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Federal News

IRS Issues Federal ‘High-Low’ Per Diem Rates Effective October 1

The IRS has released the optional “high-low” per diem rates for lodging expenses and meals and incidental expenses (M&IE) that may be used instead of the General Services Administration’s (GSA’s) “actual” per diem rates for travel to locations within the continental U.S. (CONUS the GSA rates are discussed in PAYROLL CURRENTLY, Issue 9, Vol. 33), the special federal M&IE per diem rates applicable to the transportation industry, and the per diem rate for incidental expenses (see The Payroll Source®, §3.3-5). The updated high-low rates apply for travel undertaken on or after October 1, 2025

High-low rates

The “high” rate for lodging expenses and M&IE remains \$319 for travel to any high-cost locality, while the “low” rate remains \$225 for travel to any other locality within CONUS. The rates for M&IE remain \$86 for high-cost localities and \$74 for any other locality within CONUS. High-cost localities. All high-cost localities have a federal per diem rate of \$272 or more for all of the calendar year or the portion of the calendar year specified. There were no changes in the list of high-cost localities from the last fiscal year.

Transportation industry rates

The federal M&IE rates for the transportation industry remains \$80 for any locality of travel within CONUS and \$86 for any locality of travel outside the continental U.S.

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(OCONUS). These special M&IE rates simplify recordkeeping for employers whose employees routinely travel overnight to many different locations during a single payroll period. To qualify, the transportation must directly involve moving people or goods by airplane, barge, bus, ship, train, or truck and must regularly require travel away from home on trips among localities with differing M&IE rates.

Incidental expenses

Instead of using actual expenses in computing the amount allowable as a deduction for ordinary and necessary incidental expenses paid or incurred for travel away from home, an employee or self-employed individual may use an amount computed at the rate of \$5 (unchanged) per day for each calendar day (or partial day) he or she is away from home.

IRS Issues Final Rules on SECURE 2.0 Catch-Up Contributions

The IRS issued final regulations to address several SECURE 2.0 Act provisions for §401(k) and §403(b) retirement plan catch-up contributions [90 F.R. 44527, 2025-40 IRB 411]. The final regulations are effective November 17, 2025, although they generally apply to contributions in taxable years beginning after December 31, 2026.

Changes from proposed regulations

The IRS said the final regulations generally follow the proposed regulations that were issued in January (see PAYROLL CURRENTLY, Issue 2, Vol. 33). However, the IRS made some changes in response to comments received on the proposed regulations, which include:

- Correction of a failure to comply with the Roth catch-up requirement,
- Implementation of a deemed Roth election, and
- Changes to plans that cover participants in Puerto Rico.

Catch-up contributions

The final regulations address several SECURE 2.0 Act catch-up provisions under IRC §401(k), §403(b), and §414(v).

Catch-up for ages 60-63. Beginning after 2024, §109 of the SECURE 2.0 Act amends IRC §414(v)(2) to increase the catch-up limit for eligible participants aged 60-63 to 150% of the 2024 limit, or \$11,250 (150% of \$7,500), adjusted annually for changes in the cost of living.

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For SIMPLE plans, the increased catch-up limit for participants aged 60-63 is 150% of the applicable dollar catch-up limit that applies during a taxable year beginning in 2025, or \$5,250 (150% of \$3,500), adjusted annually for changes in the cost of living.

Catch-up contributions required to be designated Roth contributions. Section 603(a) of the SECURE 2.0 Act amends IRC §414(v) to add §414(v)(7), which includes the requirement that catch-up contributions made by certain higher-income participants be designated after-tax Roth contributions. Plans also must maintain these catch-up contributions in a designated Roth account.

The determination of whether the Roth catch-up requirement applies to a catch-up eligible employee is based on the employee's FICA wages for the preceding year (for 2025, this amount is \$145,000 earned in 2024). The final regulations permit a plan administrator to aggregate wages received by an employee in the prior year from separate common law employers in determining whether the employee is subject to the Roth catch-up requirement.

If an employee subject to the Roth catch-up requirement makes pretax elective deferrals over the limit, plan administrators are permitted to correct the error by directly rolling over the elective deferrals that would be catch-up contributions (if they had been designated Roth contributions) from the employee's pretax account to a designated Roth account. If the employee's Form W-2 for that year has not been filed, the plan administrator can report the contribution as an elective deferral that is a designated Roth contribution on the employee's Form W-2 for the year in which the elective deferral was originally excluded from the employee's gross income.

Under the Secure 2.0 Act, plans were to begin treating applicable catch-up contributions as designated Roth contributions in tax years after December 31, 2023. However, in Notice 2023-62, the IRS delayed implementation of this provision until 2026. The final regulations state that this applies to contributions in taxable years beginning after December 31, 2026. Businesses can start the catch-up requirement earlier as the final regulations allow "a reasonable, good faith interpretation standard" to apply for §414(v)(7) for prior taxable years.

