

Government Liaison Report

September 2025



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Federal News

IRS to Provide OBBBA Guidance, Transition Relief

The IRS created a fact sheet to describe some provisions of the One Big Beautiful Bill Act (OBBBA), which was signed into law on July 4 [Pub. L. 119-21 IRS, FS-2025-03, 7-14-25].

The “One Big Beautiful Bill Act: Tax Deductions for Working Americans and Seniors” fact sheet discusses four main provisions that are effective for 2025 through 2028. Two are relevant to payroll. For both provisions, the IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers subject to the new reporting requirements.

No tax on tips

The OBBBA allows employees and self-employed individuals to deduct qualified tips from their individual federal tax returns. These qualified tips are reported on Forms W-2, Forms 1099, or other specified statements. “Qualified tips” are voluntary cash or charged tips received from customers or through tip sharing. Employers must file information returns with the IRS (or Social Security Administration (SSA)) and furnish statements to taxpayers showing cash tips received and the occupation of the tip recipient. The maximum annual deduction is \$25,000 and is phased out for taxpayers with adjusted gross income over \$150,000 (\$300,000 for joint filers). The IRS said the agency will provide guidance on the no tax on tips provision by October 2.

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No tax on overtime

Individuals who receive qualified overtime compensation may deduct their overtime pay from their individual federal income tax return. They can only deduct the “overtime pay” that exceeds their regular rate of pay (the “half” portion or 0.5 portion of the time and a half compensation) that is required by the Fair Labor Standards Act and reported on a Form W-2, Form 1099, or other statement furnished to the individual. Employers are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year. The maximum annual deduction is \$12,500 (\$25,000 for joint filers) and is phased out for taxpayers with adjusted gross income over \$150,000 (\$300,000 for joint filers)

Hot Topics

PayrollOrg maintains a Hot Topics page with updates on the OBBA at <https://payroll.org/compliance/compliance-overview/hot-topics/one-big-beautiful-bill-act>

ACA Affordability Percentage Increases to 9.96% for 2026

The IRS released its annual inflation adjustment to the percentage of household income used to determine whether an employer’s offer of health care coverage under the Affordable Care Act (ACA) is affordable [Rev. Proc. 2025-25, 7-18-25]. For plan years beginning in 2026, the percentage of household income increases to 9.96%. The household income percentage for plans beginning in 2025 was 9.02% (see PAYROLL CURRENTLY, Issue 10, Vol. 32).

Household income and affordability

The ACA’s employer mandate requires applicable large employers to offer minimum essential coverage (MEC) that provides minimum value and is affordable to all of its full-time employees. Affordability is determined as a certain percentage of an employee’s household income. Using the adjusted percentage for 2026, if the required employee premium contribution does not exceed 9.96% of the employee’s household income, then the coverage is affordable under the ACA

OBBBA Includes Provisions That Affect HSAs, HDHPs

On July 4, President Trump signed H.R. 1, the One Big Beautiful Bill Act (OBBBA), into law (Pub. L. 119-21). The OBBBA contains two provisions that affect health savings accounts (HSAs) and high deductible health plans (HDHPs).

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Background

In general, HSAs are tax-exempt trusts or custodial accounts created exclusively to pay for the qualified medical expenses of the account holder and his or her spouse and dependents. HSAs are for eligible individuals in a HDHP, which is a health plan with an annual deductible of at least a certain amount (see The Payroll Source®, §4.1-7).

Safe harbor for telehealth services

OBBBA §71306 amends IRC §223(c)(2)(E) to clarify that a health plan can still be considered a HDHP even if it offers telehealth and other remote care services without requiring a deductible. This amendment applies to plan years beginning after December 31, 2024, and retroactively makes permanent the same provision from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This amendment allows employers to provide telehealth and other remote care services to HDHP participants on a pre-deductible basis without causing employees to become ineligible to contribute to HSAs.

