



 View our services

 Email us

 Join us on LinkedIn

Don't miss this month's insights— [Watch out for exceptions that may apply when employees want to claim total exemption from state income tax withholding](#)

## Special reports

### Federal and state Form W-4 compliance

Our special report, updated in May 2025, provides information that employers need to know about federal and state Form W-4 compliance, with topics including:

- IRS Form W-4 regulations
  - IRS lock-in letters compliance
  - Federal Form W-4 top 10 tips
  - Federal Form W-4 frequently asked questions
  - Special instructions for US nonresident aliens
  - State Form W-4 compliance in 2025
  - 2025 State Form W-4 requirements survey
  - 2025 state Form W-4 requirements heat map
- [Download the latest report](#)

### US employment tax rates and limits

Our 2025 edition of US employment tax rates and limits includes, as of March 25, 2025, the following:

- Social Security wage base for 2025
- Qualified pension plan limits for 2024 and 2025
- Health Savings Account limits for 2024 and 2025
- Fringe-benefit inflation adjustments and Form W-2 penalties for 2025
- Federal mileage rates and luxury vehicle limits for 2025
- Per diem rates under high-low substantiation method for 2025
- 2023 and 2024 FUTA credit reduction
- State unemployment insurance wage bases and tax rates for 2025
- Disability and paid family leave insurance wage base and rates for 2025

- Federal income tax withholding for 2025
- State income tax withholding tables, supplemental withholding and highest withholding tax rates for 2025

—[Download the latest report](#)

## Report on state unemployment insurance requirements for employee notices and workplace posters

Most states require that employers tell employees about their potential eligibility for unemployment insurance benefits. There are two forms of communications that most states require: (1) a notice to the employee at the time of separation and/or (2) a poster placed in a conspicuous location in the workplace.

Our special report includes the results of our September 3, 2024, survey of state workforce agency websites and includes links, if applicable, to the states' requirements for unemployment insurance employee separation notices and workplace posters.

—[Download the latest report](#)

### Federal

Social Security Administration publishes wage base projections for 2026 through 2034. For those responsible for employment tax budgets, or just curious what the future may hold, the estimated Social Security wage-base limits for employers and employees for calendar years 2026 through 2034 were recently published by the Social Security Administration (SSA). The House-passed version of the tax reconciliation bill contains many provisions affecting compensation and benefits, including the exclusion of qualified tips and overtime compensation from gross taxable wages.

—[Read more about this development in Tax Alert 2025-1134](#)

### State income tax withholding

Alabama's state income tax exemption for qualified overtime pay expired effective July 1, 2025. On June 4, 2025, the Alabama Department of Revenue (DOR) announced that the exemption of qualified overtime wages from Alabama state income tax and withholding ends on June 30, 2025. Thus, effective July 1, 2025, any amounts paid or received for overtime compensation is subject to Alabama income tax and withholding.

—[Read more about this development in Tax Alert 2025-1234](#)

Georgia income tax withholding formula and tables updated to reflect retroactive tax cut for 2025. The Georgia Department of Revenue has updated its state income tax withholding formula and tables to reflect a reduction to the state's personal income tax rate retroactive to January 1, 2025. The updated withholding calculations apply to wages paid on and after July 1, 2025.

—[Read more about this development in Tax Alert 2025-1288](#)

Kansas law conditionally lowers personal income tax rates starting in 2025. Overriding the veto of Governor Laura Kelly, the Kansas legislature passed S.B. 269, which retroactive to January 1, 2025, allows for decreases in the personal income tax rate if the state budget stabilization fund ("rainy day fund") is equal to or exceeds 15% of the prior fiscal year's balance.

—[Read more about this development in Tax Alert 2025-1266](#)

Virginia updates income tax withholding formula and tables; legislation could prevent conformity with federal tax exemption for overtime pay and tips

The Virginia Department of Taxation has updated its income tax [withholding tables and formula](#) to reflect the temporary increase to the standard deduction for single and married taxpayers. The updated withholding calculations apply to wages paid on and after July 1, 2025.

