

Government Liaison Report

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Federal News

President Signs Reconciliation Bill Into Law

On July 4, President Trump signed H.R. 1, the One Big Beautiful Bill Act (OBBBA), into law (Pub. L. 119-21). On July 3, the House of Representatives had narrowly passed the Senate version of H.R. 1 by a vote of 218-214. The OBBBA contains several provisions that will affect payroll.

Here are highlights from Title VII, Subtitle A, regarding taxes:

- **Permanent extension of the Tax Cuts and Jobs Act (TCJA Chapter 1).** Text for most provisions from the TCJA law has changed from “2018 through 2025” to “beginning after 2017.”
- **No tax on tips (Chapter 2, §70201).** The legislation provides a temporary elimination of federal income taxation on qualified tips through a deduction on an individual’s tax return. Employers will still deduct payroll taxes. The deduction is retroactive to January 1, 2025, and expires on December 31, 2028.
- **No tax on overtime (Chapter 2, §70202).** The legislation provides a temporary exemption of federal income taxation of overtime pay. The exemption would apply only to the overtime premium. The legislation establishes a deduction, subject to certain limitations, equal to the “qualified overtime compensation received during the taxable year” up to \$12,500 (\$25,000 for joint filers). The legislation also includes a requirement to report overtime compensation on Form W-2, Wage and



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Tax Statement. This provision is retroactive to January 1, 2025, and expires on December 31, 2028.

- Increase in Form 1099-MISC and Form 1099-NEC reporting threshold from \$600 to \$2,000 (Chapter 4, Subchapter D, §70433). This provision is effective beginning with payments made in 2026. The threshold is also subject to inflation adjustments beginning in 2027.
- Section 70101 – Extension and enhancement of reduced tax rates. The TCJA retained seven tax brackets but adjusted tax rates and taxable income levels. The OBBBA makes permanent the TCJA's tax rates – 10%, 12%, 22%, 24%, 32%, 35%, and 37%. As the tax rates are permanent, the two-tiered system for withholding income tax from supplemental wages at a flat rate should remain at TCJA levels as well:
 - Optional flat rate: 22%. The optional flat tax rate on supplemental wages of up to \$1 million in a taxable year is tied to a section of the Internal Revenue Code that the TCJA had suspended. The rate should remain at 22% (no other percentage allowed).
 - Mandatory flat rate: 37%. The OBBBA retains the 37% mandatory flat rate for withholding on supplemental wages of more than \$1 million, which was lowered by the TCJA.
 - The OBBBA retains the 24% backup withholding rate, which was lowered from 28% by the TCJA.
- Section 70103 – Termination of deduction for personal exemptions under IRC §151(d)(5). The OBBBA eliminates the personal exemption claimed by taxpayers for themselves and their spouse and dependents. The TCJA had a temporary elimination, which resulted in the redesign of Form W-4, Employee's Withholding Certificate. The IRS has not yet said whether it will require every employee to use the newer Form W-4 format, which was introduced in 202
- Section 70104 – Extension and increase in child tax credit under IRC §24(h). The child tax credit is increased to \$2,200 from \$2,000 per qualifying child. The amount will be adjusted annually by the cost of living rounded to the next multiple of \$100.
- Section 70112 – Qualified transportation fringe benefits. The TCJA eliminated the business tax deduction that employers were allowed for the costs incurred by the employer to provide qualified transportation fringe benefits (qualified parking, transit passes, and van pools) to their employees. In addition, the TCJA provision temporarily suspended the exclusion from income for qualified bicycle commuting reimbursements. Both were made permanent by the OBBBA.



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- Section 70113 – Elimination of moving expense reimbursements under IRC §132. The OBBBA makes the TCJA’s temporary elimination of the exclusion from employees’ income for qualified moving expense payments and reimbursements made by employers permanent. Moving expense deductions are no longer allowed unless specifically authorized by Congress. *NEW: The OBBBA extends the exclusion for moving expenses for members of the U.S. Armed Forces on active duty who move because of a permanent change of station to include members of the intelligence community who move pursuant to a change in assignment.
- Section 70304 – Employer credit for paid family and medical leave under IRC §45S extended and enhanced. The TCJA created a tax credit for employers that provide leave to their employees, and the OBBBA permanently extended the credit. The OBBBA makes the tax credit permanent and lowers the requirement for employees to be employed for 6 months instead of 1 year. The OBBBA also allows state and local mandated paid leave to count toward the eligibility for the tax credit. Employers may only claim a credit for the amount of paid leave that exceeds the state or local mandated amounts. In addition, the OBBBA also allows employers to claim a credit for premiums paid toward qualifying paid leave insurance policies.
- Section 70305 – Deductibility of employer de minimis meals and related eating facility and meals for the convenience of the employer under IRC §274. Under the TCJA, employers were generally allowed to deduct 50% of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). The TCJA also expanded this 50% limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringe benefits and for the convenience of the employer. The OBBBA makes these deductions permanent.
- Section 70404 – Enhancement of the dependent care assistance program. For tax years beginning after December 31, 2025, the OBBBA increases the excluded amount of dependent care assistance to \$7,500 in a year (\$3,750 for married individuals filing separately) or the employee’s earned income for the year, whichever is less.
- Section 70412 – Exclusion for employer payments of student loans. The OBBBA makes permanent the temporary Coronavirus Aid, Relief, and Economic Security (CARES) Act provision allowing qualified employer-provided student loan repayment assistance to be treated as qualified educational assistance under IRC §127. For tax years beginning after 2026, the limit for qualified educational assistance will be adjusted for inflation in multiples of \$50. The current limit is \$5,250.

