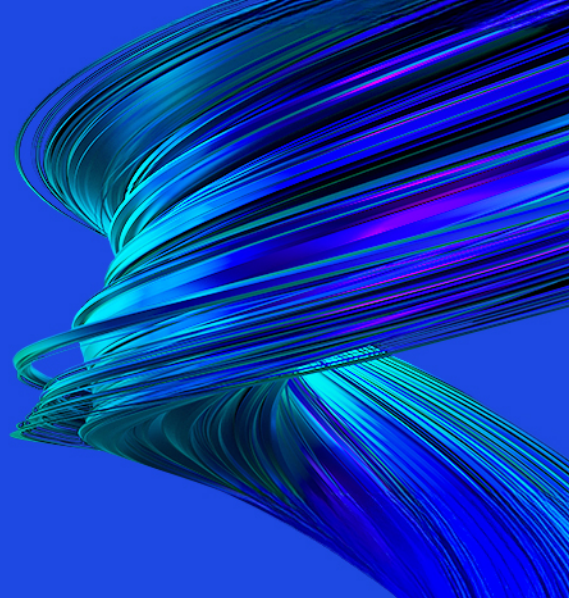




Payroll Insights

Employment tax news to guide you
now and for the future

October 2026



John's fresh take: **Workforce mobility and the growing importance of tax governance**

Payroll Insights frequently covers state-level developments in nonresident income tax withholding, including two pieces in this issue: "Multi-state worker bill introduced in the House of Representatives" and "Alabama issues notice for sourcing wages," below.

Whenever an organization starts conducting business or having employees perform services in a new state, nexus may be established. Companies should evaluate the resulting compliance and reporting obligations across multiple areas, including Secretary of State registrations, payroll tax withholding and unemployment insurance, and corporate income taxes. Because states vary widely in their statutory frameworks, audit aggressiveness, and willingness to abate penalties, each jurisdiction requires its own review.

The same principles apply globally. If an organization is actively expanding, the target country's local laws must be analyzed upfront.

To gauge how international tax authorities approach these workforce arrangements, KPMG US's Economic & Valuation Services group (Washington National Tax) and KPMG UK's Global Transfer Pricing Services surveyed KPMG member firms across 22 jurisdictions. The findings highlight how authorities are scrutinizing cross-border working arrangements:

- **Physical presence as a fixed place of business:** Thirteen member firms reported awareness of taxing authorities asserting that the physical presence of a foreign company's employee constituted a fixed place of business.
- **Remote workers and permanent establishment (PE):** Three member firms reported that taxing authorities in their jurisdictions frequently assert that employees working remotely constitute an undisclosed fixed place of business.
- **Transfer pricing and executive remuneration:** Sixteen member firms noted that local tax authorities have challenged the use of routine cost-plus return models to remunerate local entities that employ senior executives.



The survey shows that more geographically mobile workforces are becoming an area of increased focus of many tax authorities, but that the areas they are focused on varies. Understanding these variances can be critical to effectively assessing and managing tax risks.

To mitigate these exposures, workforce mobility cannot be managed in a vacuum. Organizations need ongoing alignment across payroll, human resources, tax, legal, and accounting well before employees are dispatched across borders or permitted to work from a new jurisdiction.

You can read the full article [here](#).

Federal updates



Multi-state worker bill introduced in the House of Representatives

Representative Jim Himes (D-CT) formally introduced federal legislation designed to govern employee compensation sourcing for multi-jurisdictional personnel, entitled the [Multi-State Worker Tax Fairness Act of 2026](#). The measure builds upon prior legislative efforts, notably the [Multi-State Worker Tax Fairness Act of 2024](#), seeking to establish a uniform federal statutory threshold under Title 4 of the United States Code. If enacted into law, the statute would restrict state authority to assess income taxes upon wages earned by nonresident telecommuting employees for periods during which they physically perform services outside the taxing jurisdiction.

The statutory provisions mandate that an individual shall not be deemed physically present within a jurisdiction merely because the employee renders services remotely for personal convenience, or fails to meet an individual state's administrative "convenience of the employer" test. Consequently, the proposed standard would restrict state taxing authority strictly to periods of demonstrable physical presence within state borders. Importantly, the legislative scope is strictly limited to employee wage allocations and does not extend to other corporate or non-income taxes.

