

Government Liaison Report

December 2025



Overview

- **Federal News:**
 - IRS Announces 2026 Retirement Plan Contribution, Benefit Limits
 - IRS Provides Guidance for Employees to Claim OBBBA Deductions
 - California, Virgin Islands Subject to FUTA Credit Reduction for 2025
 - IRS Releases 2025 ACA Forms Instructions Have Furnishing Update
 - IRS Releases 2025 Form 944 and Instructions
 - IRS Announces Quarterly Interest Rates
 - IRS Releases 2025 Form 2555 and Instructions
 - IRS Reminds Employers WOTC Is Available Until End of Year
 - IRS Notice Updated to Explain EIC Requirements
- **State News:**
 - Alabama, California, Colorado, District of Columbia, Iowa, Kentucky, Minnesota, Nebraska, New Mexico, New York, Oregon, South Carolina, Washington

Federal News

IRS Announces 2026 Retirement Plan Contribution, Benefit Limits

The IRS has announced the cost-of-living adjustments (COLAs) to the dollar limits on benefits and contributions under qualified retirement plans, as well as other items, for tax year 2026 [Notice 2025-67, 2025-49 IRB 761].

IRC §415, which provides for dollar limits on benefits and contributions under qualified retirement plans, requires that the IRS annually adjust these limits for cost-of-living changes. The IRC also requires various other amounts to be adjusted at the same time and in the same manner as these dollar limits.

- The limitation on the exclusion for elective deferrals under §402(g)(1) (e.g., §401(k) and §403(b) plans) increases to \$24,500 (from \$23,500).
- The limit on annual additions to defined contribution plans under §415(c)(1)(A) increases to \$72,000 (from \$70,000).
- The limit on the annual benefit under a defined benefit plan contained in §415(b)(1)(A) increases to \$290,000 (from \$280,000).
- The annual compensation limit under §401(a)(17), §404(l), §408(k)(3)(C), and §408(k)(6)(D)(ii) increases to \$360,000 (from \$350,000).



December 2025

- The compensation amount under §408(p)(2)(E) regarding elective deferrals to SIMPLE retirement accounts increases to \$17,000 (from \$16,500).
- The limitation under §457(e)(15) concerning elective deferrals to deferred compensation plans of state and local governments and tax-exempt organizations (§457(b) plans) increases to \$24,500 (from \$23,500).
- The limitation under §416(i)(1)(A)(i) concerning the definition of “key employee” in a top-heavy plan increases to \$235,000 (from \$230,000).
- The limitation under §414(v)(2)(B)(i) for catch-up contributions to §§401(k), 403(b), and 457(b) plans for individuals age 50 or over increases to \$8,000 (from \$7,500).
- The limitation under §414(v)(2)(E)(i) for catch-up contributions to an applicable employer plan other than a plan described in §§401(k)(11) or 408(p) that applies for individuals who attain age 60, 61, 62, or 63 remains \$11,250. This is one of the new SECURE 2.0 Act provisions.
- The Roth catch-up wage threshold for 2025, which, under §414(v)(7)(A), is used to determine whether an individual’s catch-up contributions to an applicable employer plan (other than a plan described in §408(k) or (p)) for 2026 must be designated Roth contributions, increases to \$150,000 (from \$145,000). Reminder: The requirement that catch-up contributions must be Roth contributions for individuals who exceed the wage threshold in the previous year was delayed until 2026. The IRS issued final regulations in September that are effective in 2027 but did not extend the transition period. Plans that allow for catch-up contributions must comply with the Roth catch-up requirement beginning January 1, 2026. Catch-up contributions from employees who received \$150,000 or more in FICA wages in 2025 must be designated Roth contributions in 2026. The final regulations provide relief for employers that make good-faith efforts to comply in 2026.
- The limitation under §414(v)(2)(B)(ii) for catch-up contributions to an employer’s SIMPLE plan for individuals age 50 and over increases to \$4,000 (from \$3,500). The limitation under §414(v)(2)(E)(ii) for catch-up contributions to an applicable employer plan described in §§401(k)(11) or 408(p) that applies for individuals who attain age 60, 61, 62, or 63 remains \$5,250.
- The limitation under §414(v)(2)(B)(iii) for catch-up contributions to certain accounts or plans described in §§401(k)(11) or 408(p) that generally applies for individuals aged 50 or over remains \$3,850.
- The limitation used in the definition of “highly compensated employee” under §414(q)(1)(B) remains \$160,000.