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SSA Releases Tax Year 2025 W-2 Electronic Filing Specs

The Social Security Administration's (SSA) tax year 2025 EFW2 and EFW2C booklets, which contain specifications for the electronic filing of Form W-2, Copy A, and Form W-2c, Copy A, respectively, are available to download from SSA's website [SSA Pub. No. 42-007, Specifications for Filing Forms W-2 Electronically (EFW2): Submitting Annual W-2 Copy A Information to the Social Security Administration SSA Pub. No. 42-014, Specifications for Filing Forms W-2c Electronically (EFW2C): Submitting Annual W-2c (Correction) Copy A Information to the Social Security Administration see The Payroll Source®, §8.14]. Electronic submitters using the EFW2 specifications should use the EFW2C specifications for making corrections electronically.

Filing deadlines

- For tax year 2025, Business Services Online (BSO) filers may upload their files beginning on December 8, 2025, for both EFW2 and EFW2C files. Electronic Data Transfer (EDT) filers also may transfer files beginning on December 8, 2025.
- The IRS deadline for electronic filing is February 2, 2026, for Forms W-2.
- Submit an EFW2C file as soon as you discover an error.

IRS Says FIRE Users Should Transition to IRIS Soon

During the June IRIS working group, a representative from the IRS said users should transition from filing returns electronically through the Filing Information Returns Electronically (FIRE) system to the Information Returns Intake System (IRIS) because FIRE will be retired January 2027 (see PAYROLL CURRENTLY, Issue 6, Vol. 33). The IRS provided information about IRIS, including the steps to transition, helpful hints, and how to make corrections within the system. Slides from the working group meetings and questions and answers are available on the IRIS Working Group Meetings and Notes webpage.

DHS Creates Report to Notify E-Verify Users of Revoked EADs

The U.S. Department of Homeland Security (DHS) developed a report to help employers registered with E-Verify to identify if any of their E-Verify cases were created with an Employment Authorization Document (EAD) that has been revoked [E-Verify, New 'Status Change Report' for E-Verify Users Following Parole Termination and EAD Revocation, 6-20-25].

DHS said it has been revoking EADs for certain aliens whose parole has been terminated. The revocations may be on a case-by-case basis or for groups, such as aliens paroled through the Processes for Cubans, Haitians, Nicaraguans, and Venezuelans



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(CHNV). DHS developed the Status Change Report to help employers identify if they have one or more employees with revoked EADs

What is in the report

The new Status Change Report allows E-Verify employers to review their aggregated case data for any employees who presented an EAD for employment verification that has been revoked by DHS. The report contains the document revocation date, case number, and A-number for each affected case. DHS said it will update the data in these reports regularly as it continues to revoke EADs. The Status Change Report replaces the use of Case Status Alerts for EAD revocations.

Reverification is required

Employers should use Supplement B of Form I-9, Employment Eligibility Verification, to immediately begin to reverify each current employee listed on the Status Change Report with a revoked EAD. DHS said employers must complete all reverifications “within a reasonable amount of time.”

The employees listed on the report must provide unexpired documentation from List A or List C of the Form I-9 Lists of Acceptable Documents. Employers should not reverify identity documents (from List B). During the reverification process, employers must allow employees to choose which acceptable documentation to present for reverification. Employers may not accept the now-revoked EAD, based on the Status Change Report, even if that EAD appears unexpired on its face.

Employers should not create a new E-Verify case for employees listed on the report.

Employers cannot continue employing a person who does not provide proof of current employment authorization. For more information on reverification of employees, employers can see the Completing Supplement B, Reverification and Rehires (Formerly Section 3) webpage or the EAD Revocation Guidance for E-Verify Employers webpage.

