Notice 2025-69 remains in place. Subsection (g) of Treasury Regulation Section 1.224-1 is reserved for this exclusion.

IRS draft forms add new tip and overtime reporting fields

The IRS recently released draft versions of Forms [1099-NEC](#) and [1099-MISC](#) that include new fields for reporting cash tips and overtime compensation. These proposed changes are intended to support reporting requirements tied to the OBBBA and related employee tax deduction provisions.

Under the draft forms, payers may need to separately report cash tips, Treasury tipped occupation codes, and overtime compensation in addition to existing income reporting fields. Employers and businesses that issue Form 1099 should begin monitoring these proposed changes and assess whether updates to payroll, accounts payable, and tax reporting systems may be needed. Although the forms are still in draft status, early planning may help reduce year-end reporting challenges if the changes are finalized. Employers should also coordinate with vendors and advisers to evaluate whether system modifications or additional data tracking will be necessary for the 2026 reporting.

IRS updates Section 127 educational assistance program FAQs

On April 20, 2026, the IRS updated its FAQs in [Fact Sheet 2026-10](#) related to educational assistance programs.

Section 127 excludes from income up to \$5,250 per year of certain educational assistance provided by an employer under a qualifying educational assistance program. The Tax Cuts and Jobs Act previously expanded the definition of qualifying “educational assistance” to include employer payments made before January 1, 2026 of principal or interest on any qualified education loan incurred by the employee for education of the employee whether paid to the employee or to a lender.

The OBBBA amended Section 127 to index the \$5,250 limit for inflation for tax years after 2026 and made the exclusion for employer payments of qualified education loans permanent. The updated FAQs, which supersede the FAQs previously issued in Fact Sheet 2024-22, were generally updated for these changes and also clarified that a Section 127 educational assistance program cannot benefit spouses or dependents of an employee.

IRS revises substitute Form 941 requirements

The IRS recently [updated the specifications](#) for substitute versions of Form 941 and related payroll tax schedules. Employers and payroll providers that use software-generated or custom paper forms should review the revised requirements, including updates to printing standards, font usage, form ID codes, and data entry formatting. The guidance applies to Form 941, Schedule B, Schedule D, Schedule R, and Form 8974.

Although substitute forms that meet IRS specifications generally do not require prior approval, employers may want to consider submitting sample forms for review to help ensure proper scanning and processing. The updated guidance includes new form ID codes effective for first-quarter 2026 filings and replaces prior IRS procedures. Employers should confirm that their payroll systems and vendors are aligned with the revised requirements to help avoid processing delays, rejected filings, or potential penalties.

Updated foreign per diem rates take effect on April 1

The United States Department of State [updated foreign per diem rates](#) for more than 40 international locations, with the revised rates effective April 1, 2026. The updates affect cities and regions across multiple countries, including Brazil, Chile, Costa Rica, Egypt, Germany, India, Spain, Sweden, and the United Kingdom.

Employers with employees traveling internationally should review the updated rates to ensure travel reimbursements and expense reporting remain aligned with current federal guidance. Using the correct per diem rates can help support accurate payroll treatment, reduce the risk of taxable reimbursements, and maintain compliance with company travel policies. Employers should also coordinate with internal travel, payroll, and expense teams to confirm that systems are updated for reimbursements made on or after April 1.



Arizona announces Q2 2026 tax interest rate

The Arizona Department of Revenue announced that the [applicable interest rate](#) for tax underpayments and overpayments is 6 percent for the second quarter of 2026. This rate applies from April 1 through June 30, 2026.

Employers with outstanding Arizona payroll tax liabilities, amended returns, or refund claims should take this rate into account when evaluating potential interest exposure or expected recoveries. Timely remittance and prompt resolution of payroll tax adjustments may help reduce additional interest costs. Employers should also consider this rate when reviewing prior-period balances and planning any corrective filings during the quarter.