Government Liaison Report



December 2025

- The annual compensation limit under §401(a)(17) for eligible participants in certain government plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limit under the plan under §401(a)(17) to be taken into account, increases to \$535,000 (from \$520,000).
- The compensation amount under §408(k)(2)(C) regarding simplified employee pensions (SEPs) increases to \$800 (from \$750).
- The limitation under §402A(e)(3)(A)(i) concerning pension-linked emergency savings accounts (PLESAs) that may be included in certain types of defined contribution plans increases to \$2,600 (from \$2,500).
- The compensation amount under Treas. Reg. §1.61-21(f)(5)(i), concerning the definition of “control employee” for fringe benefit valuation purposes, increases to \$145,000 (from \$140,000). The compensation amount under §1.61-21(f)(5)(iii) increases to \$290,000 (from \$285,000).
- The limit on annual contributions to an Individual Retirement Arrangement increases to \$7,500 (from \$7,000). The additional catch-up contribution limit for individuals age 50 and over increases to \$1,100 (from \$1,000)

IRS Provides Guidance for Employees to Claim OBBBA Deductions

On November 21, the IRS issued guidance to help eligible employees claim the tax deductions for qualified tips and for qualified overtime compensation for tax year (TY) 2025 [Notice 2025-69, 11-21-25]. The deductions are part of Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA). Both deductions are retroactive to January 1, 2025, and expire on December 31, 2028. The 30-page notice outlines alternative methods employees can use to calculate the deductions on their individual income tax returns. Employers are already required to include the total amount of cash tips reported to it by the employee in Box 7, Social security tips, on Form W-2, Wage and Tax Statement.

What should employers do?

The IRS reiterates in the guidance that, for 2025 amounts reported in 2026, employers are not required to separately report the qualified overtime or qualified tip amounts on Form W-2, or in a separate statement. The latest guidance states that employers will not face penalties for failing to provide a separate accounting of any amounts reasonably designated as cash tips or the occupation of the person receiving such tips. In addition, employers will also not face penalties for failing to separately provide the total amount of qualified overtime compensation to employees. The relief is limited to returns and statements filed and provided for TY 2025. The IRS had already announced it

Government Liaison Report



December 2025

will provide employers with penalty relief in connection with new information reporting requirements for qualified tips and qualified overtime compensation required under the OBBBA (Notice 2025-62, 2025-48 IRB 740). The IRS does encourage employers to help inform employees of qualified tips and qualified overtime. Many payroll professionals and their organizations want to provide as much information as possible to employees.

TY 2025 is a transition period

The IRS is aware employers may not have the information required to be reported under the OBBBA. The IRS had already announced that Forms W-2 and Forms 1099 for TY 2025 will not be updated to account for OBBBA- related changes. Instead, the IRS will treat TY 2025 as a transition period for IRS enforcement and administration of the new information reporting requirements for cash tips and qualified overtime compensation under the OBBBA. The IRS said it is in the process of updating income tax. forms and instructions for individual taxpayers to use this upcoming filing season.

No tax on overtime overview

OBBBA §70202 provides eligible employees a temporary federal income tax deduction for qualified overtime pay. The deduction applies only to the overtime premium. Employers will continue to withhold federal income tax and social security and Medicare taxes on overtime pay. Employees are responsible for claiming the deduction on their individual tax return. Limits. The legislation provides eligible individuals a deduction “of an amount equal to the qualified overtime compensation received during the taxable year” up to \$12,500 (\$25,000 for joint filers). The amount allowed as a deduction will be reduced by \$100 for each \$1,000 an individual earns above an adjusted gross income of \$150,000 (\$300,000 for joint filers).

Qualified overtime compensation.