—[Read more about this development in Tax Alert 2025-1326](#)

## State paid family and medical leave insurance

Maryland delays start date for employer contributions to its paid family and medical leave insurance program to January 1, 2027

At the request of the Maryland Department of Labor, legislation was enacted under H.B. 102 that delays the start date for employer contributions to the state's paid family and medical insurance program (PFML) from July 1, 2025, to January 1, 2027, with the first remittance now due April 30, 2027. Under this updated implementation schedule, PFML benefits will become available January 1, 2028.

—[Read more about this development in Tax Alert 2025-1335](#)

## Bill watch (tracking the status of legislation proposed in January through June 2025)

All state legislatures have ended for the year except for: Arizona, California, Connecticut, Delaware, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania and Wisconsin, which are still in session, and Maine and Missouri, which are in special session.

### Federal

<a href="#">S. 1443</a>	Status: Introduced (4-10-2025)	Topic: Mobile Workforce State Income Tax Simplification Act of 2025
For state income tax and withholding purposes, would provide a 30-day safe harbor for employees who travel across state borders for temporary periods to perform work duties.		

### Federal

<a href="#">HR 1959</a>	Status: Sent to Committee on Ways and Means (3-6-2025)	Topic: <a href="#">Federal unemployment insurance</a>
Would relieve employers from an increase in their federal unemployment insurance taxes (FUTA) resulting from the state carrying an unpaid FUTA loan.		

### Alabama

<a href="#">HB 467</a>	Status: Introduced in House and referred to House Ways and Means Education (3-20-2025) <b>Legislature no longer in session</b>	Topic: No tax on overtime pay
Effective upon enactment, would remove the June 30, 2025, sunset date for excluding overtime pay from Alabama state income tax.		

Alabama

<a href="#">HB 259</a>	Status: Pending in House Ways and Means Education (2-11-2025) <b>Legislature no longer in session</b>	Topic: Relocation tax incentive
Effective October 1, 2025, would provide employees who relocate to or work remotely for certain counties within Alabama a state income tax credit.		

Alabama

<a href="#">HB 379</a>	Status: <b>Became law (5-14-2025)</b>	Topic: Nonresident income tax
Effective January 1, 2026, exempts remote workers from nonresident income tax if they are present within the state for 24 or fewer days in the calendar year.		

Arizona

<a href="#">HB 2081</a>	Status: Passed House (2-10-2025); second reading in Senate (2-25-2025)	Topic: No tax on tips
Effective January 1, 2025, would allow a deduction from Arizona gross earnings for tips.		

Arkansas

<a href="#">HB 1116</a>	Status: Died in House Committee (5-5-2025) <b>Legislature no longer in session</b>	Topic: Nonresident income tax
Effective January 1, 2026, would end the requirement that employers withhold Arkansas nonresident income if the employee works in Arkansas for less than 15 days in the calendar year and the employee's resident state has a similar provision.		

Connecticut

<a href="#">SB 1369</a>	Status: Referred to House Committee on Finance, Revenue and Bonding (3-13-2025) <b>Legislature no longer in session</b>	Topic: New state payroll tax
Effective January 1, 2026, would create a new 1.5% payroll tax to fund the Workforce Child Care Fund, which would provide direct financial assistance to families and childcare providers.		

Connecticut

<a href="#">S.B. 1558</a>	Status: <b>Became law (6-23-2025)</b>	Topic: Convenience of the employer rule
Effective retroactive to January 1, 2020, provides a 60% tax credit to any resident who successfully challenges another state's convenience of the employer rule. S.B. 1558 is modeled after New Jersey's convenience of the employer challenge law, which provides a credit to residents who successfully sue other states for wrongfully collecting income tax on work performed in New Jersey, particularly residents who paid New York state income taxes after working remotely for companies based in New York City.		

Georgia

<a href="#">HB 111</a>	Status: <b>Became law (4-15-2025)</b>	Topic: State income tax
Retroactive to January 1, 2025, reduces the state's income tax rate of 5.29% to 5.19% and decreases rates by 10 basis points, or 0.1%, annually, starting in 2026 until the rate reaches 4.99%.		

Hawaii

<a href="#">HB 283</a>	Status: Referred to Committee (1-21-2025) <b>Legislature no longer in session</b>	Topic: State income tax
Effective January 1, 2026, would eliminate the state's income tax.		

