

July 2025



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## **Federal News**

### **ED Provides Update on Student Loan Collection Efforts**

The U.S. Department of Education (ED) announced its Office of Federal Student Aid (FSA) would resume collections of defaulted federal student loans in May. ED said it will authorize guaranty agencies to begin to make involuntary collections (i.e., wage garnishments) on loans under the Federal Family Education Loan Program. Later this summer, FSA said it will send the required notices to begin administrative wage garnishments.

#### **Wage garnishments**

Before wage garnishments begin, FSA will send a “notice of intent to offset” to all borrowers in default. Borrowers will have 65 days to respond to avoid wage garnishment. If FSA mailed notices on May 5 when it restarted the offset program, garnishment efforts would not begin until mid- July. The ED can instruct employers to withhold up to 15% of an employee’s disposable pay to collect defaulted student loan debt, which continues until the defaulted loan is paid in full or removed from default.

### **House Passes Budget Reconciliation Bill, Senate to Review**

On May 22, the U.S. House of Representatives passed H.R. 1, the One Big Beautiful Bill Act (OBBBA), by a vote of 215-214. The bill has been sent to the Senate, which has its own agenda on what should be included.

#### **What may be in the final law**

Several payroll-related provisions in the OBBBA may be in the final law:

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- **Extension of the Tax Cuts and Jobs Act (TCJA)**. Many provisions in the TCJA will expire at the end of this year unless extended. Changes made by the TCJA to the Internal Revenue Code required a substantial revision of Form W-4 in 2020. The legislation also ended the income exclusion for moving expenses and bicycle commuting. Subtitle B, Part 1 of the OBBBA would extend the TCJA permanently.

- **No tax on tips (§110101)**. If enacted, the legislation would provide a temporary elimination of federal taxation on tips through a deduction on an individual's tax return. The deduction would be allowed for both employees and independent contractors in occupations that traditionally and customarily receive tips.

- **No tax on overtime (§110102)**. The proposed legislation would also provide a temporary exemption of federal taxation of overtime pay. The exemption would apply only to the overtime premium. The legislation would require overtime pay to be reported on Form W-2 but does not say how. The legislation also would direct the Secretary of the Treasury to modify withholding tables to take this deduction into account.

The provisions exempting tax on tips and overtime would be retroactive to January 1 of this year and would expire on December 31, 2028. If, as expected, the Senate makes changes to the legislation, the House will have to vote to approve those changes. The same legislation must pass both the House and the Senate and be signed by the president before it becomes a law. The timing of the law, if one passes, will probably be mid- to late summer or potentially even later in the year.

### **OCSS Announces Changes to Help Lump-Sum Reporting**

The Office of Child Support Services (OCSS) announced several upcoming software changes and their release dates. The one of most interest to employers is an enhancement to the Debt Inquiry and Employer Reporting Portal applications, which will speed up lump-sum reporting. The release date is set for July 2025.

#### **Enhancements to applications**

Both applications will be enhanced to allow states to directly respond to employers' reported lump-sum matches on the Debt Inquiry application. OCSS said this will streamline and speed up lump-sum processing. Enhancements to the Debt Inquiry application will enable states to inform employers whether to release or withhold a lump-sum payment. If withholding is required, the state will provide the arrearage amount, the percentage to withhold from the lump-sum payment, and any additional comments or instructions. OCSS will also enhance the Employer Reporting application to allow

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employers to view state responses and acknowledge a lump-sum match. Employers will also receive daily notifications that state responses are available on the Portal.

### **IRS Releases 2025 Instructions for Forms 1099-R, 5498**

The IRS released the 2025 Instructions for Forms 1099-R and 5498.

#### **What's new**

**New code for Box 7.** Code Y was added to the list of codes for Box 7 to identify a qualified charitable distribution.

**Automatic rollover amount.** Beginning January 1, 2024, the automatic rollover amount increased from \$5,000 to \$7,000.

### **E-Verify Is Notifying Employers When EADs Are Revoked**

The U.S. Department of Homeland Security (DHS) said it has started notifying employers participating in the E-Verify program when the agency has revoked an employee's Employment Authorization Document (EAD). E-Verify will now notify employers via a case alert when one or more of their employees have an EAD that has been revoked by DHS.

#### **What employers need to know**

DHS recently sent direct notifications to individuals who were paroled into the United States to terminate their parole and revoke their EADs. DHS said it "may exercise its authority to terminate parole or other humanitarian programs and revoke aliens' EADs at any time." DHS will not collect issued EADs that have been revoked. Employees may still possess an EAD that appears valid, although their employment authorization has been revoked. DHS said E-Verify will continue to provide case alerts for any EADs that are nearing expiration or have been revoked.