The term “qualified overtime compensation” is defined as “overtime compensation paid to an individual required under §7 of the Fair Labor Standards Act of 1938 (FLSA) that is in excess of the regular rate at which the individual is employed.” Tips are not included in qualified overtime compensation. Employees covered by the FLSA generally must receive overtime pay for hours worked in excess of 40 in a workweek at a rate not less than 1½ times their regular rate of pay. Generally, overtime is based on the employee’s regular rate of pay and the number of hours actually worked in a workweek. The IRS warned that the Internal Revenue Code and the FLSA have different definitions of “employee,” so it is possible for a nonemployee under the IRC to be an employee under the FLSA. The OBBBA limits the overtime premium to the premium portion only – the “half” or 0.5 portion of the

Government Liaison Report



December 2025

time and a half. For example, an employee who is paid \$15 per hour would receive \$22.50 per hour for overtime. The “overtime premium” eligible for the tax deduction in this instance would be \$7.50. Overtime is limited to FLSA. Some employers – on their own initiative, under a collective bargaining agreement with a union, or under state law (such as daily overtime for more than 8 hours worked) – may provide overtime pay that is not required by the FLSA (non-FLSA overtime). For example, an employer may choose to pay double time for hours worked over 40 in a workweek or to pay employees more to work on weekends or holidays. In these instances, the additional 0.5 portion required by the FLSA (for hours worked over 40 in a workweek) would be qualified overtime, but the payments in excess of the FLSA-required premium (the non-FLSA overtime) are not.

No tax on tips overview

OBBBA §70201 provides eligible employees a temporary federal income tax deduction for “qualified tips,” which may be claimed on an individual’s federal income tax return. As with overtime pay, employers will continue to withhold federal income tax and social security and Medicare taxes. Employees are responsible for claiming the deduction on their tax return. Limits. The legislation provides eligible individuals a deduction “of an amount equal to the qualified tips received during the taxable year” up to \$25,000. The amount allowed as a deduction will be reduced by \$100 for each \$1,000 an individual earns above an adjusted gross income of \$150,000 (\$300,000 for joint filers).

Qualified tips.

The law defines “qualified tips” as cash tips received by an individual in an occupation that customarily and regularly received tips on or before December 31, 2024. Cash tips include tips received from customers paid in cash or charged and tips received under a tip-sharing arrangement. Qualified tips must: be paid voluntarily without any consequence in the event of nonpayment not be the subject of negotiation and be determined by the payor. Mandatory service charges and automatic gratuities are not considered qualified tips. On September 22, the U.S. Department of the Treasury released proposed regulations that include the list of tip occupations that customarily and regularly received tips on or before December 31, 2024 (90 F.R. 45340, 2025-42 IRB 495). The proposed regulations list nearly 70 separate occupations of tipped workers categorized by a Treasury Tipped Occupation Code (TTOC). Each occupation has a three-digit TTOC and is grouped into one of eight categories. Tips must also be “received in course of trade or business.” The OBBBA provides that tips do not qualify for the deduction if they are received in the course of certain specified trades or businesses. The proposed regulations issued in September would add IRC §224(d)(2)(B), which provides that qualified tips do not



Government Liaison Report

December 2025

include those received in the course of a trade or business that is a specified service trade or business (SSTB). An SSTB is any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or 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 or owners, or that involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities.

More information

The IRS created the One Big Beautiful Bill Act provisions webpage, which provides information on several OBBBA provisions. The website will be updated as more IRS guidance is released. PayrollOrg will provide information to members as soon as additional guidance is available. Check the OBBBA Payroll Hot Topics page for the latest updates. To learn how the OBBBA will affect your year-end processing and to prepare for changes in 2026, attend one of PayrollOrg's Preparing for Year-End programs. This seminar provides updates on the latest changes in legislation and regulations that affect the close of 2025 and the first payroll of 2026.

California, Virgin Islands Subject to FUTA Credit Reduction for 2025

According to the U.S. Department of Labor (DOL), California and the Virgin Islands did not pay back their federal loans by the November 10, 2025, deadline and will lose the full Federal Unemployment Tax Act (FUTA) credit for 2025 [DOL, Final 2025 Federal Unemployment Tax Act (FUTA) Credit Reductions, rev. 11-10-25]. For 2025, California is subject to a FUTA credit reduction of 1.2%, and the Virgin Islands is subject to a FUTA credit reduction of 4.5%. Both were subject to a credit reduction for 2024. The Virgin Islands had a credit reduction in each of the past 14 years (2011-2024). Earlier this year, Connecticut and New York were listed as potential credit reduction states, but they paid off their outstanding loans by the deadline. Both states appear on the final list with a reduction amount of zero.