District of Columbia, North Carolina Are Now Using the e-NMSN

The District of Columbia and North Carolina join Delaware, Louisiana, Nebraska, Virginia, and Wyoming in implementing the use of the electronic National Medical Support Notice (e-NMSN) for child support [Office of Child Support Services (OCSS), States Using e-NMSN, 6-30-25].

Two states – Missouri and New Jersey – are in the testing phase for e-NMSN.

Employers that want more information can contact eNMSNmail@acf.hhs.gov

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DOL Launches, Updates Self-Audit Programs to Strengthen Compliance with Federal Labor Laws

The U.S. Department of Labor has announced several programs designed to help employers, unions, and pension plans voluntarily assess and improve their compliance with federal labor laws. The self-audit programs, which include new and updated offerings, aim to enhance worker protections while reducing the likelihood of formal investigation or litigation.

- *Employee Benefits Security Administration*: EBSA offers two key self-correction programs for fiduciaries and benefits plan administrators: the Voluntary Fiduciary Correction Program, which encourages employers and plan officials to voluntarily correct violations of the Employee Retirement Income Security Act, and the Delinquent Filer Voluntary Compliance Program, which encourages voluntary compliance with ERISA's annual reporting requirements and offers incentives to late filers, including paying lower penalties.
- *Wage and Hour Division*: The Wage and Hour Division is restarting the Payroll Audit Independent Determination program to enable employers to self-identify and resolve minimum wage, overtime, and leave violations under the Fair Labor Standards Act and Family and Medical Leave Act.

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State News

Alabama

Overtime wage exemption expired reporting guidance issued. On 6-30-25, the state income tax exemption applicable to overtime wages ended (see PAYROLL CURRENTLY, Issue 6, Vol. 33). Exempt overtime wages earned on or before 6-30-25 but not paid until 7-1-25 or later may be reported on the July Form A-6, Employer's Monthly Return of Income Tax Withheld, or the September Form A-1, Employer's Quarterly Return of Income Tax Withheld. The requirement to report exempt overtime wage data ends with the last withholding report to include any exempt overtime wages paid. Employers will still report exempt overtime wages earned from 1-1-25 to 6-30-25 on the employee's Form W-2, Box 14, Other, using "EX OT WAGES" as the indicator. Employers should not include any exempt overtime wages in Box 16, State wages, tips, etc. For employers that use the bulk filing method, the overtime fields should be kept in the bulk filing spreadsheets, but the fields should reflect zero exempt overtime wages [Department of Revenue, Overtime Pay Exemption – Amended].

Alaska

Paid sick leave guidance issued. Ballot Measure 1 increased the minimum wage to \$13 per hour on 7-1-25 and established paid sick leave (PSL) requirements. The Alaska Department of Labor and Workforce Development issued FAQs to clarify the changes. Employers must provide 1 hour of PSL for every 30 hours worked, whether the hours worked are straight time or overtime. Small employers with fewer than 15 employees are required to allow employees to accrue and use up to 40 hours of PSL per year. Employers with 15 or more employees are required to allow employees to accrue and use up to 56 hours of PSL per year.

California

ACH tax payments code added. The Employment Development Department (EDD) added a new payroll tax type code (01500) to be used when making return adjustment payments through ACH credit. Employers should use the new code if money is owed after making changes with: DE 9ADJ, Quarterly Contribution and Wage Adjustment Form DE 938, Voluntary Plan for Disability Insurance Quarterly Adjustment Form or DE 678, Tax and Wage Adjustment Form [EDD, Employer Updates].

Online services for employers updated. The Employment Development Department (EDD) improved navigation and streamlined the enrollment process for e-Services for



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Business. The EDD also expanded enrollment options to provide directions to explain: how employers can access accounts or register for a new account, how representatives can access accounts for employers, and how business owners can report independent contractors [EDD, Employer Updates].

District of Columbia

Paid family and medical leave rates unchanged. For the duration of 2025, the employer contribution rate for paid family and medical leave (PFML) will remain at 0.75%. Last year, the PFML rate changed for the third and fourth quarters. PFML is due quarterly with the second quarter taxes due on 7-31-25 [Office of Paid Family Leave, PFL Tax Rate Table].

Georgia

Withholding tables revised supplemental wage tax rate reduced. Effective for wages paid on or after 7-1-25, the Department of Revenue (DOR) issued revised wage bracket and percentage method withholding tables. Legislation was passed that reduced the personal income tax rate to 5.19% from 5.39%, retroactive to 1-1-25. Also effective 7-1-25, the supplemental wage tax rate was reduced to 5.19% from 5.39% (this updates The Payroll Source®, §6.4-4). An updated tax guide is available [DOR, Employer's Tax Guide, rev. June 2025].