#### **What to do**

Employers must follow up on all case alerts in E-Verify and reverify those employees for whom the alert indicates the EADs have been revoked. These employees may still be employment authorized based on another status or provision of law and may provide other acceptable Form I-9, Employment Eligibility Verification, documentation. Employers should also not create a new E-Verify case. E-Verify employers with an employee whose EAD was revoked will be required to reverify that employee's Form I-9 using Supplement B based on the case alert from E-Verify. The employee must provide unexpired documentation from List A or List C of the Lists of Acceptable Documents. Employers

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should not reverify identity documents (from List B). Employers must allow employees to choose which acceptable documentation to present for reverification.

### **Treat all employees equally**

The Immigration and Nationality Act prohibits employers from treating individuals differently on the basis of national origin, citizenship, or immigration status for either Form I-9 or E-Verify processes. This includes reverifying cases on Form I-9 with case alerts for employees whose EAD was revoked.

Employers cannot:

- Request that an employee produce more or different documents than are required by Form I-9 to establish their employment authorization.
- Require affected employees to show the same type of document they presented previously or require that someone present a particular document.
- Reject any documents that reasonably appear to be genuine and to relate to the person presenting them.

### **IRS to Retire FIRE System After Filing Season 2026**

During the IRS's June 5 Payroll Industry Call, an IRS representative said the Filing Information Returns Electronically (FIRE) system will be retired after the 2026 filing season.

### **IRIS is available for e-filing**

In January 2023, the IRS opened the Information Returns Intake System (IRIS), which is a free online portal that can be used to e-file forms in the 1099 series for tax year 2022 or later. To e-file information returns through IRIS, users must apply for an IRIS transmitter control code (TCC).

IRIS includes two methods for filing, and both require separate TCCs.

- The Taxpayer Portal allows users to e-file information returns without needing special software. Users can e-file up to 100 returns at a time by manually entering information or uploading a .csv file.
- The Application to Application (A2A) intake channel requires software using an Extensible Markup Language (XML) format and allows users to e-file thousands of information returns at once (up to 100 MB).



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**State News**

**Alabama**

*Nonresident income exclusion established.* Effective 10-1-25, income for certain nonresident employees will be excluded from state income tax. Nonresident employees who work in the state for 30 or fewer days per year will not owe income tax in the state if: (1) the employee is not a professional athlete, entertainer, or public figure (2) the employee's resident state has a similar exclusion, does not impose income tax, or the employee's income is exempt under a federal law and (3) the employee performs more hours in Alabama during a workday than another state excluding their resident state. If the employee exceeds the 30-day threshold, the employer must withhold and remit income tax back to the first workday in-state [H.B. 379, L. 2025].

*Overtime pay tax exemption to expire.* Overtime pay to nonexempt employees is exempt from state income tax until 6-30-25. Effective 7-1-25, state income tax must be withheld on overtime pay for nonexempt employees [Department of Revenue, Overtime Exemption].

**Arkansas**

*Electronic/magnetic filing threshold for withholding returns reduced.* Effective for tax year 2025 (returns due in 2026), the threshold for filing Forms W-2 electronically or via magnetic media (CD, DVD, flash drive) is reduced to employers with at least 75 employees (this updates The Payroll Source®, §8.14). Currently, the electronic/magnetic media filing is required for employers with 125 employees [S.B. 503, L. 2025].

**Indiana**

*Baseball players exempted from minimum wage.* Effective 7-1-25, certain workers who are contracted to play baseball at the minor league level are exempted from the definition of employee for minimum wage purposes. To be exempted, the workers must be compensated under the terms of a collective bargaining agreement (CBA) that expressly provides for wages and working conditions. An employer does not need to keep records of daily or weekly hours worked or wages paid for an exempt minor league baseball player [H.B. 1558, L. 2025].

*Earned wage access bill to take effect next year.* Effective 1-1-26, earned wage access (EWA) providers will be subject to certain requirements, including registration and fee requirements. The law will be administered and enforced by the Department of Financial Institutions (DFI). PayrollOrg's Government Relations Task Force State and Local

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Topics Subcommittee submitted a letter in support of the bill to the Indiana House of Representatives earlier this year [H.B. 1125, L. 2025].

