Government Liaison Report

April 2026

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Federal News

IRS Updates Tax Withholding Estimator for OBBBA Provisions

On March 12, the IRS updated its tax withholding estimator to help taxpayers account for changes to credits and deductions they may be eligible for under Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA). The IRS said the estimator now takes into account: no tax on tips, no tax on overtime, and other tax benefits related to the OBBBA. If employees want to account for these deductions in the income tax withheld from their paychecks, they must submit a new 2026 Form W-4, Employee's Withholding Certificate, to their payroll department.

PAYO letter can help To make it easier for employers to inform employees about the new deductions, PayrollOrg created a sample letter that can be given to employees. The letter provides basic information about the steps employees will take to update their withholding and can be customized for your organization. The customizable letter can be downloaded from the OBBBA Payroll Hot Topics webpage. The webpage also details important changes payroll professionals need to know for the OBBBA.

California, Virgin Islands May Face Credit Reduction for 2026

The U.S. Department of Labor (DOL) released its list of potential Federal Unemployment Tax Act (FUTA) credit reduction states and territories for 2026: California and the Virgin Islands. The determination will be made after November 10, 2026.

States with outstanding loans If states have an outstanding Federal Unemployment Account (FUA) loan on January 1 of at least 2 consecutive years and on November 10 of the

second year, they are subject to a credit reduction on their Federal Unemployment Tax rate until the loan has been paid off. Each year a state has an outstanding loan balance on January 1, the credit reduction increases by 0.3%. States that have made an effort to keep their balances in check have some opportunities to avoid the reduction.

As of January 15, 2026, California and the Virgin Islands have an outstanding FUA loan balance. The U.S. Department of the Treasury maintains a list of states and their current FUA loan amounts that is updated frequently.

Employers in California may be subject to an additional FUTA credit reduction for 2026 because it began borrowing in 2021 and had outstanding FUA loan balances on January 1 of 2022, 2023, 2024, 2025, and 2026. If California and the Virgin Islands do not repay the outstanding loans by November 10 of this year, they will be subject to an increased credit reduction. The additional FUTA tax would be due on January 31, 2027.

Increased credit reductions and BCR California had a credit reduction of 1.2% for 2025 and faces a potential credit reduction of 1.5% for 2026.

California is also potentially subject to the BCR add-on for 2026. According to the DOL, this formula applies when a state has passed at least five consecutive January 1s with an outstanding FUA advance as defined in federal law. The value of the BCR add-on is estimated based on wage and tax contributions in each state for the third and fourth quarters of 2025. As of January 15, California faces a BCR add-on of 3.8%. This means that the potential FUTA credit reduction it faces for 2026 is 5.3%. The BCR add-on will be recalculated based on actual wage and tax contributions and may change. Also, a state can apply for a waiver of the BCR add-on by July 1.

The Virgin Islands began borrowing in August 2009, has a current outstanding balance, and was subject to a credit reduction of 4.5% for 2025. It could be subject to a FUTA credit reduction of 4.8% for 2026. The Virgin Islands has had the BCR waiver granted for several years.

The Virgin Islands does not face a BCR add-on for 2026. While it has had an outstanding balance on consecutive January 1s since 2011, the estimated wage and tax contributions for the third and fourth quarters of 2025 make the amount of the add-on 0%.

States borrowing, authorized to borrow As of March 27, California has an outstanding loan balance of $20.8 billion, and the Virgin Islands has an outstanding loan balance of nearly $13 million. Connecticut has resumed borrowing and has an outstanding balance of $50.7 million. Texas also has an outstanding balance of $213 million. Both Connecticut and Texas began borrowing after January 1, 2026, and do not face a credit

reduction for 2026. They could face a potential credit reduction in future years if they continue to borrow and have outstanding balances on consecutive January 1s.

IRS Finalizes Rule Adding Unmarked Vehicles to Nonpersonal Use List

The IRS finalized a regulation adding unmarked vehicles used by firefighters or members of a rescue squad or ambulance crew as a type of qualified nonpersonal use vehicle. The regulation is in effect as of March 20. The IRS proposed the rule in December 2024. The final regulation affects governmental units that provide firefighter or rescue squad or ambulance crew member employees with unmarked qualified nonpersonal use vehicles and the employees who use those vehicles.

