
 [View our services](#)

 [Email us](#)

 [Join us on LinkedIn](#)

Don't miss this month's insights— [\*Exemption from nonresident income tax is not automatic under state reciprocal agreements\*](#)

## 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

Several changes to compensation and benefits provisions included in final budget reconciliation legislation for FY 2025

The "One Bill Beautiful Bill Act" (P.L. 119-21), signed into law on July 4, 2025, contains several provisions affecting compensation and benefits, including individual deductions for tips and overtime, and the tax treatment of various employee benefits.

—[Read more about this development in Tax Alert 2025-1476](#)

IRS releases Health Savings Account limits for 2026

In Revenue Procedure 2025-19, the IRS announced the inflation adjustments that will apply to Health Savings Accounts (HSAs) under IRC Section 223 for calendar year 2026.

—[Read more about this development in Tax Alert 2025-1435](#)

IRC Section 274(o) employee meal expense deduction disallowance goes into effect beginning in 2026

Beginning on January 1, 2026, employers will no longer be able to claim deductions for certain employee meal expenses. Introduced by the Tax Cuts and Jobs Act (TCJA), IRC Section 274(o) eliminates tax deductions presently available for expenses associated with employer-operated eating facilities and meals provided for the convenience of the employer.

—[Read more about this development in Tax Alert 2025-1370](#)

ACA affordability percentage increases again for 2026 employer health plans

In Revenue Procedure 2025-25, the IRS announced the new Affordable Care Act (ACA) affordability percentage of 9.96% for 2026 employer health care plans. This percentage increase gives employers more flexibility in setting employee premiums without making their coverage unaffordable under the safe harbor.

—[Read more about this development in Tax Alert 2025-1542](#)

IRS significantly increases penalties for failing to offer affordable health care with minimum coverage for 2026

On July 22, 2025, the IRS issued the indexing adjustments for calculating employer shared responsibility payments (ESRPs) under the Affordable Care Act (ACA) for 2025. Under the new calculations, the 2025 ESRPs will be significantly more for 2026.

—[Read more about this development in Tax Alert 2025-1568](#)

## State income tax withholding

South Carolina law lowers the state's top marginal tax rate retroactive to January 1, 2025. The South Carolina Department of Revenue announced that in keeping with the 2025-2026 budget enacted under [H. 4025](#), the top marginal personal income tax rate is lowered from 6.2% to 6.0%, retroactive to January 1, 2025. (*South Carolina Department of Revenue, Information Letter #25-11*, 6-1-9-2025.)

—[Read more about this development in Tax Alert 2025-1396](#)

## State unemployment insurance

US Supreme Court holds that Wisconsin's denial of unemployment benefits for Catholic charity violates First Amendment by imposing denominational preferences. The U.S. Supreme Court (Court) ruled in a unanimous [opinion](#) that the Wisconsin Supreme Court violated the First Amendment of the US Constitution by denying the Catholic Charities Bureau an exemption from the state's unemployment tax because the organization did not proselytize or provide services exclusively to Catholics, based on its religious doctrine.

—[Read more about this development in Tax Alert 2025-1329](#)

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

All state legislatures have ended for the year except for: California, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania and Wisconsin.

### Federal

<a href="#">S. 1443</a>	Status: Referred to Committee on Finance (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 employers in 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) <b>Legislature no longer in session</b>	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, employers would not be required to 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.		

#### Colorado

<a href="#">Ballot initiative 119</a>	Status: <b>To be included on November 2026 ballot</b>	Topic: No tax on tips or overtime pay
Effective January 1, 2025, would adopt the federal deduction for overtime pay and tips.		

#### 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: <a href="#">Became law (6-23-2025)</a>	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: <a href="#">Became law (4-15-2025)</a>	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) <a href="#">Legislature no longer in session</a>	Topic: State income tax
Effective January 1, 2026, would eliminate the state's income tax.		

