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Payroll month in review for May 2026

Employment Tax Advisory Services

Vol. 4, Issue 4

Contents

2026 state supplemental, flat tax and highest income tax withholding rates with hyperlinks to the latest withholding tables/instructions (updated June 24, 2026)

To assist you in reviewing your state and US territory income tax withholding rates for 2026, we have prepared a chart (updated as of June 24, 2026) that contains hyperlinks to the most recent income tax withholding formulas/tables published by the states and US territories, information concerning their respective highest income tax withholding rates (based on their percentage method of withholding) or flat tax withholding rates, and, if applicable, their supplemental withholding rates.

— *Download the latest report*

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

EY special reports

State unemployment insurance requirements for employee notices and workplace posters

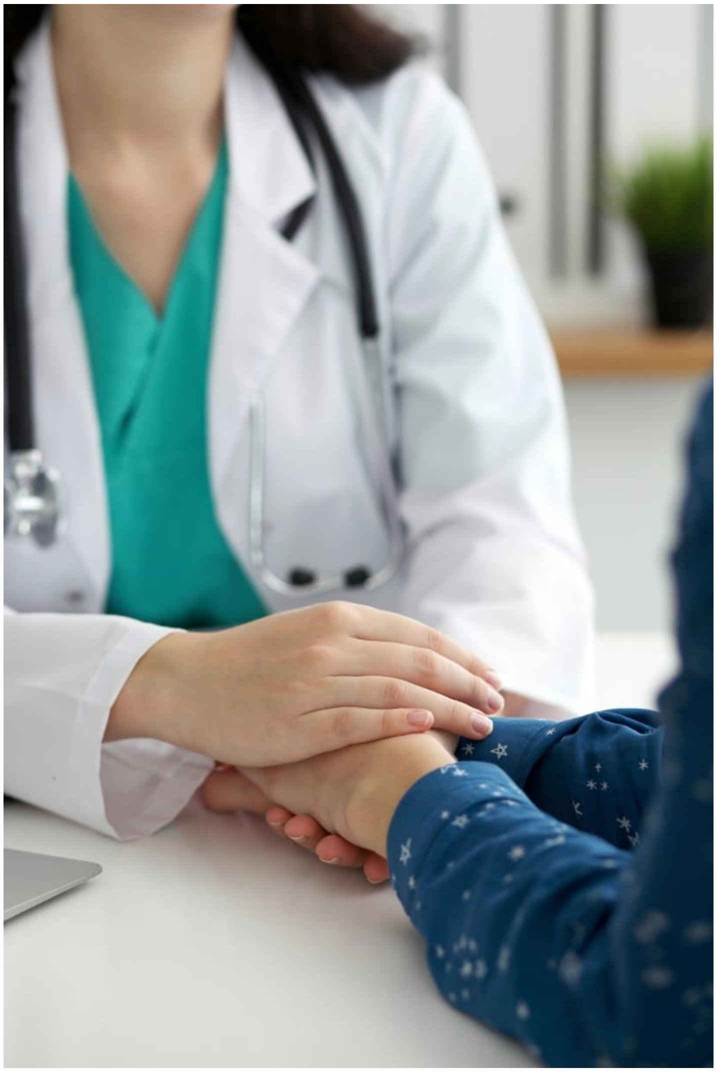
Most states require that employers tell employees about their potential eligibility for unemployment insurance benefits. There are two forms of communication that most states require: (1) a notice to the employee at the time of separation and/or (2) a poster placed in a conspicuous location in the workplace.

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 releases Health Savings Account limits for 2027

In Revenue Procedure 2026-24, the IRS announced the inflation adjustments that will apply to Health Savings Accounts (HSAs) under IRC Section 223 effective for calendar year 2027.
—*Read more about this development in Tax Alert 2026-1170*



State and local income tax withholding

Arkansas law lowers top individual tax rate retroactive to January 1, 2026

At the request of Arkansas Governor Sarah Huckabee, the Arkansas legislature has enacted H.B. 1001, which, retroactive to January 1, 2026, lowers the top individual tax rate from 3.9% to 3.7%.
—*Read more about this development in Tax Alert 2026-1239*

Georgia law lowers individual personal income tax rate retroactive to January 1, 2026

Under H.B. 463, and effective retroactive to January 1, 2026, Georgia's personal income tax rate is reduced from 5.19% to 4.99%, with additional annual decreases of 0.125% until the rate reaches 3.99%.

The Georgia Department of Revenue has issued an updated *Employer's Withholding Guide,* which contains the revised withholding formula and tables for immediate use.
—*Read more about this development in Tax Alert 2026-1249 and 2026-1294*

State and local income tax withholding

Oklahoma guidance gives insights into nonresident income tax withholding requirements for business travelers

In *Letter Ruling 25-007*, the Oklahoma Tax Commission addresses employer income tax withholding obligations for nonresident employees traveling into Oklahoma. The ruling (1) clarifies when wages become Oklahoma-source, (2) confirms the limited statutory exemption for nonresident employees, and (3) distinguishes between conference attendance and company-related activities for withholding purposes.
—*Read more about this development in Tax Alert 2026-1289*

State unemployment insurance

Illinois regulations change tax treatment of employer 401(k) contributions for SUI purposes

The Illinois Department of Employment Security has amended state unemployment insurance (SUI) regulation 56 Ill. Adm. Code 2730.155, which, effective with wage payments made after June 30, 2026, excludes from SUI taxable wages employer contributions under a 401(k) retirement plan. Prior to this amendment, both employee pretax and employer 401(k) contributions were included in SUI taxable wages.
—*Read more about this development in Tax Alert 2026-1337*

Bill watch for 2026

State legislatures that have adjourned with no set date to return

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

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: Signed into law (5-11-2026)	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.		

Bill watch for 2026

Hawaii

H.B. 3125	Status: Signed into law (5-21-2026)	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

S.B. 2881	Status: Signed into law (6-9-2026)	Topic: Pension withholding and reporting
Effective January 1, 2027, provides that taxable income subject to reporting as a distribution on federal Form 1099-R may be subject to Hawaii state income tax withholding at the taxpayer's election and requires the Hawaii Department of Taxation to adopt rules and prescribe forms.		

Hawaii

H.R. 2165	Status: Legislature adjourned (5-8-2026)	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.		

Idaho

H.B. 519	Status: Legislature adjourned (4-2-2026) 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

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.		

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.		

Bill watch for 2026

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.		

Maryland

S.B. 3	Status: Legislature adjourned (4-13-2026) 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

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 on April 7, 2026	Topic: Local income tax withholding
Extends the St. Louis earnings tax for an additional five years.		

Nebraska

L.B. 802	Status: Legislature adjourned (4-17-2026) 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.		

North Carolina

S.B. 1080	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%.		

Bill watch for 2026

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: Voters did not pass 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%.		

Rhode Island

H. 7127	Status: Signed into law (6-12-2026)	Topic: State income tax
Effective retroactive to January 1, 2027, imposes a 3% personal income tax rate (for a highest tax rate of 8.99%) on individuals with income exceeding $648,398.		

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.		

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%.		

Virgina

H.B. 188	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

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: Legislature adjourned (3-14-2026) 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.

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