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# Payroll month in review for May 2026

*Employment Tax Advisory Services*

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## Contents

[EY special reports](#)

[Federal developments](#)

[State and local income tax withholding](#)

[State unemployment insurance](#)

[Other payroll developments](#)

[Bill watch](#)

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

[Contact us](#)

## Large employers should confirm compliance with New York's Metropolitan Commuter Transportation Mobility Tax

New York has significantly increased the Metropolitan Commuter Transportation Mobility Tax (MCTMT) rates for most large employers, materially increasing the potential cost of noncompliance. With higher rates now in effect, even relatively small errors in identifying covered employees and/or computing the correct MCTMT liability can result in additional, and potentially substantial, assessments.

Our [special report](#) explains the MCTMT, the cost of noncompliance and steps employers should consider.



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

## State income tax withholding

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### 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

#### IRS again increases penalties for failing to offer affordable health care with minimum coverage for 2027

In Revenue Procedure 2026-22, the IRS issued the indexing adjustments for calculating employer shared responsibility payments under the Affordable Care Act for 2026.

—[Read more about this development in Tax Alert 2026-1057](#)

### State and local income tax withholding

#### Utah Tax Commission releases revised withholding formula reflecting lower income tax rate for 2026

The Utah State Tax Commission has updated Publication 14, *Withholding Tax Guide*, which contains the revised withholding formula and tables resulting from the decrease in the personal income tax rate effective retroactive to January 1, 2026. The updated withholding formula/tables apply to payroll periods beginning on and after June 1, 2026.

—[Read more about this development in Tax Alert 2026-1045](#)



## State and local income tax withholding

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### Voters renew the St. Louis, Missouri earnings tax for another five years

On April 7, 2026, St. Louis, Missouri voters approved Proposition E to continue the city's 1% earnings tax for an additional five-year period. The ballot question was placed before voters through Board Bill 100, enacted as Ordinance No. 72067, which provides that the earnings tax continues if approved by a majority of voters.

—[Read more about this development in Tax Alert 2026-0995](#)

## State unemployment insurance

### Kentucky law reinstates and modifies its state unemployment insurance surcharge

Kentucky Governor Andy Beshear approved SB 129, which, retroactive to January 1 2026, reinstates the unemployment insurance Service Capacity Upgrade Fund (SCUF) surcharge and establishes a new, annually determined SCUF framework beginning in 2027.

—[Read more about this development in Tax Alert 2026-1107](#)

### West Virginia law imposes new state unemployment insurance surcharge

West Virginia Governor Patrick Morrisey approved Senate Bill 1053, which, effective July 1, 2026, establishes a temporary state unemployment insurance (SUI) automation and administrative fee of 7% that is offset with a corresponding reduction in the employer's experience-based SUI tax rate.

—[Read more about this development in Tax Alert 2026-1102](#)

## Other payroll developments

### Maryland finalizes regulations governing its forthcoming paid family and medical leave insurance program

The Maryland Department of Labor announced that it has published final regulations governing the state's paid family and medical leave insurance (PFMLI) program and has also provided other details concerning the program's upcoming implementation.

—[Read more about this development in Tax Alert 2026-1058](#)

## Bill watch for 2026

State legislatures that have adjourned with no set date to return

Alabama, Alaska, Arkansas, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming

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.		

## Bill watch for 2026

### Alabama

<a href="#">H.B. 527</a>	Status: <b>Signed into law (4-17-2026)</b>	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

<a href="#">H.B. 463</a>	Status: <b>Signed into law (5-11-2026)</b>	Topic: State income tax
Effective retroactive to January 1, 2026, lowers the income tax rate to 4.99% with further reductions of 0.125% annually until the rate reaches 3.99%. In addition, increases the annual exclusion for retirement income to \$70,000.		

### Hawaii

<a href="#">H.B. 3125</a>	Status: <b>Signed into law (5-21-2026)</b>	Topic: State income tax
Effective January 1, 2027, creates a new highest tax rate of 13% for taxpayers with annual incomes exceeding \$1 million.		

### Hawaii

<a href="#">S.B. 2881</a>	Status: Enrolled to Governor (5-8-2026) <b>Legislature adjourned (5-8-2026)</b> Bill becomes law automatically if not vetoed within 45 days of 5-8-2026	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

<a href="#">H.R. 2165</a>	Status: <b>Legislature adjourned (5-8-2026)</b>	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.		

### Idaho

<a href="#">H.B. 519</a>	Status: <b>Legislature adjourned (4-2-2026)</b> 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.		

### Illinois

<a href="#">H.B. 5237</a>	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

<a href="#">S.B. 243</a>	Status: <b>Signed into law (3-5-2026)</b>	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.		

## Bill watch for 2026

### Kentucky

<a href="#">H.B. 757</a>	Status: <b>Passed by legislature (4-14-2026)</b>	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

<a href="#">S.B. 129</a>	Status: <b>Signed into law (4-17-2026)</b>	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

<a href="#">L.D. 2212</a>	Status: <b>Signed into law (4-10-2026)</b>	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, <a href="#">L.D. 705</a> increases the standard deduction from \$12,000 to \$15,000.		

### Maryland

<a href="#">S.B. 3</a>	Status: <b>Legislature adjourned (4-13-2026)</b> 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 beginning in 2029. Currently, the wage base is set at \$8,500.		

### Michigan

<a href="#">S.B. 584</a>	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

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

### Missouri (St. Louis)

<a href="#">Board Bill 100</a>	Status: <b>Approved by voters on April 7, 2026</b>	Topic: Local income tax withholding
The St. Louis earnings tax is extended for an additional five years.		

### Nebraska

<a href="#">L.B. 802</a>	Status: <b>Legislature adjourned (4-17-2026)</b> 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%.		

## Bill watch for 2026

### New Jersey

<a href="#">S. 3948</a>	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.		

### North Carolina

<a href="#">S.B. 1080</a>	Status: Ratified for inclusion on November 3, 2026 ballot (05-21-2026)	Topic: State income tax
If approved by North Carolina voters on November 3, 2026, would change the constitutional cap on the state's income and corporate income tax rate to 3.5%, lower than the current 7%.		

### Ohio

<a href="#">H.B. 321</a>	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

<a href="#">Referendum Petition 2026-302</a>	Status: Voters <a href="#">did not pass</a> on May 19, 2026	Topic: State transit tax
If it had passed by voters, would have, effective immediately, increased the statewide transit tax withholding rate from 0.1% to 0.2%.		

### South Carolina

<a href="#">H.B. 4216</a>	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.		

### Utah

<a href="#">S.B. 60</a>	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

<a href="#">H.B. 188</a>	Status: Legislature adjourned (3-14-2026) 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

<a href="#">S.B. 6346</a>	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.		

## Bill watch for 2026

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### West Virginia

<a href="#">S.B. 392</a>	Status: <b>Signed into law (3-31-2026)</b>	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

<a href="#">H.B. 4401</a>	Status: <b>Legislature adjourned (3-14-2026)</b> 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 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](#)
- [Payroll Month in Review for April 2026](#)



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