Form 940, Schedule A lists reduction

The additional FUTA tax must be deposited by the due date of the 2025 federal Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, which is February 2, 2026. The 2025 Schedule A (Form 940), Multi-State Employer and Credit Reduction Information, contains the official list of credit reduction states, and the credit reduction total from Schedule A is reported on Form 940. The Schedule A, released on November 24,



Government Liaison Report

December 2025

lists California and the Virgin Islands. The IRS offers filing an amended Form 940 as part of Modernized e-File (MeF).

IRS Releases 2025 ACA Forms Instructions Have Furnishing Update

The IRS released the 2025 Affordable Care Act (ACA) forms and instructions with no substantial changes. For calendar year 2025, these forms are required to be filed by March 2, 2026, or March 31, 2026, if filing electronically.

Change to form furnishing requirements

Effective for returns for calendar years after 2023, the Paperwork Burden Reduction Act allows employers to furnish recipient copies to individuals by request only. This means employers no longer have to automatically furnish forms to individuals. This law was enacted in December 2024, so employers may not be taking advantage of the new lowered requirements. On February 21, the IRS issued Notice 2025-15, which provides guidance on the alternative manner of furnishing ACA health insurance coverage statements to individuals. The guidance does not affect the due date for filing ACA returns with the IRS. Employers will be treated as furnishing recipient copies timely if the employer provides the individual with notice that a copy is available upon request. If an individual requests a recipient copy, the employer must furnish it no later than January 31 of the year the form was required to be furnished or 30 days after the request. Notice requirements. The notice must be timely posted (by the due date for furnishing the statement, including the automatic 30-day extension) and retained on the employer's website through October 15 of the year following the calendar year to which the statement relates. For 2025 statements, the employer must post the notice by March 2, 2026. The notice must be clear, conspicuous, and accessible to the individual and state that responsible individuals may receive a copy of their statement upon request. The notice must include an email address, a physical address to which a request for a statement may be sent, and a telephone number that individuals may use to contact the employer with any questions. Previously, only self-insured employers could use this manner of furnishing Form 1095-C to non-full-time employees (employees who were not full-time employees for any month of the calendar year) and non-employees enrolled in the plan (e.g., non-employee directors, retired employees, COBRA beneficiaries).

IRS Releases 2025 Form 944 and Instructions

The IRS released the 2025 Form 944, Employer's Annual Federal Tax Return, and its instructions with changes due to Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA). Form 944 is designed so the smallest employers (those whose annual liability

Government Liaison Report



December 2025

for social security, Medicare, and withheld federal income taxes is \$1,000 or less) can file returns and pay these taxes only once a year instead of every quarter.

What's new

Electronic payments only. Executive Order (EO) 14247, Modernizing Payments to and From America's Bank Account, mandates the transition to electronic payments for all federal disbursements (see "Inside Washington" for July 2025). This means the IRS will now issue Form 944 tax refunds by direct deposit and will not send paper checks. Employers can still choose to have Form 944 overpayments applied to their next return by checking the appropriate box on the new Line 12b. Line 12 was split into separate lines – 12a through 12e – for employers to enter banking information to receive a refund. EO 14247 also mandates the transition to electronic payments for all payments made to the federal government, which means employers must pay any balance due on Form 944 electronically. Employers must use electronic funds transfer (EFT) to make federal tax deposits, which can be made using the Electronic Federal Tax Payment System (EFTPS), IRS Direct Pay, or an IRS business tax account.

Transcripts available electronically. Employers can access Form 944 return transcripts for tax years 2023 and later using an IRS business tax account.

Updated mailing addresses. The IRS encourages employers to file Form 944 electronically. Employers that file a paper return should verify the mailing address in the Form 944 instructions because some of the addresses have changed.

Reminders

Employers can request to file quarterly Forms 941 instead of Form 944. Employers can contact the IRS to request to file Forms 941, Employer's Quarterly Federal Tax Return, instead of Form 944. To request to file quarterly Forms 941 for the 2026 calendar year, employers can call the IRS at 800-829-4933 between January 1, 2026, and April 1, 2026, or send a written request postmarked between January 1, 2026, and March 16, 2026, to the IRS at the address included in the Form 944 instructions. Correcting forms. Employers that need to amend a previously filed Form 944 should make the correction using Form 944-X, Adjusted Employer's Annual Federal Tax Return or Claim for Refund. Credit or debit card payments. Employers can pay the balance due shown on Form 944 by credit or debit card. Payments will be processed by a payment processor that will charge a processing fee. Employers should not use a credit or debit card to make federal tax deposits.

