

December 2025

# Year End 2025 and Beginning 2026

SWA Payroll Unit



# Agenda

- Key Dates
- Internal Revenue Service (IRS)
- Social Security Administration (SSA)
- Other State Withholding Tax
- EFTPS Payments Not Made Through HRMS
- Office of Financial Management (OFM) – Payroll Resources
- Rates/Limits for 2026
- Affordable Care Act
- Electronic IRS Form W-2
- Paid Family and Medical Leave
- Long Term Services and Support
- Out of State Telework
- Contact Information – OFM and OST

# Key Dates

- **Year End Planning**

- Lessons learned from 2024
- Internal Calendar (employee address changes for W-2s; account coding, taxable travel)
- Coordinate with other offices in your agency (HR; Accounts Payable, Travel Desk)
- Ensure proper staffing levels for December and January
- Severe weather



# Key Dates Continued

- **Review Procedures**
  - Emergency payroll payments - [OFM Payroll Resources Site](#)
  - Manual ACH/warrant cancellations – [OFM Payroll Resources Site](#)
  - Manual tax deposits – [OST Cash Management Forms and Instructions Site](#)
- **Run Forms 941 and W-3 in HRMS after each payday**
  - Reconcile deposits
  - Balance 941 to W-2
  - Prior to filing Form 941
    - Check for a balance due (Line 14) or refund (Line 15)
    - Check for Errors and warnings in PU19

# Key Dates Continued

- **Payments for deceased employees**
  - **Use wage type 3102 for net pay** – it accrues to general ledger **5145** (Due to Deceased Employees Estates)
  - Verify that Accounts Payable has all Form 1099-Misc data needed
  - Per previous conversations with the IRS, **Gross Pay less deferrals** are reported. Report in Box 3, “Other Income”.
  - **Forms 1099-Misc** must be filed with the IRS by **January 31, 2026**. Be sure the preparer has data in time to meet deadline.

# Key Dates Continued

- **Final Off-Cycle Workbench for 2025**
  - **December 16, 2025**
- **Final Payday for 2025**
  - **December 24, 2025**

# Key Dates Continued

- **4<sup>th</sup> Quarter 2025 IRS Form 941**

- Prior to mailing, ensure that Forms 941, 941-X, W-2, and W-2c are in balance. **Note:** Once the Tax Reporter role has been deactivated in HRMS (January 6, 2026 last day to make updates) to start the statewide W-2 process, you will have to do a W-2c if you have additional adjustments to process for the previous calendar year(s).
- **DON'T** wait until the end of January to complete the 2025 reconciliation process.
- **DO** wait until the 941 filing deadline to file. Why? This avoids a 941-X if you find a correction for 4<sup>th</sup> Quarter 2025 Form 941. This should be postmarked by **January 31, 2026**.

# Key Dates Continued

- **Other Reminders**

- Exempt Forms W-4 expire February 16, 2026.
  - After day 4 for the 12/10 payroll, run HRMS report ZHR\_RPTPY661 “Tax Exempt Status Report” to find employees who are claiming exempt.
  - Begin withholding for any employee who previously claimed exempt but has not turned in a new Form W-4 for the current year.
- Schedule a Year-End debriefing meeting to review successes and areas to improve.
- Go over the 2026 [payroll calendar](#) (watch for early paydays)
- Throughout the year, watch for effective dating on Form W-4 changes.
  - If you use a date that does not include a period at your agency, you may affect another agency’s payroll, causing an out of balance condition for both agencies in account 035.

# Internal Revenue Service

## H.R.1 “No Tax on Overtime” – No Changes to HRMS for 2025

H.R. 1, signed into law on July 4, 2025, as Public Law 119-21 included a provision that has been referred to as “no tax on overtime”. For tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (generally, the “half” portion of “time-and-a-half” compensation) that is required by the Fair Labor Standards Act and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. While this may eventually benefit some employees, **Washington State general government will not be implementing any changes in HRMS for 2025.** Significant system changes would be required but cannot be made yet due to uncertainties that cannot be resolved for this tax year.

# Internal Revenue Service Continued

- **What does this mean for employees?**

- The qualified overtime will not be reported on IRS Form W-2 for 2025.
- If eligible, employees may still claim the tax deduction individually when filing their 2025 tax return, dependent on IRS rules and guidance.
- No action is needed from employees at this time.

