

Government Liaison Report

Summarizing May 2025



Overview

- **Federal News:**
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 - IRS Announces HSA Limits for 2026
 - IRS Revises Forms 941-X, 944-X, and Instructions
 - ED to Resume Collections on Defaulted Student Loans
- **State News:**
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 - Other State News: Arkansas, California, Idaho, Iowa, Kentucky, Nebraska, Nevada, New York, North Dakota, Oregon, Utah, Vermont

Federal News

DOL Provides Worker Classification Guidance

On May 1, the U.S. Department of Labor (DOL) Wage and Hour Division (WHD) published Field Assistance Bulletin (FAB) 2025-1, which the agency will use to determine if a worker is an employee or independent contractor for purposes of the Fair Labor Standards Act (FLSA). FAB 2025-1 supersedes any prior or conflicting guidance provided to WHD staff on enforcement related to independent contractor misclassification.

2024 Rule 'Under Review', Previous Guidance Reinstated

In January 2024, the DOL issued a final rule that modified how to determine whether a worker is an employee or an independent contractor under the FLSA (89 F.R. 1638, 1-10-24). WHD said its investigators have been directed not to apply the 2024 final rule's analysis in current enforcement matters while the DOL reviews the rule. Instead, WHD will rely on principles outlined in Fact Sheet #13 (dated July 2008) and the reinstated opinion letter FLSA2019-6, which addresses worker classification in the context of virtual marketplace platforms.

IRS Announces HSA Limits for 2026

The IRS announced the 2026 maximum contribution levels for health savings accounts (HSAs) and out-of-pocket spending limits and deductible minimums for high deductible health plans (HDHPs) that must be used in conjunction with HSAs [Rev. Proc. 2025-19, 5-1-25].

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The 2026 limits and amounts are as follows:

- The maximum annual HSA contribution for an eligible individual with self-only coverage is \$4,400 (\$4,300 in 2025)
- For family coverage, the maximum annual HSA contribution is \$8,750 (\$8,550 in 2025)
- The maximum annual out-of-pocket amount for HDHP self-only coverage is \$8,500 (\$8,300 in 2025), and the maximum annual out-of-pocket amount for HDHP family coverage is twice that at \$17,000 (\$16,600 in 2025)
- The minimum deductible amounts for HSA-compatible HDHPs are \$1,700 (\$1,650 in 2025) for self-only coverage and \$3,400 (\$3,300 in 2025) for family coverage

A fiscal year plan that satisfies the requirements for an HDHP on the first day of the first month of its fiscal year may apply that deductible for the entire fiscal year.

IRS Revises Forms 941-X, 944-X, and Instructions

The IRS released Form 941-X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund, and its instructions, which have been updated to remove lines used for the employee retention credit (ERC). The Form 941-X instructions have a revision date of April 2025 and can be used for all years for which the statute of limitations on corrections has not expired.

The IRS recommends using the Form 941 instructions for the quarter being corrected because the Form 941-X instructions do not repeat all information included in the Form 941 instructions. Prior revisions of the instructions are available at <https://www.irs.gov/forms-pubs/about-form-941> (select the link for All Form 941 Revisions under Other Items You May Find Useful).

What's new

- **Electronic filing of Form 941-X:** Form 941-X can now be electronically filed through the Modernized e-File (MeF) system
- **Form 941-X:** Lines 18a, 26a, 30, 31a, 31b, and 32 are now reserved for future use because the period of limitations for correcting these lines has generally expired for most employers. Employers that believe the period of limitations is still open for correcting a second, third, or fourth quarter 2020 Form 941 (or a 2021 Form 941) can file the April 2024 revision of Form 941-X to use lines 18a, 26a, 30, 31a, and 31b.



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- **Form 944-X:** The IRS released Form 944-X, Adjusted Employer's Annual Federal Tax Return or Claim for Refund, and the instructions, which have been updated to remove ERC lines and lines previously used to correct the deferred amount of the employer and employee share of social security tax for 2020. Form 944-X lines 17a, 23, 24, 26a, 30, 31, 32, 39, and 40 are now reserved for future use because the period of limitations for correcting these lines has generally expired for most employers.