From an administrative and tax policy perspective, a uniform federal standard would provide considerable clarity into multi-state payroll operations. Under current regulatory frameworks, multi-state employers and mobile employees face substantial administrative burdens associated with dual withholding obligations and the risk of double taxation.

The proposed legislation directly addresses jurisdictional reliance on the "convenience of the employer" doctrine, an administrative rule under which remote workdays are attributed to an employer's commercial domicile unless remote performance is necessitated by bona fide operational requirements. Currently, Delaware, Nebraska, New York, and Pennsylvania require wages paid to certain nonresident telecommuters to be sourced to the state for income tax purposes. Connecticut and New Jersey enacted reciprocal rules on resident individuals employed by organizations located in convenience-rule states. Federal attempts to regulate this state taxing authority have historically met legislative opposition, and predecessor bills have repeatedly failed to advance beyond committee review.

Without enactment of new federal legislation, withholding obligations in most cases remain governed by each respective jurisdiction. Payroll departments should maintain compliance with current state statutory guidelines, preserve detailed records verifying the physical work location of hybrid personnel, and continue monitoring federal legislative developments for potential changes to compliance requirements.

IRS reminder: Information return e-file system transitioning to a new platform

Beginning with tax year 2023, filers with 10 or more information returns (such as Forms 1099, 1042-S, 1098, and W-2) are required to file all forms electronically. Prior to 2023, the e-filing threshold was 250 of each type of return.

Filers used the Filing Information Returns Electronically (FIRE) System to e-file information returns (except Forms W-2, which are filed with the Social Security Administration). For the 2023 filing season (2022 returns), the IRS began to roll out the Information Returns Intake System (IRIS). IRIS is completely replacing the FIRE System for the 2027 filing season (2026 returns). Employers and other filers who have not used IRIS yet should begin transitioning now, as the FIRE System will close following its November 2026 maintenance window, and IRIS will be the required channel going forward. Corrections to prior year returns that were filed in the FIRE System may be made in IRIS.

In an August 24 [news release](#), the IRS reminded filers of the following FIRE cutoff dates:

- November 1, 2026 – final day to submit test returns through the FIRE Trading Partner Test System;
- November 9, 2026 – final day to update Information Returns Applications for FIRE Transmitter Control Codes (TCC);
- November 19, 2026 (3 p.m. ET) – final day to file returns through FIRE.

A Transmitter Control Code (TCC) is required to access IRIS, and the IRS requests at least 45 days to process TCC applications. The application can be accessed at <https://www.irs.gov/tax-professionals/iris-application-for-tcc> (or <https://www.irs.gov/filing/foreign-filer-transmitter-control-code-tcc-registration> for users without a Social Security Number or Individual Taxpayer Identification Number). A new TCC is required for IRIS; the TCC used for the FIRE System will not work for IRIS. Therefore, filers should make sure to submit their applications at least 45 days before they require access to IRIS. The IRS advises filers to review the [IRIS application tutorial](#) before completing the TCC application to make sure there are no delays in processing the application.

IRIS offers two filing options: a free, web-based Taxpayer Portal that supports up to 100 returns at a time through manual entry or CSV upload, and an Application-to-Application channel for higher-volume filers using their own or third-party software. To get ready, filers should apply for an IRIS TCC, review the IRIS filing guidance, and [subscribe to IRIS QuickAlerts](#) to stay informed of system updates and maintenance.

IRS releases interest rates for fourth quarter

On August 21, the IRS released [Revenue Ruling 2026-15](#), which provides the interest rates for October 1, 2026, to December 31, 2026, as follows:

- 7% for overpayments (6% for corporations)
- 4.5% for the portion of a corporate overpayment exceeding \$10,000
- 7% for underpayments
- 9% for large corporate underpayments

Typically, for payroll taxes, the 7% underpayment and overpayment rates will apply for the fourth quarter of 2026.





Alabama issues notice for sourcing wages

On August 25, 2026, the Alabama Department of Revenue issued a [notice](#) clarifying when employers must withhold state income tax from nonresident employees. The general rule is that withholding applies only to wages tied to services physically performed in Alabama; an employer's location in the state does not, by itself, create a withholding obligation. The notice discusses the 30-day safe harbor that exempts qualifying out-of-state workers who perform services in Alabama for 30 or fewer days in a calendar year from Alabama income tax withholding.