The final regulations provide a later applicability date for certain governmental plans and plans maintained under a collective bargaining agreement. Beginning in 2025, the wage limitation will be adjusted annually for changes in the cost of living



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IRS Issues Tip Occupations List, Guidance for OBBBA Provision

On September 22, the IRS issued proposed regulations to provide guidance on the “no tax on tips” provision of Public Law 119-21, known as the One Big Beautiful Bill Act (OBBBA) [90 F.R. 45340, 9-22-25]. The OBBBA adds IRC §224, which defines the income tax deduction for qualified tips received during the taxable year by individuals in an occupation that customarily and regularly received tips on or before December 31, 2024. Employers will still withhold federal income tax and social security and Medicare taxes. To claim the deduction, a worker must both work in an occupation on the list and receive qualified tips. The deduction is retroactive to January 1, 2025, and expires on December 31, 2028. The OBBBA 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).

The proposed regulations

The proposed regulations add subsections to IRC §224 to define “qualified tips” and identify occupations that “customarily and regularly receive tips.” The IRS has not released any guidance on how employers will report tips for tax year 2025. The OBBBA denotes tax year 2025 as a transition year. For qualified tips reported prior to January 1, 2026, employers will be permitted to approximate tips “by any reasonable method specified by the Secretary” of the Treasury.

Qualified tips defined

The proposed regulations state that qualified tips must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash (such as casino chips), or another form of electronic settlement or mobile payment application denominated in cash. Cash tips would not include items paid in any medium other than cash or charge, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash (such as most digital assets). Employees must receive qualified tips from customers or through a mandatory or voluntary tip-sharing arrangement, such as a tip pool. Qualified tips must be paid voluntarily by the customer and not be subject to negotiation. Qualified tips do not include some service charges. For instance, if a restaurant imposes an automatic 18% service charge (without an option for the customers to reject it or modify it) for large parties and distributes that amount to waiters, bussers, and kitchen staff, the amounts distributed to these workers are not qualified tips. Any



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amounts received for illegal activity, prostitution services, or pornographic activity are not qualified tips.

The occupations list

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:

- 100s – Beverage and Food Service
- 200s – Entertainment and Events
- 300s – Hospitality and Guest Services
- 400s – Home Services
- 500s – Personal Services
- 600s – Personal Appearance and Wellness
- 700s – Recreation and Instruction
- 800s – Transportation and Delivery

For the full list, see “IRS Creates Tip Occupations List for OBBBA Provision” in Payroll Currently, Volume 33, Issue 10.

TRDA and GITCA tips count. Employees who enter into a Tipped Employee Participation Agreement as part of the Tip Rate Determination Agreement (TRDA) program or a Model Gaming Employee Tip Reporting Agreement as part of the Gaming Industry Tip Compliance Agreement (GITCA) program report tips to their employer at or above the tip rate established by their employer for their occupational category. In exchange for the employees’ voluntary agreement to report tips at an agreed-upon rate, the IRS provides tip examination protection to the employees for the taxable years their agreements are in effect. The proposed regulations clarify that “qualified tips” include tips reported pursuant to an agreement under the TRDA or GITCA program provided that the participating employee is otherwise eligible for the deduction under IRC §224 and reports tips using the tip rates established under their agreement. Employee participating in either program may report additional qualified tips to the IRS on Form 4137, Social Security and Medicare Tax on Unreported Tip Income.

Excluded businesses and trades

IRC §224(d)(2)(B) provides that qualified tips do not include tips 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,



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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. The proposed regulations provide that amounts received by an individual in the course of an SSTB are not qualified tips.

Comments requested

Comments should be submitted in writing on or before October 22, 2025, and should include a reference to IRS and REG-110032-25. Comments may be submitted electronically via the Federal eRulemaking Portal or mailed to: Internal Revenue Service, CC:PA:01:PR (REG-110032-25), Room 5203, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. A public hearing is scheduled for October 23 at 10 a.m. ET. Requests to speak and topic outlines must be received by October 22. If no outlines are received by October 22, 2025, the public hearing will be canceled.

Examples from the proposed regulations

For a list of nine examples from the proposed regulations please see Payroll Currently Volume 33, Issue 10

IRS Updates Electronic Return Specifications for 2025

On September 23, the IRS released Publication 1220, Specifications for Electronic Filing of Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G, for 2025 forms filed in 2026. Publication 1220 is a “living document” and is updated throughout the year on an as-needed basis, so employers should make sure they use the most recent version. Updates to the publication are listed in Part E, Exhibit 2.