Nonpersonal use vehicles One of the most common fringe benefits is employee use of a company-owned or company-leased vehicle. When the vehicle is used for business-related purposes, the value of the use is excluded from employee income as a working condition fringe benefit. All other use of the vehicle is generally considered taxable income to the employee, unless an exception applies.

One exception is for a qualified nonpersonal use vehicle. If a company-provided vehicle is unlikely to be used for personal travel because of its special design, use of the vehicle by an employee is excluded from income. Other vehicles already in this category include ambulances, hearses, school buses, dump trucks, and moving vans. Now unmarked vehicles used by firefighters or members of a rescue squad or ambulance crew are part of the list of qualified nonpersonal use vehicles.

IRS Revises Substitute Forms 941, 8974 Specifications

The IRS updated the General Rules and Specifications for Substitute Form 941, Schedule B (Form 941), Schedule D (Form 941), Schedule R (Form 941), and Form 8974, which contains revised requirements for paper and computer- generated substitutes of Form 941, Employer's Quarterly Federal Tax Return Form 941, Schedule B, Report of Tax Liability for Semiweekly Schedule Depositors Form 941, Schedule D, Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations Form 941, Schedule R, Allocation Schedule for Aggregate Form 941 Filers and Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities. The updates are reprinted in Publication 4436.

Rev. Proc 2026-11 supersedes Rev. Proc. 2024-11 (there was not an update in 2025). To be acceptable to the IRS, a substitute Form 941 or Schedule B, D, or R must conform to the specifications in Publication 4436.

What's new

- Aggregate return filers. Form 941 was revised to add the Aggregate Return Filers Only section to identify if the party is filing an aggregate return as a section 3504 agent, certified professional employer organization (CPEO), or other third party.
- Direct deposit. Direct deposit fields were added for overpayments. Line 15 was split into separate lines – 15a through 15e – for employers to enter banking information to receive a refund.

IRS Issues Proposed Regulations for Trump Accounts

The IRS proposed regulations that provide general requirements for Trump accounts, which are a new type of individual retirement account (IRA) for eligible children. The accounts were created by Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA).

Trump accounts A Trump account is a type of traditional IRA established for eligible children. Amounts generally cannot be withdrawn from Trump accounts before January 1 of the calendar year in which the child turns 18 years old. After then, the account will be treated as a traditional IRA and will be generally subject to the same rules as other traditional IRAs.

As part of the pilot program established by the OBBBA, eligible children born between 2025-2028 who are United States citizens will also receive a one-time $1,000 contribution from the government when their account is established.

Under the proposed regulations, an authorized individual (parent, legal guardian, adult sibling, or grandparent) can elect to open an initial Trump account for the eligible child on Form 4547, Trump Account Election(s), or online. An election to open an initial Trump account must be made on or before December 31 of the calendar year in which the eligible child attains age 17. The IRS provided an overview of Trump accounts in December.

Employer contributions The OBBBA added IRC §128, which sets forth rules for employer contributions to Trump accounts. Employers may contribute to the Trump account of an employee or an employee's dependent. Contributions to Trump accounts cannot be made before July 4, 2026. In general, contributions are subject to an annual limit of $5,000, which will be adjusted for inflation. Employer contributions are limited to $2,500, which will also be adjusted for inflation after 2027. Under IRC §128, employer contributions to a Trump account are not includible in the employee's income.

The proposed regulations would clarify that a Trump account cannot be a SIMPLE IRA under §408(p) and cannot accept contributions from an employer's SEP arrangement under §408(k). The IRS said it intends to issue guidance under IRC §128.

Comments requested Comments should be submitted in writing on or before May 8, 2026, and should include a reference to IRS and REG- 117270-25. Comments may be submitted electronically via the Federal eRulemaking Portal or mailed to: Internal Revenue Service, CC:PA:01:PR (REG-117270-25), Room 5503, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

IRS Reminds Taxpayers of Scams With Annual Dirty Dozen

On March 5, the IRS published its Dirty Dozen list of tax scams for 2026 and reminded taxpayers to watch for scams. The Dirty Dozen is part of a broader campaign conducted through the Security Summit, which is a partnership among the IRS, state tax agencies, the tax community, software developers, and payroll processors.