### **Kansas**

#### **Retirement accounts, conception date to be included in child support calculations.**

Effective 7-1-25, courts will take into consideration the value of any individual qualified retirement plan account in assigning child support orders if a person has lost their income from termination of employment. A qualified retirement plan includes §401(a), §401(k), §403(a), §403(b), §408, §408A, and §409 plans. Also, child support may be calculated from the date of conception [H.B. 2062, L. 2025].

### **Maryland**

**Paid family leave program delayed again.** Paid family and medical leave contributions will now begin 1-1-27, and benefits will be available by 1-3-28. Employers will remit the first payments to the state Department of Labor (DOL) in April 2027. Guidance for employers has been posted on the state DOL's website.

### **Montana**

**State employment verification requirements to include employer penalties.** Effective 7-1-25, the employee's citizenship or employment authorization must be verified within 3 business days after the date of the employee's hire. [H.B. 226, L. 2025].

### **New Jersey**

**Pay transparency requirements established.** Effective 6-1-25, employers must disclose information on compensation in job posts. Employers must provide the position's hourly wage, salary, or a range of the hourly wage or salary. Employers will also be required to provide a general description of the position's benefits and other compensation. Employers must provide the required compensation information for any opportunities, regardless of whether the position is advertised internally or externally. Employers must disclose possible promotion opportunities to current employees before making a promotion decision [S.B. 2310, L. 2024].

### **New Mexico**

**Quarterly withholding return due date to change.** Effective 1-1-26, quarterly withholding returns will be due on or before the 25th day of the month following the close of the calendar quarter. Currently, the due date is the last day of the month following the close of the calendar quarter [H.B. 218, L. 2025].

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**New York**

*Employer penalties, pay frequency violations for manual workers changed.* Effective 5-9-25, employer liability is limited for violations in the timing of paying manual workers (i.e., mechanic, workingman, or laborer individual who spends more than 25% of working time engaged in physical labor). Manual workers must be paid no later than 7 calendar days after the week in which wages are earned. Previously, the penalty for not paying manual workers weekly was liquidated damages of 100% of the unpaid wages. Effective 5-9-25, the damages for not paying manual workers timely are limited to interest due on the delay in payment if the employer paid employees on a regular payday and at least as frequently as semimonthly, if it is an employer's first violation. For subsequent violations occurring after 5-9-25, the liquidated damages are 100% of the unpaid wages [S.B. 3006, L. 2025].

*MCTMT rate changes to take effect July 1.* Effective 7-1-25, the tax rates for the MCTMT will change. The MCTMT is an employer-paid payroll tax that helps fund the Metropolitan Transportation Authority. Twelve counties are subject to the MCTMT: Zone 1 – Bronx, Kings, New York, Queens, and Richmond and Zone 2 – Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. The tax applied is based on an employer's payroll expenses for each tax quarter. Here are the new rates for Zone 1. For employers with a payroll expense over \$312,500 but not over \$375,000, the rate is 0.00055. For employers with a payroll expense of over \$375,000 but not over \$437,500, the rate is 0.00115. For employers with a payroll expense of over \$437,500 but not over \$2,500,000, the rate is 0.006. For employers with a payroll expense of over \$2,500,000, the rate is 0.00895. Here are the rates for Zone 2. For employers with a payroll expense of over \$312,500 but not over \$375,000, the rate is 0.00055. For employers with a payroll expense of over \$375,000 but not over \$437,500, the rate is 0.00115. For employers with a payroll expense of over \$437,500 but not over \$2,500,000, the rate is 0.0034. For employers with a payroll expense of over \$2,500,000, the rate is 0.00635 [A.B. 3009, L. 2025].

**Tennessee**

*Employer response time for creditor garnishments changed.* Effective 4-11-25, employers who receive a garnishment must determine within 2 business days after receipt whether they possess or control the money or property of the debtor employee. The employer must also provide a copy of the garnishment summons and Notice of Judgement Debtor to the employee by first class mail. However, the employer may not notify the employee prior to placing a hold on any available funds in the employer's control [S.B. 765, L. 2025].

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*Payment of wages owed to a deceased employee amended.* Effective 4-10-25, an employer must pay any wages (previously, up to \$10,000) owed to a deceased employee at the time of the employee's death directly to the surviving spouse. If there is no surviving spouse, then the wages are paid to the surviving children. If 6 months have passed since the employee's death (without an application being made for an appointment of a personal representative), then a person other than an employer (such as the executor of the employee's will) is authorized to pay a sum not exceeding \$10,000 to the surviving spouse (or children if no spouse exists). If the funds exceed \$10,000, the excess must be paid to the personal representative [H.B. 755, L. 2025]