Hawaii

<a href="#">SB 1470</a>	Status: <b>Became law 4-24-2025</b>	Topic: State income tax
Effective retroactive to January 1, 2025: (1) repeals the maximum tax rate that may be considered in determining the amount of income tax that must be withheld and the requirement that a standard deduction allowance be treated as if it was denominated as a withholding exemption, and (2) for the purpose of income tax withholding, permits the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption.		

Idaho

<a href="#">HB 40</a>	Status: <b>Became law 3-6-2025</b>	Topic: Income tax rates
Effective retroactive to January 1, 2025, lowers personal and corporate tax rates from 5.695% to 5.3%.		

Illinois

<a href="#">SB 174 / SB 2981</a>	Status: Referred to Senate Assignments, co-sponsor added (2-11-2025) <b>Legislature no longer in session</b>	Topic: No tax on overtime pay
Effective Immediately, would allow a deduction from Illinois taxable income for overtime pay. SB 2981 would allow the overtime deduction in excess of the regular salary.		

Indiana

<a href="#">HB 1001</a>	Status: <b>Became Law without the provision for no tax on tips (5-06-2025)</b>	Topic: No tax on tips
Effective January 1, 2025, would have exempted tips from the Indiana adjusted gross income tax.		

Iowa

<a href="#">HF 1024</a>	Status: Placed on House Ways and Means calendar (5-15-2025) <b>Legislature no longer in session</b>	Topic: No tax on tips
Would exempt the first \$25,000 in cash tips received by taxpayers with a net income of less than \$155,000 from individual income taxation.		

Iowa

<a href="#">SF 607</a>	Status: Sent to Governor (5-23-2025) <b>Legislature no longer in session</b>	Topic: Unemployment insurance
Would modify the definition of "taxable wages" for purposes of unemployment insurance taxes on employers by excluding wages paid by Iowa employers to employees who work in another state if the other state extends reciprocity to Iowa for employment purposes. Would reduce the taxable wage base used to calculate unemployment insurance taxes for employers from 66.7% to 33.3% of the annualized statewide average wage. Would modify employer contribution rates, including changing the highest contribution rate from 9.0% to 5.4%.		

## Iowa

<a href="#">HSB 114</a>	Status: House Labor and Workforce Committee (1-30-2025) <b>Legislature no longer in session</b>	Topic: Unemployment insurance tax reform
<p><a href="#">Gov. Reynolds proposed</a> lowering the maximum tax rate to the lowest allowed by federal law (5.4%), cutting the taxable wage base by half, and simplifying the unemployment insurance system by reducing the number of tax tables.</p>		

## Kansas

<a href="#">SB 269</a>	Status: <b>Became law (4-10-2025)</b>	Topic: State income tax
<p>Effective January 1, 2025, and if revenue goals are met, will gradually lower the income tax rates until the state's two income tax brackets are collapsed to one at 4%. The budget director will determine by August 15, 2025, whether the 2025 fiscal year's total State General Fund tax receipts exceeded the 2024 fiscal year's amount, adjusted for inflation.</p>		

## Louisiana

<a href="#">HB 667</a>	Status: House passed, Referred to Senate Committee on Revenue and Fiscal affairs (5-12-2025) <b>Legislature no longer in session</b>	Topic: State income tax
<p>Would reduce the state's income tax from 3% to 2.75% effective January 1, 2027, if voters approve a constitutional amendment repealing the Budget Stabilization Fund as originally contained in recently proposed legislation.</p>		

## Maine

<a href="#">LD 106</a>	Status: <b>Bill is tabled (4-10-2025)</b>	Topic: Paid Family and Medical Leave Insurance
<p>Effective January 1, 2026, would have established that leave paid under a state paid family and medical leave plan is taxable to the extent the benefits are included in federal taxable income.</p>		

## Maine

<a href="#">LD 54</a>	Status: Passed House and Senate with Amendment, House to consider amendment (5-21-2025) <b>Carried over to any special or regular session of the 132<sup>nd</sup> Legislature</b>	Topic: Pay transparency
<p>Effective 90 days after enactment, would require an employer with 10 or more employees to: (1) include on a job posting a statement listing the prospective range of pay the employer will offer to a successful applicant, (2) disclose the range of pay it offers for the position the employee holds upon an employee's request and (3) maintain a record of each position held by an employee and the employee's pay history during the employee's employment and for three years after the employee's termination of employment.</p>		