Maine imposes penalties for returned UI tax payments

Maine employers may soon face penalties for returned unemployment insurance tax payments under recently enacted [LD 2101](#). Effective July 14, 2026, employers whose unemployment tax payments are returned and remain unpaid may be subject to a penalty equal to the greater of \$25 or 1 percent of the returned payment amount.

Returned payments may result from insufficient funds, closed or invalid accounts, or stop-payment requests. Employers should review payment processes, confirm bank account information, and monitor electronic payment activity to help reduce the risk of failed transactions. Employers using third-party payroll providers may also want to confirm that internal controls are in place to promptly identify and resolve rejected payments before penalties apply.

Maine requires employers to notify employees of labor violations

Maine's [LD 1587](#), signed by Governor Janet Mills and effective July 14, significantly strengthens the investigative and enforcement power of the state's Bureau of Labor Standards. The bureau is now authorized to proactively investigate potential violations—including issues with minimum wage, rest breaks, and child labor—by reviewing records, issuing subpoenas, and taking testimony. Employers who fail to correct violations or pay penalties promptly face severe consequences, including daily civil penalties of up to \$1,000 and the potential seizure of property to cover amounts owed.

A core component of the new law is a strict transparency mandate requiring employers to notify their workforce of any labor violations. Notices must be posted in conspicuous workplace locations or distributed directly to all affected employees via mail, email, or text message. This notification must be provided in the primary language used for company communications, ensuring that employees are fully informed of any breaches of their labor rights and the subsequent corrective actions taken by the state.

Missouri updates employer withholding guidance

The Missouri Department of Revenue recently released an [updated employer tax guide](#) outlining current Missouri income tax withholding requirements, filing procedures, and related employer compliance obligations. The revised guidance is intended to help Missouri employers better understand their withholding responsibilities and reporting expectations.

Washington eases penalties for minor UI reporting errors

Washington recently enacted legislation that provides employers with potential penalty relief for minor errors in quarterly unemployment insurance reporting. Under [SB 5874](#), the Washington Employment Security Department may waive penalties for minor or insignificant reporting errors, including certain issues caused by electronic payroll software.

Notably, the law clarifies that a software failure to properly report an employee's standard occupational classification or job title may qualify as a minor error eligible for relief. Employers have been required to report this information on quarterly unemployment insurance filings since October 1, 2022. Employers with Washington employees should review their payroll systems and quarterly reporting processes to help ensure required occupational data is captured accurately. The new law may provide some relief for inadvertent errors, but employers should still take steps to strengthen reporting controls and coordinate with payroll vendors as needed.

Washington ups wage-hour penalty and creates wage recovery program

Washington's newly enacted [HB 2479](#), effective June 11, strengthens wage-hour enforcement by significantly increasing penalties for willful violations. The law raises the minimum fine to \$1,500, eliminates the previous \$20,000 maximum cap, and mandates civil penalties for employers with a recent history of settled wage complaints. Furthermore, the Department of Labor and Industries is now required to establish strict penalty criteria based on factors such as business size and violation severity while gaining the authority to proactively initiate new investigations.

Additionally, the legislation introduces a wage recovery program aimed at providing immediate financial relief to low-wage workers. Through this program, eligible employees who submit a wage complaint can receive up to \$2,500 before the state even collects the unpaid wages from the noncompliant employer.

West Virginia adds new UI administrative fee beginning July 1

West Virginia employers subject to the state's unemployment insurance law will be subject to a new administrative fee beginning July 1, 2026, under [SB 1053](#). The fee is intended to support modernization of the state's unemployment insurance system and related administrative functions.

The fee is generally equal to 7 percent of an employer's total unemployment-taxable wages for the 12-month period ending the prior June 30, although West Virginia may reduce the fee to ensure annual collections do not exceed \$18 million. To help offset the impact, the legislation also reduces employer unemployment tax rates by 7 percent, and employers with a 0 percent unemployment tax rate are exempt from the fee.

West Virginia is required to notify employers of their annual fee amount by March 31, and payment is due within 30 days of notice. Employers with West Virginia employees should monitor agency notices and coordinate with payroll providers to ensure timely payment and avoid compliance issues.

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