ED to Resume Collections on Defaulted Student Loans

On April 21, the U.S. Department of Education (ED) announced its Office of Federal Student Aid (FSA) will resume collections of defaulted federal student loans on May 5 [ED, U.S. Department of Education to Begin Federal Student Loan Collections, Other Actions to Help Borrowers Get Back into Repayment, 4-21-25]. ED has not collected on defaulted loans since March 2020. FSA said it would email all borrowers in default before the May 5 deadline to make them aware of changes. Later this summer, FSA will send the required notices to begin administrative wage garnishments. ED said it will also authorize guaranty agencies to begin to make involuntary collections on loans under the Federal Family Education Loan Program.

Payroll processing of federal student loans

PayrollOrg has reminded the ED that employers need the ED to take certain measures before they restart federal student loan wage garnishments, including:

- Ensuring that employers are provided with early communication related to when new payment orders will start. Many employers could receive thousands of new orders. It will be a challenge for employers to process large volumes all at once. Early communication will be key to preparing and planning accordingly for employers.
- Employers will require new orders. If the debt is still owed, the employer/payor must receive official documentation, based on federal laws, identifying the current amount owed and when to begin withholding from the employee's disposable earnings. Orders must include the employee's identity, amount due at the time issued, the percentage to withhold, and where to remit payments.
- The payment address must be clearly communicated on all new orders. Employers were previously notified that the current payment address was closed by the ED. Employers will need to know whether the current payment address will be reopened or a different address will be used for payments.



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State News

Maryland Delays Paid Family and Medical Leave Program Until 2027

The governor of Maryland recently signed legislation delaying the implementation of the paid family and medical leave (PFML) program until 2027 [H.B. 102, L. 2025]. PFML contributions will begin January 1, 2027, and benefits will be available by January 3, 2028. Employers will remit the first payments to the Maryland Department of Labor (DOL) in April 2027.

Prior Schedules

Under the previous schedule, employer and employee PFML contributions were set to begin July 1, 2025, and benefits were set to take effect beginning July 1, 2026. Originally, contributions and benefits were going to take effect even earlier – October 1, 2024, for contributions and January 1, 2026, for benefits, but the DOL suggested a delay.

Other State News:

Arkansas

E-Verify to be required for public employers. Effective 1-1-26, public employers are required to use E-Verify. The employee must be provisionally employed until the work authorization status has been verified. The public employer must submit the employee's name and information to E-Verify even if the employee is terminated less than 3 business days after becoming employed. The record must be maintained for 3 years or for the duration of the employee's employment, whichever is longer. Effective 7-1-26, a public employer that fails to use E-Verify will be notified by the state and will receive 30 days to comply. A public employer is defined as a state government department, board, bureau, political subdivision, or agency [H.B. 1074, L. 2025].

Minor league baseball players exempted from minimum wage laws. Effective 8-19-25, the definition of an employee is amended to exclude individuals who have entered into a contract to play baseball at the minor league level. The individual must be compensated under the terms of a collective bargaining agreement, which expressly provides for wages and working conditions [H.B. 1291, 2025].



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California

Los Angeles County scheduling requirements to take effect July 1. Effective 7-1-25, the Los Angeles County's fair workweek ordinance will take effect. Employers must provide employees with notice of their work schedule 14 days in advance. The notice also has restrictions for offering existing employees more work hours before hiring additional employees, for extra pay for shifts scheduled within 10 hours of each other, and predictability pay to compensate employees when the employer deviates from the provided schedule [County of Los Angeles Municipal Code ch. 8.102].

Idaho

Withholding tables revised, supplemental wage tax rate reduced. Effective for wages paid on or after 1-1-25, the State Tax Commission (STC) has issued updated withholding tables: Table for Percentage Computation Method of Withholding and Table for Wage Bracket Method of Withholding. Effective retroactive to 1-1-25, the supplemental wage tax rate has been reduced to 5.3% from 5.695% (this updates The Payroll Source®, §6.4-4). The new rate should be used going forward [STC, Computing Withholding, rev. 4-28-25].

Iowa

Definition of taxable wages for UI purposes amended. Effective 3-28-25, the definition of taxable wages for state unemployment insurance (UI) in Iowa was amended to cover wages only paid in Iowa. Three other states – Louisiana, Minnesota, and Montana – also do not include wages paid to other states for UI wage transferability purposes [S.B. 603, L. 2025].