Some of the Top 12 scams

- *Overstated withholding schemes that use fabricated wage or withholding data.* Scammers are encouraging taxpayers to inflate withholding amounts (sometimes described as "other withholding") to create a larger refund by reporting zero or little income on the incorrect forms. Inaccurate claims can lead to penalties and enforcement action. Employers should be aware of multiple variations of the overstated withholding credit scheme involving Forms W-2, 1099-R, and 1099-NEC.
- *Scams targeting businesses*. The IRS said businesses should always be cautious and look out for any suspicious requests or unusual behavior before sharing any sensitive information. Warning signs may include unexpected requests for sensitive information, mismatched or unfamiliar sender addresses, urgent payment demands, or links directing users to websites that do not clearly originate from IRS.gov.
- *IRS impersonation*. Scams involve "phishing" or "smishing" attempts in which scammers send emails, direct messages, or texts that appear to be from the IRS. The messages often use alarming language and include QR codes or links that direct taxpayers to fake IRS websites to "verify" accounts, enter personal information, or claim refunds. The IRS said taxpayers should not click links or open attachments from unexpected messages as they may install malware.
- The IRS said *phone scams continue to evolve*, which include calls that use computer-generated tactics and spoofed caller IDs to appear legitimate. The IRS

reminded taxpayers that the agency generally contacts taxpayers by mail first and does not leave urgent or threatening prerecorded messages, call to demand immediate payment, or threaten arrest.

- *Misleading tax advice.* The IRS said viral tax hacks can push taxpayers to file returns with false information or claim credits they do not qualify for, which can lead to refund delays, audits, or penalties. The IRS said that social media-driven misinformation and disinformation remain a major driver of tax scams. This was evidenced in the past confusion caused by scammers encouraging incorrect use of the employee retention credit. The IRS said taxpayers should follow trusted advice from the IRS, tax professionals, and other reputable sources. Additionally, taxpayers should not rely on AI-generated responses to complex tax questions and should verify information.
- *Offer in Compromise mills*. The Offer in Compromise (OIC) program can help eligible taxpayers resolve tax debt when they are unable to pay in full. The IRS warned that OIC "mills" often overpromise results and charge high fees to taxpayers who do not qualify. Taxpayers can check their eligibility for free using the IRS's OIC Pre-Qualifier tool.

How to report scams In February, the IRS launched a webpage to allow taxpayers to confidentially report suspected tax fraud and scams. The webpage consolidates IRS fraud-reporting options into one location and routes tips to the appropriate IRS office. To report suspected IRS-related phishing emails or messages, send them to phishing@irs.gov and follow IRS reporting instructions.

State News

California *Los Angeles city and county minimum wages to increase.* Effective 7-1-26, the minimum wage in the unincorporated county of Los Angeles will increase to $18.47 per hour from $17.81 per hour. Effective 7-1-26, the minimum wage in the city of Los Angeles will increase to $18.42 per hour from $17.87 per hour.

Pay data reporting requirements updated. By 5-13-26, covered employers must report pay, demographic, and other workforce data to the Civil Rights Department for reporting year 2025. Every private employer with 100 or more payroll employees, at least one of whom is a California employee, is required to file a report. Labor contractor reports are also required. Pay data reports should include these new data fields: employees' exemption status, employment type, and weeks worked during the reporting year. FAQs explain these new data field requirements. Demographic information gathered by an employer or labor contractor must be collected and stored separately from an employee's personnel records.

San Francisco employer annual reporting reminder. Employers covered by the San Francisco Health Care Security Ordinance have until 5-1-26 to submit the 2025 Employer Annual Reporting Form. The form is available from the Office of Labor Standards Enforcement. Employers that fail to submit the form will be subject to a penalty of $500 per quarter. The Health Care Security Ordinance requires employers with 20 or more workers to spend a minimum amount on health care for employees who work 8 or more hours per week.

Colorado *Court rules tip pool not allowed when restaurant was closed.* The U.S. District Court for the District of Colorado ruled that a restaurant unlawfully allowed a tip pool to include employees who worked before the restaurant was open. The court said that employees working in the morning before the restaurant began seating customers had minimal customer interaction, so they were not tipped employees. The restaurant also was not allowed to take a tip credit for these employees.

Florida *New UI system to launch in June.* On 6-1-26, a new online system for filing quarterly unemployment insurance (UI) tax reports and making UI tax payments will launch. The new system will be available at https://floridarevenue.com/taxes/eservices/Pages/filepay.aspx. These forms must be filed using the new system: Form RT-6, Florida Department of Revenue Employer's Quarterly Report Form RT-8A, Correction to Employer's Quarterly or Annual Domestic Report and Form RT-7, Florida Department of Revenue Employer's Reemployment Tax Annual Report for Employers of Domestic

Employees Only. After 6-1-26, the new system will be used to file amended or late reports for prior quarters. Second quarter forms, due in July, will be filed using the new system. Employers are advised to download and save previously submitted tax returns and payment information for recordkeeping.