## Hawaii

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

## Idaho

<a href="#">HB 40</a>	Status: <a href="#">Became law 3-6-2025</a>	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</a> / <a href="#">SB 2981</a>	Status: Referred to Senate Assignments, co-sponsor added (2-11-2025) <a href="#">Legislature no longer in session</a>	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: <a href="#">Became Law without the provision for no tax on tips (5-06-2025)</a>	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
<b>Gov. Reynolds proposed</b> 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.		

## Kansas

<a href="#">SB 269</a>	Status: <b>Became law (4-10-2025)</b>	Topic: State income tax
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.		

## Louisiana

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

## Maine

<a href="#">LD 106</a>	Status: <b>Bill tabled (4-10-2025)</b>	Topic: Paid Family and Medical Leave Insurance
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.		

## 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 132nd Legislature</b>	Topic: Pay transparency
-----------------------	--	-------------------------

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.

#### Maine

<a href="#">LD 229</a>	Status: Passed House (6-13-2025) Carried over to any special or regular session of the 132nd Legislature	Topic: State income tax
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.		

#### Maryland

<a href="#">H.B. 352</a> (p. 160)	Status: Became law (4-7-2025)	Topic: State income tax; state unemployment insurance
State income tax. Effective retroactive to January 1, 2025, raises the income tax rate from 5.75% to 6.25% for taxpayers earning \$500,001 to \$1 million and from 5.75% to 6.5% for taxpayers earning more than \$1 million. The law also increases the maximum local tax rate from 3.2% to 3.3% and raises the standard deduction.		
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.		

#### Maryland

<a href="#">HB 102</a>	Status: Became law (4-8-2025)	Topic: Paid Family and Medical Leave Insurance
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.		

#### Massachusetts

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

#### Michigan

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

#### Michigan

<a href="#">HB 4001</a>	Status: Passed House, referred to Senate Committee on Regulatory Affairs (2-4-2025)	Topic: Minimum wage
-------------------------	---	---------------------



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%.

#### Minnesota

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

#### Minnesota

<a href="#">SF 46</a> , <a href="#">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</a> , <a href="#">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) <b>Legislature no longer in session</b>	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: <b>Became law</b> (7-10-2025)	Topic: Employment law
Effective immediately, repeals 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 House (4-16-2025)</b>	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: <b>Became law (4-28-2025)</b>	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 8953</a>	Status: Referred to Assembly Ways and Means (7-16-2025)	Topic: Local income tax
Effective January 1, 2026, would allow a 2% surtax on city taxable income over \$1 million.		

#### New York

<a href="#">AB A3009B</a> (p.7) <a href="#">A3006-C</a>	Status: <b>Became law (5-9-2025)</b>	Topic: State income tax, payroll mobility tax, elimination of federal unemployment insurance credit reduction in 2025
First, effective January 1, 2025, through December 31, 2032, the law 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. Second, effective July 1, 2025, the law reduces the payroll mobility tax for small businesses and increases it for large businesses. Third, the law 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) <b>Legislature no longer in session</b>	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: <a href="#">Became law (6-30-2025)</a>	Topic: State income tax
Reduces the top income tax rate from 3.5% to 3.125% for tax year 2025, then implements a flat 2.75% rate for tax year 2026 and after. Taxpayers earning \$26,050 or less per year are exempt from the income tax. For 2025 and 2026, the income tax brackets and personal exemptions are not subject to inflation indexing.		

#### Oklahoma

<a href="#">H.B. 2764</a>	Status: <a href="#">Became law (5-28-2025)</a>	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 individuals' salaries, wages, or other compensation if they are employed by an employer located in the city but perform 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
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.		

## Pennsylvania

<a href="#">HB 1610</a>	Status: Passed House, referred to Senate Finance (6-25-2025)	Topic: No tax on tips and overtime pay
Effective January 1, 2026, would exempt overtime pay and tips from state income tax claimed as a deduction on the taxpayer's state income tax return; employers would continue to be required to withhold state income tax from overtime. Tips and gratuities would be excluded from the definition of compensation.		