## Maine

<a href="#">LD 229</a>	Status: Passed House (6-13-2025) <b>Carried over to any special or regular session of the 132<sup>nd</sup> Legislature</b>	Topic: State income tax
<p>Effective January 1, 2026, would reduce the number of income tax brackets to five from seven and increase the tax rate on the top two brackets to 7.75% and 8.95%. The current top rates are 6.75% and 7.15%. It is anticipated that Governor Janet Mills will veto the measure.</p>		

Maryland

<a href="#">H.B. 352</a> (p. 160)	Status: <a href="#">Became law (4-7-2025)</a>	Topic: State income tax; state unemployment insurance
<p>State income tax. Effective retroactive to January 1, 2025, raises the tax rate from 5.75% to 6.5% for taxpayers earning more than \$1 million and increases the rate from 5.75% to 6.25% for taxpayers earning \$500,001 to \$1 million. The law also increases the maximum local tax rate from 3.2% to 3.3% and raises the standard deduction.</p> <p>State unemployment insurance. Beginning January 1, 2026, (1) imposes an unemployment insurance administrative fee of 0.15% on all taxable employers, (2) requires that all associated revenue be deposited into the Special Administrative Expense Fund to be used for specified administrative expenses, and (3) reduces the unemployment insurance tax rate assigned to each taxable employer by 0.15%, subject to a minimum overall tax rate of 1.0% for new employers.</p>		

Maryland

<a href="#">HB 102</a>	Status: <a href="#">Became law (4-8-2025)</a>	Topic: Paid Family and Medical Leave Insurance
<p>Delays the start date of the state's paid family and medical leave insurance program from July 1, 2025, to January 1, 2027. Delays the dates on which the payment of contributions for paid family and medical leave insurance begins and the date on which benefit claims may be filed to January 1, 2028.</p>		

Massachusetts

<a href="#">H 3173</a>	Status: Introduced (2-27-2025)	Topic: No tax on overtime pay
<p>Would exempt overtime pay from income tax with the clarification that the provision does not apply to salaried exempt employees.</p>		

Michigan

<a href="#">HB 4170</a>	Status: Passed House, transmitted to Senate (3-20-2025)	Topic: State income tax
<p>Effective January 1, 2025, would lower the income tax rate from 4.25% to 4.05%.</p>		

Michigan

<a href="#">HB 4001</a>	Status: Passed House, referred to Senate Committee on Regulatory Affairs (2-4-2025)	Topic: Minimum wage
<p>Effective immediately, would introduce a new schedule for general minimum wage increases through January 1, 2029, and maintain the tipped minimum wage at 38% of the regular hourly minimum wage. Would adjust the unemployment rate threshold for annual minimum wage increases from 8.5% to 7.5%.</p>		

Minnesota

<a href="#">SF 589</a>	Status: Referred to Taxes (1-27-2025) <a href="#">Legislature no longer in session</a>	Topic: No tax on overtime pay
<p>Effective January 1, 2026, would exempt overtime pay required under federal law from Minnesota state income tax.</p>		

Minnesota

<a href="#">SF 46, HF 950</a>	Status: Referred to Taxes (1-16-2025) <b>Legislature no longer in session</b>	Topic: Nonresident income tax
Effective January 1, 2026, would exempt certain nonresident employees from Minnesota nonresident income tax and withholding if they work in the state for fewer than 30 days in the calendar year.		

Missouri

<a href="#">H.B. 100, SB 151</a>	Status: <b>Further action postponed</b> (2-11-2025)	Topic: State income tax
Effective January 1, 2026, would implement a flat 4% income tax rate and, starting in 2027, provide for 10 annual reductions of 0.1 percentage points, while retaining the budget requirements established under <a href="#">SB 3 (2022)</a> .		

Missouri

<a href="#">HB 798</a>	Status: Passed House (3-11-2025), Referred to Senate Committee (4-9-2025)	Topic: State income tax
Effective January 1, 2026, would implement a flat 4.7% income tax rate and, starting in 2027, the 4% flat tax would be reduced when the revenue grows by at least \$1 million and the Tax Reform Fund is at least \$120 million at the end of the fiscal year.		

