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Payroll month in review for April 2026

Employment Tax Advisory Services

Vol. 4, Issue 3



Contents

[EY special reports](#)

[Federal developments](#)

[State and local income tax withholding](#)

[Other payroll developments](#)

[Bill watch](#)

[Prior issues of *Payroll month in review*](#)

[Contact us](#)

How long must employers retain copies of the federal Form W-4?

The question often arises: must an employer retain all Forms W-4 an employee submits, or just the most recent?

For federal income tax purposes, all Forms W-4 that were superseded by a revised Form W-4 must be retained for at least four years from the date taxes were due or paid. A Form W-4 that is not superseded must be retained by the employer for at least four years following the employee's termination.

Example. When employee Jim was hired in 2022, he submitted a Form W-4 claiming married with one allowance. On December 24, 2025, he submitted a revised Form W-4 claiming married and zero allowances.



The better the question.
The better the answer.
The better the world works.

The Form W-4 submitted in 2022 must be retained for at least four years starting on April 15, 2023, or until April 15, 2027. As a result, through April 15, 2027, the employer must have two Forms W-4 on file for employee Jim: the form submitted in 2022 and the form submitted on December 24, 2025. The Form W-4 submitted on December 24, 2025, must be retained for as long as it remains in effect and for at least four years following Jim's termination (assuming he does not submit another Form W-4 before then).

It is easy to see how paper files can become unruly. For instance, if an employer has 2,000 Form W-4 paper submissions each year, that is 8,000 forms that must be archived for a four-year period. If employees work in states that require a separate withholding allowance certificate, the paper count could substantially increase. This is one of the reasons why electronic systems for gathering this information have become so popular in recent years.

For more information on IRS requirements governing electronic retrieval and storage of Forms W-4, see Treas. Reg. Section 31.3402(f) (5)-1(c).



State income tax withholding

EY special reports

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 communication 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 October 1, 2025, 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 developments

Final regulations refine definition of tips and occupations qualifying for deduction

The Treasury Department and the IRS have finalized regulations under IRC Section 224 defining "qualified tips" and identifying occupations that customarily and regularly received tips on or before December 31, 2024, for purposes of the temporary federal income tax deduction for tips, which was enacted by the "One Big Beautiful Bill Act." The final regulations generally adopt the proposed regulations issued in September 2025, with modifications and clarifications reflecting public comments. The IRS and Treasury received 322 written comments in response to the proposed regulations. The final regulations apply to 2025 through 2028, but taxpayers may rely on the proposed regulations (in their entirety) for 2025 (in addition to 2025 transition relief).

—[Read more about this development in Tax Alert 2026-0863](#)

State and local income tax withholding

Maine law imposes income tax surcharge on millionaires retroactive to January 1, 2026

On April 9, 2026, Maine Governor Janet Mills approved L.D. 2212, which, retroactive to January 1, 2026, imposes a 2% surcharge on individual income that exceeds \$1 million (\$1.5 million for joint filers and heads of households).

—[Read more about this development in Tax Alert 2026-0945](#)

South Carolina law lowers state income tax rate retroactive to January 1, 2026

South Carolina Governor Henry McMaster approved [H. 4216](#), which, retroactive to January 1, 2026, simplifies the state personal income tax rate structure and lowers the top tax rate from 6.0% to 5.21%. If revenue goals are met, the law also allows for rate reductions in future years until the top marginal income tax rate is 1.99%.

—[Read more about this development in Tax Alert 2026-0919](#)

Utah law lowers state income tax rate retroactive to January 1, 2026

Utah Governor Spencer Cox approved S.B. 60, which, retroactive to January 1, 2026, lowers the state's individual income tax rate from 4.5% to 4.45%.

—[Read more about this development in Tax Alert 2026-0913](#)

State income tax withholding

West Virginia law lowers personal income tax rate retroactive to January 1, 2026; updated withholding formula is now available

On March 31, 2026, West Virginia Governor Patrick Morrisey approved [S.B. 392](#), which, effective retroactive to January 1, 2026, lowers the top marginal personal income tax rate from 4.82% to 4.58% and similarly reduces each lower bracket's tax rate by roughly 5%. The highest withholding rate is now 4.58%.