In practice, nonresidents working entirely outside Alabama should not be subject to Alabama income tax withholding, those performing all services in-state should be subject to withholding on the Alabama-attributable portion of their wages, and multi-state workers should have wages allocated using a reasonable method based on where services are performed. Alabama residents remain taxable on all income regardless of source. Employers with in-state workers must register for a withholding tax account, collect [Form A-4, Employee's Withholding Exemption Certificate](#), and keep records supporting their withholding calculations. These records should include dates and locations where services were performed and the allocation of wages among states. If there is a correction to state wage allocations for a prior year, employers should issue a Form W-2C, Corrected Wage and Tax Statement, reflecting the correct Alabama-source wages.

Prior to recent guidance, there had been some confusion among employers regarding the state income tax sourcing of compensation paid to nonresident employees performing services remotely from their out-of-state residences (i.e., telecommuters). In *Bollinger v. State of Alabama* Department of Revenue, the Alabama Tax Tribunal held that wages paid by an Alabama-domiciled employer to an individual performing services solely from his residence in Idaho constituted Alabama-source income subject to state withholding. In its notice, the Department states that it will not follow the ruling in *Bollinger* where it conflicts with this guidance. Consequently, compensation paid to nonresident telecommuters for work performed entirely outside Alabama should not be considered Alabama-source income and remains exempt from Alabama income tax withholding.

Maryland employer registration for paid family and medical leave insurance

Governor Wes Moore of Maryland [announced](#) that employer registration for its Family and Medical Leave Insurance (FAMLI) program is open, an early milestone in rolling out the state's new paid leave benefit. Registration is available at <https://paidleave.maryland.gov/register/> and is required for any employer with at least one Maryland-based employee. Employers can either participate in the State Plan or apply to use a qualifying private plan. Once benefits begin, eligible employees will be able to take up to 12 weeks of job-protected paid leave capped at \$1,000 per week for bonding with a new child, addressing their own or a family member's serious health condition, or handling qualifying military-family needs.

The State Plan is funded by quarterly employer and employee contributions, with employers permitted to withhold up to half of the contribution rate from employee pay. Employers with fewer than 15 employees qualify for a small-employer discount that exempts them from the employer's share. Key timing for payroll teams: contribution withholding begins with the first pay period in January 2027, the first contribution payment is due April 30, 2027, and paid leave benefits become available in January 2028.

New Hampshire sets interest rates for 2027

New Hampshire published its calendar year 2027 interest rates for taxes administered by the Department of Revenue Administration in [Technical Information Release TIR 2026-002](#). For the period January 1 through December 31, 2027, underpayments will accrue interest at 9% and overpayments at 6%. These rates are calculated under state law by reference to the federal rate under IRC § 6621—the underpayment rate is the federal rate in effect on September 1 of the preceding year plus two points, and the overpayment rate is three points below the underpayment rate. The 2027 rates are unchanged from 2026.

South Carolina issues information letter regarding updates to income taxes

The South Carolina Department of Revenue issued [Information Letter #26-20](#), discussing changes to individual income tax resulting from Act 110, which was signed into law on March 30, 2026. The letter is intended to help the public understand the changes from Act 110, including a reduction to the top marginal tax rate, adjustments to the South Carolina Earned Income Tax Credit, and decoupling from certain federal deductions, including qualified tips and overtime premium credits.

The reduction to the tax rates and change from three to two tax brackets is the first step in the plan to gradually eliminate South Carolina's individual income tax.

Contact us

John Montgomery
**National Employment Tax and
Global Reward Services**
Lead Partner
KPMG LLP
T: 212-872-2156
E: jmontgomery@kpmg.com

Mindy Mayo
**Senior Managing Director,
Employment Tax**
KPMG LLP
T: 408-367-5764
E: mindymayo@kpmg.com

Manan Shah
Partner,
Employment Tax
KPMG LLP
T: 404-739-5247
E: mananshah@kpmg.com

Samantha-Jo Marciliano
Managing Director,
Employment Tax
KPMG LLP
T: 212-954-3841
E: smarciliano@kpmg.com

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