Missouri

<a href="#">H.B. 567</a>	Status: Delivered to Governor (5-30-2025)	Topic: Employment law
Effective immediately, would repeal the changes under voter-approved <a href="#">Proposition A</a> , which raised the minimum wage to \$13.75 effective January 1, 2025, with annual cost of living adjustments each year thereafter, and requires employers to provide paid leave to employees.		

Mississippi

<a href="#">HB 1</a>	Status: <b>Became law</b> (3-27-2025)	Topic: State income tax
Starting in 2027, gradually reduces the state's income tax rate until it is phased out completely by 2037.		

Montana

<a href="#">H.B. 210</a>	Status: <b>Became law</b> (4-7-2025)	Topic: Unemployment insurance
Effective January 1, 2026, adds a lower contribution tax rate schedule and changes the tax schedule rate trigger, thereby lowering the average tax rate from 1.12 to 0.95 in new Schedule I.		

Montana

<a href="#">SB 203</a>	Status: <b>Tabled by the House</b> (4-16-2025)	Topic: State income tax
Effective retroactive to January 1, 2025, would increase the income thresholds before taxable income is taxed at the higher marginal tax rates of either 5.9% or 4.1%. <a href="#">S.B. 323</a> , which failed to pass in the Senate, included a reduction in the top marginal income tax rate, from 5.9% to 5.4% in 2026 and to 4.9% in 2027. The bill also proposed increasing Montana's earned income tax credit from 10% to 15% of the federal credit.		

Montana

<a href="#">HB 337</a>	Status: <a href="#">Became law (4-28-2025)</a>	Topic: State income tax
Reduces Montana's top marginal income tax rate from 5.9% to 5.65% effective in 2026 and to 5.4% effective in 2027. Montana Governor Greg Gianforte had <a href="#">called for</a> a reduction in the maximum individual income tax rate from 5.9% to 4.9%, in addition to an expansion of the Montana earned income tax credit.		

New York

<a href="#">AB A3009B</a> (p.7) <a href="#">A3006-C</a>	Status: <a href="#">Became law (5-9-2025)</a>	Topic: State income tax, payroll mobility tax, elimination of federal unemployment insurance credit reduction in 2025
(1) Effective January 1, 2025, through December 31, 2032, sets the tax rate at 10.75% on income between \$10 million and \$25 million, 11.75% on income over \$25 million but less than \$100 million and 12% on income over \$100 million. The tax rates for the first five of the existing nine brackets are lowered in 2026 and again in 2027. (2) Effective July 1, 2025, reduces the payroll mobility tax for small businesses and increases it for large businesses. (3) Requires that the state's outstanding federal unemployment insurance (FUTA) loan balance be repaid thereby eliminating the FUTA surtax on New York employers		

New York

<a href="#">SB S1514</a>	Status: Passed Senate, referred to House Committee on Labor (3-5-2025) <a href="#">Legislature no longer in session</a>	Topic: Worker classification
Would empower the commissioner of labor to issue stop-work orders against employers for misclassifying employees as independent contractors or providing false, incomplete, or misleading information to an insurance company on the number of employees.		

North Carolina

<a href="#">HB 48</a>	Status: Passed House, referred to Senate Committee on Rules (2-27-2025)	Topic: Unemployment insurance
Would raise the maximum Unemployment Insurance (UI) weekly benefit amount from \$350 to \$450 and provide an employer tax credit equal to the employer's UI tax payment made on or before January 31, 2025.		

North Carolina

<a href="#">HB 459</a>	Status: Referred to House Committee on Rules (3-20-2025)	Topic: State income tax
Effective retroactive to January 1, 2025, would set the state's individual income tax rate at 4.25%, up from 3.99% for tax years beginning after 2025. Would also amend the general revenue amount that would trigger a reduction of the state's individual income tax rate beginning with fiscal year 2027-28.		

North Carolina

<a href="#">HB 11</a>	Status: Referred to Committee on Finance (3-11-2025)	Topic: No tax on tips, overtime pay
Effective January 1, 2025, would provide tax deductions for overtime pay, bonus compensation up to \$2,500 and qualified tips.		