—[Read more about this development in Tax Alert 2026-0864](#)

Other payroll developments

Virginia law creates mandatory state paid family and medical leave insurance program

On April 22, 2026, Governor Abigail D. Spanberger approved H.B. 1207, which establishes Virginia's first statewide paid family and medical leave insurance (PFMLI) program.

—[Read more about this development in Tax Alert 2026-0953](#)

Bill watch for 2026

State legislative session status

- Alabama: 2026 regular session [adjourned](#) on April 9, 2026
- Georgia: 2026 legislative session [adjourned](#) April 2, 2026
- Utah: 2026 general session [adjourned](#) on March 6, 2026

Federal

S. 1443	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.		

Alabama

H.B. 527	Status: Signed into law (4-17-2026)	Topic: Overtime pay exemption
Effective retroactive to January 1, 2026, and through December 31, 2028, establishes an overtime deduction for compensation up to \$1,000. The deduction is taken on the Alabama personal income tax return and can be claimed even if the taxpayer does not itemize deductions.		

Georgia

H.B. 463	Status: Sent to Governor (4-10-2026) Becomes law automatically without the Governor's signature on 5-12-2026	Topic: State income tax
Effective retroactive to January 1, 2026, would lower the income tax rate to 4.99% with further reductions of 0.5 percentage points in each of the next two years. The standard deduction would also increase from \$24,000 to \$32,000 for married filers and from \$12,000 to \$16,000 for all other filers.		

Hawaii

H.B. 1807	Status: Referred to House Committee (1-22-2026)	Topic: State income tax
Effective January 1, 2026, would create a 3% surtax on taxpayers with income exceeding \$500,000 when unmarried or married and filing a separate return, \$750,000 when the head of a household or a surviving spouse, or \$1 million when filing jointly.		

Bill watch for 2026

Hawaii

S.B. 2881	Status: Passed Senate, House Conference Committee recommends amendments (5-1-2026)	Topic: Pension withholding and reporting
Effective January 1, 2027, would provide that taxable income subject to reporting as a distribution on federal Form 1099-R may be subject to withholding at the taxpayer's election and would require the Hawaii Department of Taxation to adopt rules and prescribe forms.		

Hawaii

H.R. 2165	Status: Notice that the House disagrees with the Senate (4-16-2026)	Topic: State unemployment insurance
Effective April 1, 2027, would require employers to report to the state separation and wage information within five calendar days of the state's notice to report and would make employers subject to increased penalties for failure to report separations or wages and for failure to file or for filing insufficient wage reports.		

Illinois

H.B. 5237	Status: Referred to the House Rules Committee (4-17-2026)	Topic: Local payroll head tax
Effective immediately, would prevent municipalities from taxing businesses based on the number of their employees.		

Indiana

S.B. 243	Status: Signed into law (3-5-2026)	Topic: Conformity with the federal One Big Beautiful Bill Act (OBBBA)
Effective January 1, 2026, conforms the Indiana tax code to most provisions of the federal OBBBA.		

Idaho

H.B. 519	Status: Introduced to House Revenue and Taxation Committee (1-26-2026)	Topic: Conformity with the federal One Big Beautiful Bill Act (OBBBA)
Effective January 1, 2026, would conform the Idaho tax code with most provisions of the federal OBBBA.		

Kentucky

H.B. 757	Status: Passed by legislature (4-14-2026)	Topic: Conformity with the federal One Big Beautiful Bill Act (OBBBA)
Effective January 1, 2026, would update the state's Internal Revenue Code conformity date to December 31, 2025, while excluding any IRC amendments made subsequent to that date, unless the amendments extend provisions in effect on December 31, 2024, that would otherwise terminate.		

Kentucky

S.B. 129	Status: Signed into law (4-17-2026)	Topic: State Unemployment Insurance
Effective January 1, 2026, reinstates the Service Capacity Upgrade Fund (SCUF) at the rate of 0.075% through December 31, 2026, and to 0.115% effective January 1, 2027. The law also directs the Secretary of the Education and Labor Cabinet to set the adjustment percentage annually to be effective January 1 of each subsequent year, not to exceed 1.025%. The SCUF was temporarily discontinued for the second through fourth quarters of 2025.		

Maine

L.D. 2212	Status: Signed into law (4-10-2026)	Topic: State income tax
Effective retroactive to January 1, 2026, imposes a 2% surcharge on individual income that exceeds \$1 million for single filers and \$1.5 million for head of household and joint filers. Additionally, and effective retroactive to January 1, 2026, L.D. 705 increases the standard deduction from \$12,000 to \$15,000.		