Indiana *OBBBA conformity*. Effective for tax year 2026, employees will be entitled to state personal income tax deductions for qualified tip income and overtime compensation included in Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA).

Tip pools authorized. Effective retroactive to 6-27-24, tip pooling arrangements are authorized under certain circumstances. An employer may require tipped employees to participate in a tip pooling arrangement if tips are shared only with other tipped employees. If the employer pays the employees at least the minimum wage, the tip pool may also include nontipped employees. Managers and supervisors may not participate in tip pools. The employer must notify the employees of the arrangement and any required contribution amount. The law explains that the effective date is retroactive to "correct" the effects of a court ruling issued in 2024.

Michigan *Disaster relief offered*. Employers affected by severe storms in Branch, Cass, and St. Joseph counties may be eligible for state tax relief from the Department of Treasury (DOT). Businesses in an affected county can request an extension if the storm disrupted their ability to meet tax deadlines. Relief applies to several tax types, including withholding tax filings and/or payments due on or before 4-30-26. Requests can be submitted online. If relief is granted, it will include waiver of penalties and interest. The relief does not extend to local taxes.

New UI portal available. The Michigan Unemployment Insurance Agency (UIA) is transitioning to the new Michigan Unemployment Insurance (MiUI) system from the Michigan Web Account Manager (MiWAM). The MiUI system is officially live. Employers should be sure to log in to the new accounts, as first quarter wage and tax filings are due 4-27-26. Employers and third-party administrators need an eight-digit MiUI activation code to set up an account. Go to the old MiWAM homepage and look under the "MiUI Account Activation Code tab" to find the code. After the account is set up, employers can use the link at Michigan.gov/UIA to access MiUI.

UI fraud prevention help requested. The Michigan Unemployment Insurance Agency (UIA) is asking employers and third-party administrators (TPAs) to play an active role in preventing and reporting unemployment insurance (UI) fraud. The agency reminds employers that misclassifying workers, underreporting wages, paying employees off the books, or manipulating payroll to lower tax rates can lead to severe penalties. Employers

and TPAs are encouraged to accurately report employee separations, file new hire reports timely, respond promptly to agency requests for information, and submit quarterly wage reports and taxes. The UIA maintains a UI fraud hotline at 855-484-2636.

New York *New York City time off, pay statement requirements updated*. Updated FAQs are available on the New York City Department of Consumer and Worker Protection website for protected time off and paid prenatal leave. The updated FAQs reflect that employees have access to 32 hours of unpaid leave on their first day of employment, as of 2-22-26. Employers are now required to note on pay statements that employees have 32 hours immediately available for unpaid time off. Employers must provide this information on pay statements: the amount of time off accrued during the pay period the amount of paid and unpaid time off used during the pay period the amount of immediately available hours of unpaid time off available for use in the calendar year and the amount of accrued time off available for use.

Ohio *IRC conformity*. Effective for tax year 2025, references in state law to the Internal Revenue Code (IRC) are updated to mean the IRC as amended and in effect on 3-5-26, with certain exceptions.

Withholding tables to remain in effect. The Department of Taxation (DOT) announced that although Ohio's income tax rates changed for 2026, employers should continue to use the withholding tables that took effect 10-1-25. The DOT said the withholding tables are designed to work for many income levels and filing situations. Currently, no updates to withholding tables are planned.

Oregon *Statewide transit tax increase moved to May election*. On 5-19-26, voters will decide whether to increase the statewide transit tax. Legislation signed by the governor moves up the vote from 11-3-26. Previously, the Oregon statewide transit tax increase was set to take effect 1-1-26. The current tax rate is 0.1%. If the initiative passes, the tax would be raised to 0.2%.

Virginia *IRC, OBBBA conformity updated*. Effective 2-20-26, the state conforms to the Internal Revenue Code (IRC) as of 12-31-25. Previously, Virginia followed the current version of the IRC. According to the Department of Taxation (DOT), Virginia will generally conform to provisions of Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA), to the extent that they affect the computation of federal adjusted gross income or federal itemized deductions for individuals. This includes deductions for qualified tip and overtime income.