Kentucky

Baseball players exempted from minimum wage laws. Effective 3-17-25, individuals who are employed to play baseball are exempt from the state minimum wage and related posting requirements. To qualify for the exemption, the individual must be compensated through the terms of a contract and a collective bargaining agreement that provides for wages and working conditions [S.B. 15, L. 2025].

IRC conformity updated. Effective retroactively to 1-1-25, the references in state law to the Internal Revenue Code (IRC) are updated to mean the IRC as amended and in effect on 12-31-24, with certain exceptions [H.B. 775, L. 2025].



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Nebraska

UI tax rates updated. Due to recent legislation, employer unemployment insurance (UI) tax rates will be revised for 2025. Employers will remain in the previously assigned category for 2025 but will be assigned the rate from 2024 for that category. The 2025 rates have been updated for all contributing employers in the NEworks online system. Amended notices were sent to employers in April. A revised UI tax rate guide is available [Department of Labor, A Guide to Understanding Nebraska's UI Combined Tax Rates, rev. 3-26-25]

Nevada

Subminimum wage phased out. Effective 1-1-25, the state began the process to phase out subminimum wages for employees with intellectual or developmental disabilities under a valid certificate issued under federal law. By January 1 of each year, an employer authorized and holding a certificate to provide jobs paying less than the state minimum wage must submit a plan to the Aging and Disability Services Division of the Department of Health and Human Services. The plan must detail how the employer will transition the employee to state minimum wage by 1-1-28 or support the employee in obtaining other employment. The phase-out is part of a law passed in 2023. Effective 1-1-28, subminimum wages will be eliminated [A.B. 259, L. 2023].

New York

AG sues two EWA vendors. The state Attorney General announced it is suing two vendors (Daily Pay, Inc. and MoneyLion, Inc.) offering earned wage access (EWA) services in New York. The lawsuits cover both the direct-to-consumer and employer-integrated EWA models. The AG alleges that the transactions are short-term loans with high annual interest rates of up to 750%. The AG is seeking to end their "lending practices" in New York, impose civil penalties on the vendors, and get restitution for impacted workers. In a press release, DailyPay denied that its employer-integrated EWA products are loans under New York State law. The company filed its own lawsuit against the AG to prevent the AG from blocking its EWA services in New York [AG, Press Release, 4-14-25].

North Dakota

Employer penalties updated. Effective for returns due after 12-31-25, employers that fail to file annual reconciliation returns and Forms W-2 timely with the state will be subject to a penalty of \$15 for each return that was not filed by January 31. Currently, the penalty is \$10 per return and is capped at \$2,000. After 12-31-25, the fine will not be capped [H.B. 1115, L. 2025].



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Oregon

Minimum wage to increase. Effective 7-1-25, the state minimum wage will increase to \$15.05 per hour from \$14.70 per hour (standard) to \$16.30 per hour from \$15.95 per hour (Portland metro) and to \$14.05 per hour from \$13.70 per hour (nonurban counties). The Portland Metro minimum wage is set \$1.25 above the standard minimum wage, and the nonurban counties minimum wage is set \$1 less than the standard wage (this updates The Payroll Source®, §2.11-1) [Department of Labor and Industries, Minimum Wage Increase Schedule].

Utah

Withholding tables revised. Effective for wages paid on or after 6-1-25, the State Tax Commission (STC) has issued revised percentage method and wage bracket withholding tables [STC, Publication 14, Withholding Tax Guide, eff. 6-1-25].

Vermont

Payroll deductions for retirement savings program to begin in July. Effective 7-1-25, a retirement program requiring automatic payroll deductions will take effect. Employers will be required to automatically enroll employees with the option to opt out of the program. The contributions will go toward Roth individual retirements accounts (IRAs), administered by the Office of the Vermont State Treasurer. The program, Vermont Saves, has a website that provides additional information including employer and employee FAQs. Enrollment for the program will begin in phases, based on an employer's size. Effective 7-1-25, employers with 25 or more employees must offer the program to all covered employees. Effective 1-1-26, employers with 15 to 24 employees must begin offering the program. Effective 7-1-26, employers with five to 14 employees must begin offering the program [S.B. 123, L.