Bill watch for 2026

Maryland

S.B. 3	Status: Hearing held in Senate Finance Committee (2-11-2026)	Topic: State Unemployment Insurance
Would increase the state unemployment insurance taxable wage base in 2027 and 2028 to reach 16% of the average weekly wage (AAW) beginning in 2029. Currently, the wage base is set at \$8,500.		

Michigan

S.B. 584	Status: Passed Senate, referred to House Committee on Finance (2-19-2026)	Topic: State income tax withholding
Effective retroactive to January 1, 2026, would make withholding income tax from pension benefits optional.		

Missouri

H.J.R. 173	Status: Approved for inclusion on November 3, 2026 ballot (4-23-2026)	Topic: State income tax withholding
Effective retroactive to January 1, 2026, would make withholding income tax from pension benefits optional.		

Missouri (St. Louis)

Board Bill 100	Status: Approved by voters (4-7-2026)	Topic: Local income tax withholding
Ballot extending the St. Louis earnings tax for an additional five years approved by voters on April 7, 2026.		

Nebraska

L.B. 802	Status: Notice of House Hearing (2-12-2026)	Topic: State income tax
Effective January 1, 2027, would update individual income tax brackets and rates, lowering the rate of the fourth income tax bracket to 3.98%.		

New Jersey

S. 3948	Status: Referred to Senate Labor Committee (03-16-2026)	Topic: State Unemployment Insurance
Effective April 16, 2027, would increase the penalties for delinquent filing of quarterly wage and contribution reports.		

Ohio

H.B. 321	Status: Referred to committee Public Insurance and Pensions (06-04-2025)	Topic: State Unemployment Insurance
Effective January 1, 2026, would increase the wage base from \$9,000 to \$9,500.		

Oregon

Referendum Petition 2026-302	Status: Election to be held May 19, 2026	Topic: State transit tax
If passed by voters, would, effective immediately, increase the statewide transit tax withholding rate from 0.1% to 0.2%.		

South Carolina

H.B. 4216	Status: Signed into law (3-30-2026)	Topic: State income tax
Effective retroactive to January 1, 2026, lowers and restructures the state personal income tax rates by consolidating the current multibracket system into a simplified structure with a new top rate of 5.21% (previously, 6.0%) for annual incomes of at least \$30,000 and a lower rate of 1.99% for income under \$30,000. Future rate reductions apply if specified revenue requirements are met.		

Bill watch for 2026

Utah

S.B. 60	Status: Signed into law (3-23-2026)	Topic: State income tax
Effective retroactive to January 1, 2026, reduces the Utah individual income tax rate from 4.5% to 4.45%.		

Virginia

H.B. 188	Status: Impact statement introduced by House Finance Committee (2-11-2026)	Topic: State income tax
Effective January 1, 2026, would create a new tax bracket of 10% on income over \$1 million.		

Washington

S.B. 6346	Status: Signed into law (3-30-2026)	Topic: State income tax
Effective January 1, 2028, imposes a 9.9% income tax on individuals and couples making over \$1 million.		

West Virginia

S.B. 392	Status: Signed into law (3-31-2026)	Topic: State income tax
Effective retroactive to January 1, 2026, lowers the top marginal personal income tax rate from 4.82% to 4.58% and similarly reduces each lower bracket's tax rate by roughly 10%.		

West Virginia

H.B. 4401	Status: Sent to House Finance Committee (1-16-2026)	Topic: State unemployment insurance
Effective July 1, 2026, would lower the state unemployment insurance wage base from \$9,500 to \$8,500.		


Prior issues of *Payroll Month in Review*

- [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](#)
- [Payroll Month in Review for July 2025](#)
- [Payroll Month in Review for August 2025](#)
- [Payroll Month in Review for September 2025](#)
- [Payroll Month in Review for October 2025](#)
- [Payroll Month in Review for November 2025](#)
- [Payroll Month in Review for December 2025](#)
- [Payroll Month in Review for January-February 2026](#)
- [Payroll Month in Review for March 2026](#)



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Kristie Lowery
kristie.lowery@ey.com

Ken Hausser
kenneth.hausser@ey.com

Debera Salam
debera.salam@ey.com

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