What's new

FIRE system retirement. Tax year 2026 (filing season 2027) is the IRS's targeted date for the retirement of its Filing Information Returns Electronically (FIRE) system (see PAYROLL CURRENTLY, Issue 9, Vol. 33). The Information Returns Intake System (IRIS) will be the only intake system to electronically file information returns for filing season 2027. The IRS encouraged FIRE users to complete their IRIS Application for a Transmitter Control Code by November 1 of the year prior to any filing deadlines. Users should allow 45 days for processing.

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Golden parachute payments. Golden parachute payments (including current year and prior year payments) can no longer be filed through FIRE. Golden parachute payments must be filed using IRIS or on paper. Payments filed through FIRE that need to be corrected must be filed on paper. In April, the IRS released a revised Form 1099-NEC, Nonemployee Compensation, which is now used to report excess golden parachute payments (see PAYROLL CURRENTLY, Issue 4, Vol. 33).

Qualified charitable distributions. For Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., the distribution code Y was added to the Payee 'B' Record (Field Position 545-546) for qualified charitable distributions.

Due dates

For the 2025 Forms W-2 and 1099-NEC, both paper and electronic files are due on February 2, 2026. For the 2025 Forms 1099-MISC, Miscellaneous Information, the paper due date is March 2, 2026, and the electronic due date is March 31, 2026. Form 8809, Application for Extension of Time to File Information Returns, should be submitted as soon as it is known that a filing extension is needed, but not before January 1 of the filing year. Filers must submit Form 8809 either on paper or through the FIRE system on or before the due date of the return to get an automatic 30-day extension. Form W-2 filers and Form 1099-NEC filers can only request a non-automatic extension of time, which must be mailed on a paper Form 8809. An automatic 30-day extension is not available.

IRS Updates EIN Online Application

The IRS updated its online application for an employer identification number (EIN) as part of ongoing modernization efforts to improve taxpayer service [e-News for Tax Professionals, Issue 2025-37, 9-12-25].

Updated features

The IRS said the updated application features a new look and web experience, but the overall functionality remains the same. Employers that complete the online application will receive their EIN immediately upon verification. Employers should print the EIN confirmation letter for their records. The application must be completed in one session and will expire after 15 minutes of inactivity. The online application is available 7 a.m. – 10 p.m. ET, Monday through Friday. The IRS said employers should beware of websites that charge for an EIN because the agency does not charge a fee for an EIN. Employers that do not want to use the online EIN application can file Form SS-4, Application for Employer Identification Number.



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Eligible employers

Employers can use the online application if their principal place of business is in the United States or U.S. territories. Employers with a principal place of business outside the United States must apply by phone, fax, or mail. Applicants must be the responsible party in control of the entity or its authorized representative or have the responsible party's social security number or individual taxpayer ID number (ITIN). Employers can only apply for one EIN per responsible party per day. Federal, state, and local government entities can now use the online application to receive an EIN.

FedNow Announces Transaction Limit Will Increase to \$10 Million

Effective in November, the FedNow Service will increase its network transaction limit from \$1 million to \$10 million [FedNow, FedNow Service Will Raise Transaction Limit to \$10 Million to Meet Increased Demand, Unlocking Higher-Value Use Cases, 9-9-25]. FedNow said the increased limit will enable businesses to support higher-value use cases and reflects an increasing need for speed and certainty in modern payments.

FedNow Service

The FedNow Service allows businesses to send and receive instant payments through participating financial institutions in real time, 24 hours a day, every day of the year. FedNow reports it has more than 1,400 participating organizations across all 50 states. More information and resources are available on the FedNow website.

Increased transaction limit

FedNow said as the adoption of instant payments accelerates, the ability to move larger dollar amounts instantly is expected to help modernize payments for businesses. FedNow provided examples of how businesses can benefit from the increased network transaction in high-value use cases such as:

- Transferring funds between internal accounts at an organization or between an organization and its payroll processor to enable faster funding, negate the need to prefund payroll accounts, and eliminate reliance on less efficient payment options, such as checks
- Instantly transferring funds between internal business accounts to maximize investment of excess cash, free working capital, and streamline reconciliation. FedNow said financial institutions will continue to have flexibility to set lower transaction limits based on internal risk parameters and business needs.



State News

Connecticut

Minimum wage, tip credit to increase. Effective 1-1-26, the minimum wage will increase to \$16.94 per hour from \$16.35 per hour. The minimum cash wage will remain \$6.38 per hour for tipped hotel and restaurant workers, increasing the tip credit to \$10.56 per hour. The minimum cash wage for bartenders will remain \$8.23 per hour, increasing the tip credit to \$8.71 per hour. The state minimum wage is adjusted annually for inflation

Florida

Minimum wage increased. Effective 9-30-25, the minimum wage increased to \$14 per hour from \$13 per hour. The tip credit remains \$3.02 per hour. The minimum cash wage for tipped employees increased to \$10.98 per hour. The minimum wage increases yearly on September 30 until 2026, when the minimum wage will reach \$15 per hour.