## Ohio

<a href="#">H.B. 96</a>	Status: Sent to Governor (6-27-2025)	Topic: State income tax
Would first reduce the top income tax rate from 3.5% to 3.125% for tax year 2025, then implement a flat 2.75% for tax year 2026 and after. Taxpayers earning \$26,050 or less per year would continue to be exempt from the income tax.		

## Oklahoma

<a href="#">S.B. 1, H.B. 1806</a>	Status: Referred to Senate Revenue and Taxation Committee (2-4-2025); referred to House Appropriations Committee (2-4-2025) <b>Legislature no longer in session</b>	Topic: State income tax
Effective January 1, 2025, would reduce the state's graduated income tax rates by 0.25% if revenue collections exceed an itemized estimate of \$400 million.		

## Oklahoma

<a href="#">H.B. 1200</a>	Status: Passed House, under Senate consideration (5-8-2025) <b>Legislature no longer in session</b>	Topic: State income tax
Effective January 1, 2026, would amend the state's income tax brackets for individual taxpayers to provide that single taxpayers and married taxpayers filing separately would be taxed at a rate of 0% for the first \$3,750 of income, 2.75% on the next \$1,150 of income, and 3.75% on the next \$2,300 of income. The remainder of the income would be taxed at a rate of 4.7% in tax years after 2027. Marginal tax rates would be further reduced by 0.25% if tax collections exceed \$400 million in growth as adjusted for inflation; each additional tax revenue growth exceeding \$400 million would result in further marginal tax rate reductions of 0.25%. The Governor <a href="#">announced</a> on May 14, 2025, that he had reached an agreement with the House and Senate for a quarter-point tax cut to the state income tax, a consolidation of income tax brackets and a true path to zero income tax.		

## Oklahoma

<a href="#">H.B. 2764</a>	Status: <b>Became law (5-28-2025)</b>	Topic: State income tax
Effective January 1, 2026, amends the state's income tax brackets for individual taxpayers to provide that single taxpayers and married taxpayers filing separately will be taxed at a rate of 0% tax on the first \$3,750; 2.5% tax on the next \$1,150; 3.5% tax on the next \$2,300; and 4.5% tax on the remainder. Married individuals will be taxed at the rate of 0% tax on the first \$7,500; 2.5% tax on the next \$2,300; 3.5% tax on the next \$4,600; and 4.5% tax on the remainder. If budget goals are reached, the tax rates will be further reduced by 0.25% until they reach 0%.		

## Pennsylvania

<a href="#">SB 527</a>	Status: Passed Senate, referred to House (6-24-2025)	Topic: Philadelphia wage tax
Would prohibit first-class cities (Philadelphia) from imposing a tax on nonresident individual's salaries, wages, or other compensation if they are employed by an employer located in the city but the individual performs all duties or services outside of the city; if the individual performs only some of their duties or services within the city limits, only those duties or services can be taxed. (See PA Senate Republicans <a href="#">press release</a> .)		

## Pennsylvania

<a href="#">S.B. 206</a>	Status: Referred to Senate Finance (1-29-2025)	Topic: State income tax
Effective January 1, 2026, would eliminate the state's income tax on individual taxpayers, trusts and estates.		

Pennsylvania

<a href="#">HB 1393</a>	Status: Referred to Finance (5-5-2025)	Topic: Paid family and medical leave tax credit
<p>Would create a state tax credit for qualified business firms that provide paid family and medical leave to their employees equal to the amount that a qualified business firm receives for the equivalent federal family and medical leave tax credit.</p>		

Rhode Island

<a href="#">S. 329</a>	Status: <b>Held for further study (5-29-2025)</b>	Topic: State income tax
<p>Would impose an additional 3% income tax on certain taxpayers with taxable income over \$625,000 for tax years beginning after January 1, 2026.</p>		

South Carolina

<a href="#">Governor Henry McMaster Budget Proposal</a>	Status: Proposed (1-13-2025) <b>Legislature no longer in session</b>	Topic: State income tax
<p>Governor McMaster has proposed lowering the top tax rate from 6.2% to 6.0%.</p>		