Direct primary care service arrangements

OBBBA §71308 amends IRC §223(c)(1) by adding paragraph (E), which allows direct primary care service arrangements to be compatible with HSAs. Direct primary care service arrangements provide employees with access to certain primary care services for a fixed periodic fee. Effective after December 31, 2025, direct primary care arrangements will be eligible for HSA coverage, as long as the membership fee does not exceed \$150 per month for an individual (\$300 per month if the arrangement covers more than one person). Primary care services do not include procedures that require the use of general anesthesia, prescription drugs (other than vaccines), or laboratory services not typically administered in an ambulatory primary care setting.

IRS Releases Draft of 2026 Forms W-2, W-2c, and W-4 With Changes Due to OBBBA, No Changes for 2025 Forms

The IRS released draft version of the 2026 Form W-4, W-2, and W-2c with changes due to the One Big Beautiful Bill Act (OBBBA). The early release drafts are provided for information only.

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Form W-4

The draft 2026 Form W-4 increases to five pages. Changes include:

- Step 3: Claim Dependent and Other Credits. The lines in Step 3 are now labeled Lines (a) and (b) and require the same information as in the 2025 form. The amount for the child tax credit is blanked out, which is increased by the OBBBA to \$2,200 from \$2,000 per qualifying child.
- Step 4: Other Adjustments. Step 4 no longer includes “Optional.” Step 4(b) informs employees that if the employee skips this line, withholding will be based on the standard deduction.
- Deductions Worksheet. The worksheet for Step 4(b) now has 15 lines and is on its own page. Among the new lines are ones to account for the “no tax on overtime” and “no tax on tips” provisions.
- Exempt checkbox. A checkbox was added after Step 4 for employees to claim they are exempt from withholding. On the previous version, employees claimed exempt by writing “Exempt” in the space below Step 4(c).

Forms W-2 and W-2c

The draft 2026 Form W-2 contains changes due to the OBBBA, including:

- New Box 12 codes. Box 12 has three new codes: TA – Employer contributions to a Trump account; TP – Total amount of qualified tips; and TT – Total amount of qualified overtime compensation.
- Tip reporting. Box 14 is now 14a – Other and 14b – Treasury tipped occupation code. Employers may use Box 14a to report information such as state disability insurance taxes withheld, union dues, uniform payments, health insurance premiums deducted, nontaxable income, or educational assistance payments.
- Employers may use Box 14b to report the treasury occupation code for an employee’s tipped occupation, which is used to report an employee’s qualified tips as required by the OBBBA. The same Box 14 changes were included in the draft 2026 Form W-2c.

These changes were made only to the draft 2026 version.

2025 Forms Remain Unchanged

The IRS has said that 2025 Form W-2, existing Forms 1099, Form 941, and other payroll return forms will remain unchanged, but it has not yet addressed how payroll will

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report overtime wages and tip income that eligible employees will need in order to calculate their federal income tax exclusion for the 2025 tax year. The IRS will also not update income tax withholding tables for TY 2025, and employers/payroll providers should continue using current procedures for reporting and withholding. These decisions are intended to avoid disruptions during the tax filing season and to give the IRS, business and tax professionals enough time to implement the changes effectively.

IRS Urges Emergency Preparedness Ahead of Peak Disaster Season

As hurricane season peaks and wildfire risks remain high, the IRS urges individuals and businesses to create or update their emergency preparedness plans as part of National Preparedness Month.

Disaster readiness starts with safeguarding critical documents, recording valuables and knowing how to access IRS support. Keeping updated records can speed up recovery and make it easier to apply for disaster assistance and emergency relief if a disaster strikes.