Maine

Agricultural employee minimum wage, overtime to change. Effective 1-1-26, agricultural employees must be paid at least the state minimum wage (currently, \$14.65 per hour). Effective 1-1-27 and annually thereafter, the minimum wage will be increased for inflation. Employers must keep records for 3 years and provide employees with pay statements. In addition to damages assessed in a lawsuit, the employer may be liable for penalties of \$50 to \$200 for violations.

Minnesota

Minimum wage to increase. Effective 1-1-26, the minimum wage will increase to \$11.41 per hour from \$11.13 per hour for all employers. The 90-day training wage for workers 19 years old or younger will increase to \$9.31 per hour. A tip credit is not permitted in the state.

Nevada

Voluntary payroll deductions, guidance issued. The Office of the Labor Commissioner (OLC) issued an advisory opinion on voluntary payroll deductions for employee food purchases. When an employer allows employees to buy meals and snacks at a discount, the entire amount deducted for the pay period cannot be listed on the employees' pay statements on one consolidated line. The OLC found that this process did not comply with state law since the deductions were consolidated on the pay statements a blanket authorization cannot be made in advance.

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New Jersey

UI reporting requirements for leased employees clarified. Effective 8-21-25, client employers of an employment agency (not the agencies themselves) are solely responsible for the unemployment insurance (UI) reporting requirements following an employee's termination and for any penalties for failure to report.

UI, TDI, FLI wage bases for 2026 announced. For 2026, the Department of Labor and Workforce Development (DLWD) has announced that the unemployment insurance (UI) wage base for employees and employers will increase to \$44,800. The temporary disability insurance (TDI) wage base for employers will also be \$44,800. The TDI wage base for employees will increase to \$171,100 from \$165,400 this wage base will also apply to family leave insurance (FLI) for employees. The employer and employee contribution rates are expected to be announced later this year.

New York

MCTMT upload specifications updated. The Department of Taxation and Finance (DTF) issued updated upload specifications for Metropolitan Commuter Transportation Mobility Tax (MCTMT) filers. The updated specifications account for changes to MCTMT rates that took effect 7-1-25. Upload specifications have also been updated for professional employer organizations (PEOs) and common pay agents.

Ohio

Withholding tables revised supplemental wage tax rate unchanged. Effective for wages paid on or after 10-1-25, the Department of Taxation (DOT) has issued revised percentage method and computer formula withholding tables. The revisions were necessary due to personal income tax rate reductions in H.B. 96. Additional daily, weekly, biweekly, semimonthly, and monthly withholding tables are available on the DOT website. The supplemental wage tax rate remains 3.5% since it is set by law.

Pennsylvania

Pittsburgh Nonresident Sports Facility Usage Fee ruled unconstitutional. The Pennsylvania Supreme Court ruled that the Pittsburgh Nonresident Sports Facility Usage Fee is unconstitutional because it discriminates against nonresidents. Pittsburgh enacted the fee on nonresident individuals who earned income while using its publicly funded sports stadiums or arenas. The fee is a 3% tax on nonresidents only. Residents pay other taxes (a 1% earned income tax and a 2% school district tax) but do not pay a sports facility usage fee. Professional athletes sued, arguing the fee violated the state constitution

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because it treated nonresident athletes and performers less favorably than resident athletes and performers. The Supreme Court agreed. The city has not updated its website to reflect the Supreme Court ruling [NHL Players Association v. City of Pittsburgh, No. 20 WAP 2024 (Pa. Sup. Ct., 9-25-25)].

Rhode Island

Pay statement notice for new employees required. Effective 1-1-26, employers will be required to provide new employees with a written notice at the start of employment that includes wage payment information. The notice must be written in English and include: rate(s) of pay and the basis (hourly, shift, daily, weekly, salary, piece rate, commission), including the specific application of any additional rates allowances claimed for permitted meals and lodging employer's policy on sick, vacation, and personal leave, and holidays employee's employment status and whether the employee is exempt from minimum wage and overtime a list of deductions that may be made from the employee's pay number of days in the pay period, the regularly scheduled payday, and the payday on which the employee will receive the first payment of wages earned legal name of the employer and operating name (if different) and employer's telephone number.

Washington

Unclaimed wage reporting requirements updated. Effective 1-1-26, the threshold for aggregate reporting for unclaimed property, including unclaimed wages, will be reduced to \$5 from \$50. Also effective 1-1-26, due diligence notifications must be sent for all amounts of unclaimed wages of \$50 and above. Employers are reminded that unclaimed property reports are due 10-31-25.