## Rhode Island

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

## 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
Governor McMaster has proposed lowering the top tax rate from 6.2% to 6.0%.		

## South Carolina

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

## South Dakota

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

## Utah

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

## Utah

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

## 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, Burien

<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</a> / <a href="#">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="#">SB 45 (2025-2027 budget bill)</a>	Status: <a href="#">Became law (7-2-2025)</a>	Topic: <a href="#">State income tax</a>
Effective retroactive to January 1, 2025, expands the state's second-lowest tax bracket, which taxes income at 4.4%. Previously, single filers earning between \$14,320 and \$28,640, or married couples filing jointly earning between \$19,090 and \$38,190, were taxed at this rate. For tax years beginning after December 31, 2024, this bracket extends to single filers earning up to \$50,480 and married couples filing jointly up to \$67,300. Taxpayers that are married but file separately will remain in this bracket until their earnings reach \$33,160. Income included in the newly expanded bracket will be taxed at the 4.4% rate, rather than the 5.3% rate applicable to the next higher bracket.		

## This month's insights

### Exemption from nonresident income tax is not automatic under state reciprocal agreements\*

At times employees may regularly commute to nearby states to work. For instance, a New Jersey resident living close to the Pennsylvania border may have regular employment in Pennsylvania. Under normal circumstances, employees are generally subject to resident income tax in the state where they live and nonresident income tax in the state where they work. In this example, and absent a reciprocal agreement, the New Jersey resident would be subject to New Jersey resident income tax on all wages earned, regardless of the state of employment, and to Pennsylvania income tax for the wages earned for work within Pennsylvania.

In consideration of frequent cross-border employment, some states have entered into reciprocal agreements that exempt nonresidents from income tax. For example, Pennsylvania and New Jersey have a reciprocal agreement, which means that when New Jersey residents work in Pennsylvania they pay only New Jersey resident income tax and when Pennsylvania residents work in New Jersey they pay only Pennsylvania income tax.

*The exemption from nonresident income tax under a reciprocal agreement is not automatic.* Of primary importance, every state and the District of Columbia participating in a reciprocal agreement require nonresidents to complete and submit to their employers a certificate attesting to their nonresident status. For example, Pennsylvania nonresidents must submit [Form REV-419](#) to their employers and New Jersey nonresidents must submit [Form NJ-165](#). (New Jersey Division of Taxation [website](#); [Pennsylvania Employer Withholding Information Guide](#).)

An employer's failure to have the required certificate of nonresidence on file could result in the employer's liability for the nonresident income tax that it did not withhold.

Employers should also be aware of unique requirements under some states' reciprocal agreements. Following are some examples:

- Illinois. If a nonresident is paid for performing services within Illinois for more than 30 days, in addition to the [Form IL-W-5NR](#), employees must also complete [Form IL-W-6-WS Certificate of Days Worked In Illinois for Nonresidents](#). ([Publication 130, Who Is Required to Withhold Illinois Income Tax?](#))

- West Virginia. The exemption from nonresident income tax under the terms of the state's reciprocal agreement applies only if employees are residents of Kentucky, Maryland, Ohio, Pennsylvania or Virginia and their only source of income is from West Virginia wages or salaries. ([Form WV IT-104NR](#), *Certificate of Nonresidence*.)

Key  
takeaways



Employers should identify employees working in nonresident states covered by reciprocal agreements and confirm that they have complied with all requirements for exemption from nonresident income tax, including obtaining and retaining the appropriate certificates of nonresidence.

If using a third-party system for collecting and retaining state and local withholding certificates, employers should be certain that required certificates of nonresidence are included, and if not, establish procedures that will further compliance.

\*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 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](#)

[Payroll Month in Review for June 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.