Government Liaison Report



December 2025

Due dates

Employers must file the 2025 Form 944 by February 2, 2026, unless they made deposits on time in full payment of the taxes due for the year, in which case the deadline is extended to February 10. For employers that file on paper, the IRS will treat Form 944 as filed on time if the envelope containing Form 944 is properly addressed, contains sufficient postage, and is postmarked by the U.S. Postal Service (or sent by an IRS-designated private delivery service) on or before the due date.

IRS Announces Quarterly Interest Rates

The IRS announced the interest rates for the first quarter of 2026 (i.e., the calendar quarter beginning January 1) will remain:

- 7% (6% in the case of a corporation) for tax overpayments
- 7% for tax underpayments
- 9% for large corporate underpayments and
- 4.5% for the portion of a corporate overpayment exceeding \$10,000 [Rev. Rul. 2025-22, 2025-48 IRB 719].

IRS Releases 2025 Form 2555 and Instructions

The IRS released the 2025 Form 2555, Foreign Earned Income, and its instructions. Employees can use Form 2555 to figure their foreign earned income exclusion and housing exclusion or deduction.

What's new

Exclusion amount. For 2025, the maximum foreign earned income exclusion amount is \$130,000. For 2026, the amount increases to \$132,900 (see PAYROLL CURRENTLY, Issue 11, Vol. 33).

Windfall Elimination Provision. The Windfall Elimination Provision was repealed by Public Law 118-273, the Social Security Fairness Act of 2023, which was effective for social security payments after December 2023. The Windfall Elimination Provision was a formula used to adjust social security worker benefits for individuals who received “noncovered pensions” and qualified for social security benefits based on other social security covered earnings

IRS Reminds Employers WOTC Is Available Until End of Year

Several times this year the IRS reminded employers that they can apply for the work opportunity tax credit (WOTC), which will be available only until the end of 2025 [IRS Tax Tip

Government Liaison Report



December 2025

2025-60, 9-4-25].The WOTC is a federal tax credit available to employers that hire individuals from certain targeted groups who have faced significant barriers to employment. The WOTC is available for wages paid to certain individuals who begin work on or before December 31, 2025. Congress may pass legislation to extend the WOTC beyond 2025.

WOTC details

In general, the WOTC is equal to 40% of up to \$6,000 of wages (\$2,400) paid to, or incurred on behalf of, an individual who is in their first year of employment is certified as a member of a targeted group and performs at least 400 hours of service for an employer. The rate is lowered to 25% for individuals who perform fewer than 400 but at least 120 hours of service for an employer. For certain qualified veterans, up to \$24,000 in wages may be taken into consideration for the credit.

Groups eligible for the WOTC include:

- Qualified recipients of long-term family assistance long-term unemployment Supplemental Nutrition Assistance Program benefits Supplemental Security Income or a state program funded under Part A of Title IV of the Social Security Act relating to Temporary Assistance for Needy Families,
- Formerly incarcerated individuals,
- Qualified unemployed veterans, including disabled veterans,
- People referred to vocational rehabilitation programs,
- Designated community residents living in empowerment zones or rural renewal counties, and
- Summer youth employees in Empowerment Zones.

Certification requirement

Employers must obtain certification that an individual is a member of the targeted group before claiming the WOTC. Eligible employers must file Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit, with their state workforce agency within 28 days after the eligible individual starts work. Employers do not submit Form 8850 to the IRS

Government Liaison Report



December 2025

IRS Notice Updated to Explain EIC Requirements

The IRS updated Notice 1015, *Have You Told Your Employees About the Earned Income Credit (EIC)?*, which provides information about EIC notice requirements.

Employers must notify each employee about the EIC if the employee worked for the employer at any time during the year and the employer did not withhold income tax from the employee's wages. Employers do not have to notify employees who claimed exempt from withholding on Forms W-4, Employee's Withholding Certificate. Employers are encouraged to notify all employees whose wages for 2025 are less than \$68,675 that they may be eligible for the EIC (see *The Payroll Source*®, §6.6).

EIC notice requirements

Employers must provide the EIC notice directly to employees or send it by first-class mail to the employee's last known address. Employers will not meet the notification requirements by posting notice on an employee bulletin board or sending it through interoffice mail. However, the IRS said employers may want to post the notice to help inform all employees of the EIC.