- ***Safeguard important records***- Store essential documents like tax returns, birth certificates, Social Security cards, insurance policies, and property titles in waterproof, fireproof containers. Create digital backups and consider keeping copies with a trusted contact outside the disaster-prone area.
- ***Inventory property and assets***- Maintain a detailed list of personal and business property. Photos, videos and written descriptions (including make, model and year) can support insurance and tax claims. IRS disaster loss workbooks can help individuals PDF and businesses catalog PDF possessions and business equipment.
- ***Reconstruct records if needed***- If original documents are lost, banks and other institutions usually can provide electronic copies. The IRS offers resources to help reconstruct records.
- ***Employers: Review payroll protections***- Employers should confirm their payroll service providers have a fiduciary bond for added protection. Any business can create an Electronic Federal Tax Payment System (EFTPS) account to make secure, trackable online or phone payments, vital if displaced during a disaster. Visit [EFTPS.gov](https://www.eftps.gov) to enroll.
- ***IRS disaster relief is available***- When a federal disaster is declared, the IRS often delays filing and payment deadlines. Relief is automatically applied based on the IRS address of record. Taxpayers outside affected areas, including relief workers or those with impacted tax records, may request assistance by calling 866-562-5227.

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Uninsured disaster losses can be deducted on the tax return for the year of the loss or the prior year. See Publication 547, Casualties, Disasters, and Thefts for details.

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State News

Arizona

Claim amounts for unpaid wages increased. Effective 9-26-25, the amount that an employee may claim in unpaid wages with the Labor Department of the Industrial Commission will increase to \$12,000 from \$5,000. Employees are entitled to file a claim with the Department in lieu of filing a lawsuit in court to recover unpaid wages. The employee must submit their claim within 1 year of the claim arising [S.B. 1159, L. 2025].

Colorado

Employer penalties for wage and hour law violations updated. Effective 8-6-25, penalties for wage and hour violations stemming from employee misclassification will be between \$5,000 and \$50,000, increased biennially for inflation. Penalties for failure to pay wages after termination may be waived if paid within 14 days after a demand [H.B. 1001, L. 2025].

Connecticut

Voluntary pay data reporting requirements repealed. Effective 7-1-25, the voluntary requirements to report employee wages, occupations, hours worked, and ZIP codes of the primary worksite on the employer's unemployment insurance quarterly reports are repealed. The voluntary reporting was set to take effect in the third calendar quarter of 2026 [S.B. 1455, L. 2025].

Iowa

UI taxable wage base, employer tax rate to decrease. Effective for 2026, the unemployment insurance (UI) taxable wage base will decrease to \$20,400 from \$39,500 (this updates The Payroll Source®, §7.2-2). Also effective for 2026, the maximum UI tax rate for employers will decrease to 5.4% from 9% [S.B. 607, L. 2025 Department of Workforce Development, News Release, 6-30-25].

Louisiana

EWA providers' reporting requirements established. Effective 8-1-25, earned wage access (EWA) providers are subject to certain requirements and restrictions. There is no requirement to register with the state. However, providers that charge fees for EWA services will be required to submit an annual report to the Office of Financial Institutions. The first report is due 3-1-27. EWA services are not considered a loan under the law if the provider complies with the requirements of the law. EWA providers are required to provide

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employees with at least one option to obtain EWA proceeds at no cost and must clearly explain how to select the no-cost option [H.B. 368, L. 2025].

Maine

Reporting time pay required. Effective 9-23-25, employers with 10 or more employees for more than 120 days in a calendar year are required to provide reporting time pay. On any day that an employee reports to work at the employer's request and the employer cancels or reduces the number of hours in an employee's scheduled shift, the employee must be paid the lesser of: 2 hours of pay at the regular rate of pay or the total pay for the original shift. An employer that makes a documented good faith effort to notify an employee not to report to work is not liable to pay wages. If the employee reports to work after the employer's attempt to notify the employee is unsuccessful or if the employer is prevented from notifying the employee, the employee must perform whatever duties are assigned. If the employer does not have any duties, the employer must pay the employee. The pay requirements do not apply if an employee is unable to work due to bad weather conditions, natural disaster, civil emergency, illness, or workplace injury [S.B. 282, L. 2025].

Minnesota

Paid sick leave updated. Effective 7-1-25, employers may require documentation for paid sick leave (PSL) after more than 2 consecutive days of scheduled work are missed (was 3 days). While employees may not be required to find a replacement, they are not prohibited from seeking or trading shifts to cover time off. Effective 1-1-26, an employer may advance PSL for an employee's expected hours, but it must provide additional accrual if the employee exceeds the estimate [S.B. 15, L. 2025].