- **What the state is doing next**

- The Office of Financial Management is working with partner agencies to:
  - ✓ Analyze how Washington's overtime rules may be treated under federal law
  - ✓ Monitor IRS guidance and finalize reporting requirements
  - ✓ Plan HRMS changes to track qualifying overtime separately
  - ✓ Prepare for implementation in future tax years (2026–2028)

# Internal Revenue Service Continued

- **IRS Publications and Resources**

- Taxable Fringe Benefits: [https://www.irs.gov/pub/irs-pdf/p15b.pdf?\\_ga=1.14343934.873758405.1453249327](https://www.irs.gov/pub/irs-pdf/p15b.pdf?_ga=1.14343934.873758405.1453249327)
- Publication 5137 – Fringe Benefit Guide (updated in Oct. 2022):  
<https://www.irs.gov/pub/irs-pdf/p5137.pdf>
- Webinars for Tax-Exempt & Government Entities:  
<https://www.irs.gov/government-entities/webinars-for-tax-exempt-government-entities>
- IRS Contact Information for Government Agencies:
  - 1.877.829.5500 or 1.801.620.5492
- Washington's Federal, State, and Local Government contact:
  - Ekaterina (Kate) Rolan, Ekaterina.Rolan@irs.gov

# Internal Revenue Service Continued

- **Deceased Employees – Reporting Rules**

- **All payroll payments** made to a deceased employee (in the calendar year of death as well as future calendar years) are **not subject to federal income tax**.
- Except for **sick leave buyouts**, all wage payments (pay, overtime, comp time, annual leave, etc.) to a deceased employee are **subject to Social Security and Medicare taxes in the calendar year of death, but not in subsequent years** (Excluding payments to employees who have reached their respective maximums). The earning period being processed is not relevant – only the actual pay date.
- **Sick leave buyouts** made to deceased employees' survivors are **exempt from Social Security and Medicare taxes**.
- The **claimant** of payouts made to the deceased employee receives a Form **1099-MISC**. Per previous conversations with the IRS, **Gross Pay** less deferrals are reported. Report in Box 3, "Other Income."

# Social Security Administration

- **Reporting to Social Security**

- The Social Security Administration (SSA) maintains the “Critical Links” document, which provides guidance to employers on correctly reporting names and social security numbers on Forms W-2 so that SSA can match each W-2 to the employee’s lifelong earnings history. The “Critical Links” page can be found at: <http://www.ssa.gov/employer/critical.htm>.
- Employers to verify an employee’s name and social security number (SSN) on the employee’s W-4 form as part of the hiring process for tax withholding and reporting purposes.
- Employers to use the Social Security Number Verification Service (SSNVS) to verify social security numbers on-line. More information is available at <http://www.ssa.gov/employer/ssnv.htm>.

# Social Security Administration Cont.

- Remember to run the HRMS report ZHR\_RPTPY033\_SSN\_VER to identify employees within your agency that may have issues. The procedures for running the report and resolving the SSN discrepancies can be accessed on the [Year End website](#).
- Washington's SSA Contact:
  - [SEA.ESLO@ssa.gov](mailto:SEA.ESLO@ssa.gov)
  - 206-615-2133

# Other State Withholding Tax

- State and local tax data needs to be reported on the employee's copy of the W-2 so that they can file state or local tax returns. However, the W-2 file that the state sends to the SSA does not need to contain that information. The SSA does not read state and local tax data nor pass it on to anyone.
- Depending upon the locality involved, agencies may need to send state or local W-2 data to that entity. For example, Oregon requires W-2 data to be sent electronically.
- Each state has slightly different rules and regulations, so you need to check with those in which you have employees.
- Further instructions for 2025 W-2 & W-3 forms can be found at the following IRS web address: <http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>