South Carolina

<a href="#">HB 4216</a>	Status: House passed, referred to Senate (5-7-2025) <b>Legislature no longer in session</b>	Topic: State income tax
<p>Effective January 1, 2026, would amend the individual income tax by creating two tax rates depending on income brackets for tax years beginning after 2025—1.99% for income not exceeding \$30,000 and 5.59% minus \$1,020 for income exceeding \$30,000 . The state's current rates are 0%, 3% and 6.2%.</p>		

South Dakota

<a href="#">SB 26</a>	Status: <b>Became law (3-26-2025)</b>	Topic: Unemployment insurance
<p>Effective January 1, 2026, reduces employer contribution rates and increases the administrative fee rate for reemployment assistance.</p>		

Utah

<a href="#">HB 106</a>	Status: <b>Became law (3-25-2025)</b>	Topic: State income tax
<p>Effective retroactive to January 1, 2025, lowers the state's personal and corporate income tax rate from 4.55% to 4.5%.</p>		

Utah

<a href="#">HB 279</a>	Status: <b>Became law (3-25-2025)</b>	Topic: Earned wage access
<p>Effective May 7, 2025, provides rules governing employee earned wage access services.</p>		

Vermont

<a href="#">H 77</a>	Status: Referred to House Committee on Ways and Means (1-23-2025) <b>Legislature no longer in session</b>	Topic: State income tax
Effective January 1, 2026, would increase the income thresholds for the state's income tax brackets for individuals, trusts, and estates and would create a new 12.75% rate for single filers with income over \$1 million.		

Virginia

<a href="#">HB 1965</a>	Status: <b>Did not pass before legislative session ended</b>	Topic: No tax on tips
Effective January 1, 2026, would provide an individual income tax deduction for cash tips, including tips paid by electronic means that are included on statements furnished to the taxpayer's employer for federal tax purposes.		

Washington, Seattle

<a href="#">Proposition 1A</a>	Status: <b>Passed by voters</b> (2-20-2025)	Topic: Payroll expense tax
Effective January 1, 2025, creates a new 5.0% payroll expense tax on annual compensation above \$1 million paid in Seattle to an individual employee. The tax is separate from the existing Seattle Payroll Expense tax.		

Washington, Buriem

<a href="#">Initiative Measure 1</a>	Status: <b>Passed by Voters</b> (2-20-2025)	Topic: Minimum wage
Effective March 25, 2025, institutes a minimum wage matching neighboring <a href="#">Tukwila</a> .		

West Virginia

<a href="#">HB 3103</a>	Status: Assigned to House Finance (3-4-2025) <b>Legislature no longer in session</b>	Topic: Exemption of retirement benefits from income tax
Effective January 1, 2025, would exempt retirement benefits from personal income tax.		

West Virginia

<a href="#">SB 99</a>	Status: Assigned to Senate Finance Committee (2-12-2025) <b>Legislature no longer in session</b>	Topic: Return to West Virginia tax credit
Would create a \$25,000 tax credit against personal income tax liability for qualified taxpayers who returned to West Virginia on or after January 1, 2025, and at one point (1) both resided and were employed in the state for a minimum of 10 years, or (2) were born in the state, and then subsequently resided out of state for 10 consecutive years.		

Wisconsin

<a href="#">SB 36 /AB 38</a>	Status: Senate Substitute Amendment 1 offered (6-9-2025)	Topic: No tax on tips
Would create an income tax exemption for cash tips received by an employee from the employer's customers.		

Wisconsin

<a href="#">AB 50 (2025-2027 budget bill)</a>	Status: Consideration temporarily postponed (7-2-2025)	Topic: State income tax
Effective retroactive to January 1, 2025, would add a fifth income tax bracket with (1) a rate of 9.80% for individuals and married joint filers with taxable income exceeding \$1 million and for married separate filers with taxable income exceeding \$500,000 and (2) an increase from \$700 to \$1,200 for the income tax personal exemption for taxpayers, their spouses and dependents.		

## This month's insights

### Watch out for exceptions that may apply when employees want to claim total exemption from state income tax withholding\*

For federal income tax withholding purposes, only one form is used, Form W-4, even if employees are claiming total exemption from withholding. This is not necessarily the case when it comes to state income tax withholding. Except for military spouses claiming exemption from state income withholding under the Military Spouses Residency Relief Act and nonresidents claiming exemption under a state income tax reciprocal agreement, which usually requires completing separate forms, some states do not allow employees to claim 100% exemption from withholding, others require use of a separate form, and a few states have other unique limitations.