Employers can provide notice to employees via:

- Form W-2, Wage and Tax Statement, which has the required information about the EIC on the back of Copy B
- A substitute Form W-2 with the same EIC information on the back of the employee's Copy B of Form W-2
- Notice 797, Possible Federal Tax Refund Due to the (EIC) or
- A written statement with the same wording as Notice 797.

If employers provide employees Forms W-2 on time, no further notice is necessary if the Form W-2 has the required information about the EIC on the back of the employee's copy. Otherwise, employers must give employees Notice 797 or provide a written statement by the Form W-2 due date. Employers that provide employees with substitute Forms W-2 (that do not include the required information) must notify employees within 1 week of the date the substitute Forms W-2 are issued. If a Form W-2 is not required, employers must notify the employee by February 9, 2026.



State News

Alabama

State non-conformation to OBBBA confirmed. The Department of Revenue (DOR) released guidance that explains the computation of Alabama personal income tax begins with state adjusted gross income and is not directly tied to the calculation of federal taxable income. As no state laws allow personal income tax deductions for tips or overtime, the state is not allowing the “no tax on tips” and “no tax on overtime” provisions of Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA), for state tax purposes [DOR, The One Big Beautiful Bill Act Analysis and Tax Provisions, rev. 11-10-25].

California

Overtime exemptions increased. Effective 1-1-26, a computer software employee must earn at least \$58.85 per hour (currently \$56.97 per hour) or, if paid on a salary basis, at least \$122,573.13 annually (currently \$118,657.43 annually), which is paid at least once a month and in a monthly amount of not less than \$10,214.44 (currently \$9,888.13), to be exempt from state overtime requirements. In addition, job functions must meet the duties test in Cal. Labor Code §515.5. Also effective 1-1-26, a licensed physician or surgeon must earn at least \$107.17 per hour (currently \$103.75 per hour) in addition to being primarily engaged in duties that require licensing pursuant to the Medical Practice Act, as provided in Cal. Labor Code §515.6 [Department of Industrial Relations, Overtime Exemption for Computer Software Employees, rev. October 2025 Overtime Exemption for Licensed Physicians and Surgeons, rev. October 2025].

SDI contribution rate updated. For 2026, the employee contribution rate for state disability insurance (SDI) will be 1.3% (currently 1.2%). Effective 1-1-24, there is no taxable wage base limit for SDI and no maximum withholding amount [EDD, Contribution Rates, Withholding Schedules, and Meals and Lodging Values].

Colorado

Minimum wage increased. Effective 1-1-26, the minimum wage will increase to \$15.16 per hour from \$14.81 per hour (this updates The Payroll Source®, §2.11-1). The tip credit will remain at \$3.02 per hour. The minimum cash wage will increase to \$12.14 per hour from \$11.79 per hour [Department of Labor and Employment, Annual Minimum Wages].

Government Liaison Report



December 2025

District of Columbia

D.C. decoupling from OBBBA confirmed. Effective 11-4-25, the District of Columbia tax code decoupled from certain provisions of Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA). The D.C. tax code follows the current IRC, but it will not follow the “no tax on tips” and “no tax on overtime” provisions of the OBBBA [R26-0248 (PR 26-0380), L. 2025 D.C. Council, News Release, 11-7-25].

Iowa

Withholding tables revised, supplemental wage tax rate reduced. Effective for wages paid on or after 1-1-26, the Department of Revenue (DOR) has issued revised percentage method withholding tables, a revised withholding formula, and revised withholding instructions, available on the DOR website. The tables are Excel spreadsheets and must be downloaded. Also effective 1-1-26, the supplemental wage tax rate is reduced to 3.8% from 5.2% (this updates The Payroll Source®, §6.4-4) [DOR, Press Release, 11-3-25 Iowa Code §§422.5, 422.16].

Kentucky

Withholding tables revised. Effective for wages paid on or after 1-1-26, the Department of Revenue (DOR) has issued revised wage bracket withholding tables and a revised withholding formula. For 2026, the standard personal income tax rate is reduced to 3.5% from 4%, and the standard deduction is \$3,360. There is no fixed supplemental wage tax rate in Kentucky. All revised withholding tables are available on the DOR’s website [DOR, Employer Payroll Withholding].