# Other State Withholding Tax cont.

- Agencies using HRMS can include other state wage and tax information by following HRMS procedures.
  - For other state's income taxes to be reported on employees' Forms W-2, a state ID is required.
  - HRMS must have the state's ID number in the system.
  - For state ID numbers that are not presently in HRMS, complete a State ID Number Form and send it to HRMS by **December 12, 2025**: Refer to the OFM Service News Notification sent on November 6, 2025 and updated on December 5, 2025.
  - The procedures on how to include other state wage and tax information on the W-2 are located here:  
[https://support.hrms.wa.gov/sites/default/files/public/PDFProcedures/YTD\\_MANUAL\\_ADJUSTMENT\\_W2.pdf](https://support.hrms.wa.gov/sites/default/files/public/PDFProcedures/YTD_MANUAL_ADJUSTMENT_W2.pdf)

# Other State Withholding Tax cont.

- Last day to key manual YTD entries is **Tuesday, January 6, 2026**.
- Agencies not using HRMS or miss the deadline can include other state wage and tax information by updating (but not sending) the Form W-2 found on SSA's Business Services Online website at <http://www.ssa.gov/employer/>

## For agencies using the OOS automated process in HRMS:

- HRMS will add Oregon and Idaho withholding information to employees' W-2s for taxes collected systematically through the new OOS automated process.
- Taxes collected using the manual wage types entered on Recurring Payments/Deductions (0014) and Additional Payments (0015) **will still require manual YTD adjustments** to be added to employees' W-2s.

# EFTPS Payments Not Made Through HRMS

- Journal vouchers to be sent to the Office of the State Treasurer (OST) for IRS payments (EFTPS) are due by **3:00pm** in order to process for next day settlement. In the event you require same-day tax transmission, the wire must be at OST by **11:00am**.
- Links to the EFTPS instructions and the EFTPS form are available on the cash management page: <https://tre.wa.gov/accounting-and-banking-services/cash-management/electronic-federal-tax-payment-system-instructions>
- **Note:** In order for the deposit to show on the HRMS generated IRS Forms 941/Schedule B, agencies still must go into HRMS and enter it. Use transaction code **PU19**.
- The instructions for entering this in PU19 are located here: [https://support.hrms.wa.gov/sites/default/files/public/PDFProcedures/YTD\\_MANUAL\\_ADJUSTMENT\\_W2.pdf](https://support.hrms.wa.gov/sites/default/files/public/PDFProcedures/YTD_MANUAL_ADJUSTMENT_W2.pdf)

# Office of Financial Management – Payroll Resources

- OFM Home Page : [www.ofm.wa.gov](http://www.ofm.wa.gov)
- State Administrative and Accounting Manual (SAAM) – Payroll = Chapter 25  
<http://www.ofm.wa.gov/policy/default.asp>
- OFM Payroll Resources Website: [State Agency Payroll | Washington | OFM](#)

Items of interest on the OFM Payroll Resources website:

- IRS/SSA materials (forms and publications)
- Deceased employees
- State paydates, federal holidays, IRS \$100,000 next day deposit dates
- ACH authorization form
- Payroll card information
- Garnishments and Overpayments
- Reconciliation
- Settlement payments attributable to wages
- Comp time cash-out for terminating employees
- Mid-Period transfer template
- PPA website
- And Many MORE! Check it out!

# Rates/Limits for 2026

- **Social Security Wage Base:**

- \$176,100 in 2025 and
- **\$184,500 for 2026**
- The employee and employer tax rates remain at **6.2% each** (12.4% total).
- **Note:** For employees that are at or near the max that transfer into your agency from another HRMS agency, follow [HRMS procedures](#) to ensure that Social Security will not be deducted when the employee maxes out for the year (the state of Washington is one employer for Social Security purposes).
- **Medicare Tax Rates** remains at **1.45% each** (2.90% total). There is no maximum wage base for Medicare taxes.
  - **Note:** Employers must withhold an additional 0.9% from wages paid to an employee that exceeds \$200,000 during the year (regardless of employee's filing status). This makes the effective employee Medicare tax rate **2.35% on wages over \$200,000**.