Particularly since the Tax Cuts and Jobs Act of 2017 eliminated federal personal exemptions through December 31, 2025, many states have now decoupled from the federal Form W-4, using instead their own specific state form(s). This movement away from use of the federal Form W-4 has increased the number of states that have a unique approach to claiming total exemption from state income tax withholding.

Below is a summary of the state exceptions to note (for employees other than those claiming exemption under the Military Spouses Relief Act and nonresidents covered by a state income tax reciprocal agreement).

States that do not allow 100% exemption from withholding

- Alabama ([Act 2015-504](#) repealed the provision allowing a taxpayer, other than a military spouse, to claim a total exemption from state income tax withholding)
- Hawaii (see [Form HW-4](#), *Employee's Withholding Allowance and Status Certificate*)

States that require a separate exemption certificate

- Arkansas ([Form AR4ECSP](#))
- Connecticut (for nonresidents, ([Form CT-W4NA](#)))
- Louisiana ([Form L-4E](#))
- New York ([Form IT-2104-E](#))
- North Carolina ([Form NC-4EZ](#))
- Pennsylvania ([Form REV-419](#))

No option to claim 100% exemption on regular withholding certificate and there is no separate exemption certificate

- Delaware (see [Form DE W-4](#))
- Indiana (see [Form WH-4](#))
- Massachusetts (only available to full-time students engaged in seasonal, part-time or temporary employment whose estimated income does not exceed \$8,000, see [Form M-4](#))

- Mississippi (available only to military spouses under the Military Spouses Residency Relief Act, see [Form 89-350](#))
- West Virginia (see [Form WV-IT-104](#))

Other limitations

- Illinois (federal Form W-4 must claim 100% exemption to claim 100% exemption from Illinois income tax withholding, see [Form IL-W-4](#))
- Iowa (nonresidents cannot claim 100% exemption from Iowa income tax withholding, see [Form IA W-4](#))



Even if you are using a third-party system for collecting and storing state withholding allowance certificates, it is important to be familiar with the specific state (and local) requirements that apply to your workforce. Whatever system is used, in-house or third-party, confirm that protocols are in place to reject forms that are not compliant (e.g., Iowa nonresidents claiming 100% exemption from Iowa withholding).

Find more information about state Form W-4 requirements in our 2025 [special report](#).

\*Source: *EY US Payroll Tax Factfinder*. For information on how to purchase [contact us](#).

View prior editions of *Payroll Month in Review*

- [Payroll Month in Review for May 2024](#)
- [Payroll Month in Review for June 2024](#)
- [Payroll Month in Review for July 2024](#)
- [Payroll Month in Review for August 2024](#)
- [Payroll Month in Review for September 2024](#)
- [Payroll Month in Review for October 2024](#)
- [Payroll Month in Review for November 2024](#)
- [Payroll Month in Review for December 2024](#)
- [Payroll Month in Review for January-February 2025](#)
- [Payroll Month in Review for March 2025](#)
- [Payroll Month in Review for April 2025](#)
- [Payroll Month in Review for May 2025](#)

Contact Employment Tax Advisory Services for more information

Kristie Lowery  
[kristie.lowery@ey.com](mailto:kristie.lowery@ey.com)

Ken Hausser  
[kenneth.hausser@ey.com](mailto:kenneth.hausser@ey.com)

Debera Salam  
[debera.salam@ey.com](mailto:debera.salam@ey.com)

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting or tax advice or opinion provided by Ernst & Young LLP to the reader. The reader is also cautioned that this material may not be applicable to, or suitable for, the reader's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The reader should contact his or her Ernst and Young LLP or other tax professional prior to taking any action based upon this information. Ernst & Young LLP assumes no obligation to inform the reader of any changes in tax laws or other factors that could affect the information contained herein. Copyright 2025. Ernst & Young LLP. All rights reserved. No part of this document may be reproduced, retransmitted, or otherwise redistributed in any form or by any means, electronic or mechanical, including by photocopying, facsimile transmission, recording, rekeying, or using any information storage and retrieval system, without written permission from Ernst & Young LLP.