Maryland

EWA provider registration required. Effective 10-1-25, a person may not engage in the business of providing earned wage access (EWA) in the state unless the person is licensed under state law or is exempt from the licensing requirements. A licensed EWA provider is exempt from other provisions of state law governing lending, credit, or debt. Beginning in 2026, EWA providers will submit a report, due by July 1, to the Office of Financial Regulation. Providers will be required to offer at least one reasonable option to obtain EWA at no cost, when the provider offers services for a fee or solicits an optional tip. An EWA provider may charge a fee for delivery or expedited delivery of EWA services. The fees cannot exceed \$5 for any advance of proceeds equal to or less than \$75 or \$7.50 for any advance of proceeds greater than \$75 [H.B. 1294, L. 2025].

Nebraska

Paid sick leave required. Effective 10-1-25, employers (with 11 or more employees) must offer paid sick leave (PSL). Independent contractors, agricultural employees, temporary and seasonal employees, and employees under 16 years old are excluded from

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PSL requirements. PSL provided on or after 1-1-25 and before 10-1-25 will be counted toward an employer's 2025 PSL obligations. Employees will begin to accrue PSL after 80 hours of employment. Employers are not required to pay unused PSL on termination. Employees do not have a right to sue for violations [L.B. 415, L. 2025].

Ohio

UI employer guide updated. The Department of Job and Family Services (DJFS) updated its guide to unemployment insurance (UI) taxes and benefits. It includes information on The SOURCE, a secure online system to manage UI tax accounts, file wage reports, and pay UI taxes. The guide includes step-by-step instructions on how to register [DJFS, Employer's Guide to Unemployment Insurance].

Oklahoma

Tip credit to increase. Effective 11-1-25, employers may take a tip credit of \$5.12 per hour against the minimum wage as long as the employer pays the employee at least the federal minimum cash wage of \$2.13 per hour (this updates The Payroll Source®, \$2.11-2). Currently, employers may take a tip credit of up to 50% of the minimum wage, or \$3.62 per hour. Effective 11-1-25, if the state minimum wage exceeds the federal minimum wage, the employer may take a tip credit against the minimum wage for all tips, gratuities, meals, or lodging received by the employee. Both the state and federal minimum wage are currently \$7.25 per hour [S.B. 250, L. 2025].

Oregon

Pay statement notice required. Effective 1-1-26, employers will be required to provide a notice to new employees, at the time of hire, explaining information included on the pay statement, such as: the employer's established pay period a list of benefit deductions and contributions any allowances claimed as part of the minimum wage and all payroll codes used for pay rates and deductions. An employer can make the information available to employees in a location easily accessible to them, such as a link to a website, a physical document posted in a central location, a shared electronic file, or by email. The Bureau of Labor and Industries will develop a model that includes commonly used statewide deductions. An employer that violates the requirement will be subject to a \$500 penalty [S.B. 906, L. 2025].

Virginia

Withholding tables revised. Effective for wages paid on or after 7-1-25, the Department of Taxation (DOT) has issued revised wage bracket and computer formula

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withholding tables. Legislation was passed to increase standard deduction amounts and the revised tables reflect this [DOT, Income Tax Withholding Guide for Employers, rev. May 2025].

Washington

Employee access to personnel records granted. Effective 7-25-26, employers are required to provide employees their personnel file within 21 days of an employee's request. These records (if the employer created them) are included: job applications, performance evaluations, disciplinary records, leave and reasonable accommodation records, payroll records, and employment agreements. The personnel file must be provided at no cost to an employee, a former employee, or a designee. Penalties for failure to comply range between \$250 and \$1,000. In addition, employees and former employees may enforce their rights by filing a lawsuit [H.B. 1308, L. 2025].

UI taxable wage base to increase. For 2026, the unemployment insurance (UI) taxable wage base will increase to \$78,200 from \$72,800 (this updates The Payroll Source®, §7.2-2) [Employment Security Department, News Release, 6-6-25].

Voluntary UI contributions due date moved. Effective for voluntary unemployment insurance (UI) contributions made in 2026, the due date is moved to March 1 from March 31 (this updates The Payroll Source®, §7.2-4). The requirement for employers to have increased their rate by at least eight rate classes is unchanged. If an employer is charged benefits due to a worker strike, the Employment Security Department will evaluate whether the employer is eligible to make a voluntary contribution and will notify eligible employers that a contribution can be made to reduce the employer's tax rate [S.B. 5041, L. 2025]