Minnesota

State non-conformation to OBBBA confirmed. The Department of Revenue (DOR) posted guidance explaining that the state conforms to the IRC as of 5-1-23. Therefore, it does not conform to Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA) [DOR, 2025 Federal Nonconformity for Income Tax, 11-3-25].

Nebraska

Withholding tables updated, supplemental wage tax rate reduced. Effective for wages paid on or after 1-1-26, the Department of Revenue (DOR) has issued updated percentage method and wage bracket withholding tables. Also effective 1-1-26, the supplemental wage tax rate is reduced to 3.5% from 5% (see The Payroll Source®, §6.4-4) [DOR, 2026 Nebraska Circular EN, rev. November 2025].

Government Liaison Report



December 2025

New Mexico

Withholding tables updated. Effective for wages paid on or after 1-1-26, the withholding tables have been updated. New Mexico does not have its own state withholding allowance certificate. Employees may use a copy of the federal Form W-4 for state withholding by writing “For New Mexico State Withholding Only” at the top. The supplemental wage tax rate remains 5.9% (see The Payroll Source®, §6.4-4) [Taxation and Revenue Department, FYI-104, eff. 1-1-26].

New York

State, New York City, and Yonkers withholding tables revised, supplemental tax rates unchanged. Effective for wages paid on or after 1-1-26, the Department of Taxation and Finance (DTF) has issued new withholding tables for New York State, New York City, and Yonkers. The state supplemental wage tax rate will remain 11.7% (see The Payroll Source®, §6.4-4). The New York City supplemental wage tax rate will remain 4.25%. The Yonkers supplemental wage tax rate will remain 1.95975% for a resident and 0.5% for a nonresident. The 2026 personal income tax rate schedules were revised to reflect certain income tax rate reductions enacted earlier this year [DTF, Pub. NYS-50-T-NYS, New York State Withholding Tax Tables and Methods, eff. 1-1-26 Pub. NYS-50-T-NYC, New York City Withholding Tax Tables and Methods, eff. 1-1-26 Pub. NYS-50-T-Y, Yonkers Withholding Tax Tables and Methods, eff. 1-1-26].

Oregon

Statewide transit tax to increase. Effective 1-1-26, the statewide transit tax will increase to 0.2% from 0.1%. The Department of Revenue (DOR) said the increase will sunset after 2027 so the tax will revert to 0.1% in 2028. Employers with nonresident employees performing work within Oregon or with resident employees, regardless of where work is performed (so long as the employer has nexus with Oregon), must withhold the tax from employee wages [H.B. 3991, L. 2025].

South Carolina

Withholding tables revised, supplemental withholding tax rate reduced. Effective for wages paid on or after 1-1-26, the Department of Revenue (DOR) has issued updated wage bracket withholding tables and an updated withholding tax formula. Also effective 1-1-26, the supplemental wage tax rate, when supplemental wages are paid separately from regular wages, is reduced to 6% from 6.2% (this updates The Payroll Source®, §6.4-4). The DOR plans to update Form SC W-4, Employee’s Withholding Allowance Certificate [DOR, News Release, 11-6-25].

Government Liaison Report



December 2025

Washington

Minimum wage, overtime salary threshold increased. Effective 1-1-26, the minimum wage will increase to \$17.13 per hour from \$16.66 per hour (this updates The Payroll Source®, §2.11-1). No tip credit is allowed in Washington. Workers who are 14 or 15 years old may be paid a youth wage that is 85% of the adult minimum wage (\$14.16 per hour \$14.56 per hour, effective 1-1-26). Also effective 1-1-26, the white collar overtime exemption salary threshold will increase to 2.25 times the state minimum wage for all employers (\$1,541.70 per week or \$80,168.40 per year). Currently, the threshold for small employers (up to 50 employees) is \$1,332.80 per week or \$69,305.60 per year, and for large employers (51 or more employees), the threshold is \$1,499.40 per week or \$77,968.80 per year [Department of Labor and Industries, News Release, 9-30-25].

PFML contributions announced. Effective 1-1-26, the premiums for paid family and medical leave (PFML) will increase to 1.13% of employee wages. Employers will pay 28.57% of the premium and must deduct 71.43% of the premium from employees. This means that employers will contribute 0.322841% of wages and employees will contribute 0.807159% of wages (this updates The Payroll Source®, §7.3). The wage base for contributions is capped at the social security wage base of \$184,500 for 2026 [PFML, Updates]