Missouri

Paid sick leave, minimum wage increases tied to inflation repealed. The governor signed legislation that repeals the state's paid sick leave (PSL) law, effective 8-28-25. The Department of Labor and Industrial Relations updated its PSL FAQs to explain that employers may continue to offer PSL after 8-28-25, but they will no longer be required to provide it. Until 8-28-25, employers are required to provide employees with 1 hour of PSL for every 30 hours worked. The legislation also repealed future minimum wage increases adjusted annually for inflation every January 1. The minimum wage will still increase to \$15 per hour on 1-1-26 (currently \$13.75 per hour) [H.B. 567, L. 2025]



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Nevada

Child labor laws amended. Effective 10-1-25, minors under 16 years old may only be employed as a performer in the production of a motion picture or on a farm and may work for no more than 40 hours per week (currently 48 hours per week). Minors 16 to 18 years old may only work from 11 p.m. to 6 a.m. on a night before a school day if they are employed as a messenger lifeguard employee of an arcade stage, theatrical, or motion picture performer or employee of a farm if the child is enrolled in school and not emancipated [A.B. 215, L. 2025].

Ohio

Digital notices authorized. Effective 7-21-25, employers may post employment notices on the internet in a manner that is accessible to employees. A variety of notices may be posted digitally, including those covering minimum wage laws, employment protections, rights for minor workers, and public employer obligations [S.B. 33, L. 2025].

Oregon

PEO employer status election required. Effective 9-28-25, professional employer organizations (PEOs) must elect to treat employees of their clients either as their own employees or as employees of the client. If a PEO elects to treat the employee as its own employee, that treatment is limited to payroll tax reporting. The PEO must notify the Director of the Employment Department of its election [H.B. 2236, L. 2025].

Pennsylvania

Philadelphia wage tax rate lowered. Effective 7-1-25, the wage tax rate for residents was lowered to 3.74% from 3.75%. The rate for nonresidents was lowered to 3.43% from 3.44%. The wage tax is a tax on wages, commissions, and other compensation for residents of Philadelphia and nonresidents who work in Philadelphia. Employers are required to withhold wage tax from employees [City of Philadelphia, Department of Revenue, Wage Tax (employers)].

Pittsburgh paid sick leave accruals to increase. Effective 1-1-26, the accrual rates and limits will increase for Pittsburgh paid sick leave (PSL). Employees will accrue 1 hour of PSL per 30 hours worked (currently 35 hours). The maximum amount of yearly PSL that an employee may accrue or carryover will increase to 72 hours from 40 hours for large employers (15 or more employees) and to 48 hours from 24 hours for small employers (1 to 14 employees). Frontloading is also increased to match the yearly accrual rates [Ordinance No. 2025-1736, 6-12-25].

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Rhode Island

Minimum wage to increase. Effective 1-1-26, the state minimum wage will increase to \$16 per hour from \$15 per hour (this updates The Payroll Source®, §2.11-1). Effective 1-1-27, the minimum wage will increase again to \$17 per hour. The minimum cash wage is \$3.89 per hour. Effective 1-1-26, the tip credit will increase to \$12.11 per hour from \$11.11 per hour (effective 1-1-27, \$13.11 per hour this updates The Payroll Source®, §2.11-2) [S.B. 125, L. 2025].

Washington

Meal and rest waivers permitted. Effective 1-1-26, employers and employees may voluntarily agree to waive the requirements for a meal period for shifts of less than 8 hours. For longer shifts, they may agree to waive the second and/or third meal periods as long as one meal period is provided during the shift. They may also agree to waive the applicable timing requirements for meals as long as the meal period falls no earlier than the third hour and no later than the second to last hour scheduled. Waivers must be in writing or electronic format and contain a summary of the rule. Employers and employees may also agree to combine one or more meals with one or more rest periods. Employers must provide quarterly reports to the Department of Labor and Industries including the total number of meal and rest periods waived by agreement. Currently, employers must report the total number of meal and rest periods and the total missed [H.B. 1879, L. 2025].