# Rates/Limits for 2026 Continued

- **POV Mileage Rate:**
  - **\$0.70 per mile max effective January 1, 2025** (refer to SAAM subsections [10.90.20](#) and [10.10.10.b](#).)
- **Qualified Transportation Fringe Benefit Limits:**
  - Qualified parking provided by an employer to an employee:
    - \$325/mo in 2025 and projected to be **\$340/mo for 2026** LG1
  - Combined Commuter Highway Vehicle Transportation, Transit Passes and Vanpool Privileges:
    - \$325/mo in 2025 and projected to be **\$340/mo for 2026**

## Slide 21

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**LG1**      Projected to be \$340 for 2026. <https://help.nfc.usda.gov/bulletins/2025/1755185438.htm>  
Green, Louisa (OFM), 2025-11-21T19:12:14.138

**LG1 0**    <https://www.irs.gov/pub/irs-drop/rp-25-32.pdf>  
Green, Louisa (OFM), 2025-11-21T19:13:40.441

# Rates/Limits for 2026 Continued

- Compensation Limits for Retirement Contributions
  - \$350,000 for 2025
  - \$360,000 for 2026
- Contribution Limits for Deferred Compensation Program (Pretax and/or Roth)
  - \$23,500 for 2025
  - \$24,500 for 2026
  - Catch-up options for participants aged 50 and older
    - \$31,000 for 2025
    - \$32,500 for 2026
  - Special Catch-up limit for participants nearing retirement
    - \$47,000 for 2025
    - \$49,000 for 2026

# Deferred Compensation

- DCP now offers a Roth (post tax) option as well as the traditional pretax option. Each option affects when your contributions will be taxed.
- **What is traditional DCP?**
  - With the traditional DCP option, employee contributions are made before tax. Withdrawals, including investment earnings, are taxed in the year of withdrawal.
- **What is Roth?**
  - With the DCP Roth option, employees can choose to pay tax when they make contributions (Roth).
  - [Roth-Employer-FAQ.pdf](#)
  - Employees can contribute to both DCP Roth and pretax DCP LG1
    - The combined total for both Roth and pretax cannot exceed the yearly limit.

**LG1** Add info about conversion from DCP to Roth after \$\$ for high earners.

Green, Louisa (OFM), 2025-09-25T22:42:12.643

# Secure Act 2.0

Beginning January 1, 2026, employers who offer Washington state's Deferred Compensation Program (DCP) will be required to identify and report all highly compensated employees who are age 50 or older to DRS.

DCP age 50+ catch-up contributions for these employees will need to be reported as Roth. The change doesn't apply to contributions made under the three-year catch-up provision.

The term highly compensated is based on wages of the prior calendar year; it applies to employees who are age 50 or older and who in 2025 had \$150,000 or more in FICA wages. This amount is subject to change each year by the IRS.

# Secure Act 2.0 Continued

For the employees you've identified as highly compensated, you'll need to report DCP contributions above the regular IRS DCP limit as Roth. **For HRMS employers, this will be automatically converted to Roth in HRMS by OFM.**

- You'll receive a warning message in ERA when the participant is approaching the regular annual DCP limit. For 2026, the regular IRS limit is \$24,500.
- Once the employee has contributed the regular annual limit, pretax contributions will no longer be accepted. All remaining contributions will need to be reported as Roth for the remainder of the calendar year.
- **Example:** If the person is paid once a month and evenly making pre-tax contributions to reach the 50+ max, their monthly contribution would be \$2,708.33. At this rate, they would reach the IRS limit of \$24,500 by September and all future contributions for the remainder of the year would need to be made as Roth.

# Secure Act 2.0 Continued

**Does the participant need to make a deferral change request to designate contributions as Roth once they have reached Mandatory Roth Contribution (MRC) status?**

No, a participant who elects to make 50+ catch-up contributions is not required to make a deferral change to ensure catch-up contributions are reported as Roth. The employer should deduct and report 50+ catch-up contributions as Roth when required for highly compensated participants.

**Age 50+ catch-up contributions:** Employees who are age 50 or older can contribute an additional \$8,000 beyond the annual limit each year (\$32,500 in 2026). These contributions are subject to MRC for highly compensated employees.

**Three-year catch-up contributions:** Employees can contribute up to twice the maximum (\$49,000) during the three years before your normal retirement age. These contributions are not subject to MRC.

**For HRMS employers**, OFM will be doing the reporting of highly compensated employees and the conversion in HRMS when they reach the threshold.

# Affordable Care Act

## W-2 Reporting of Cost of Employer Provided Health Coverage

**The federal Affordable Care Act (ACA) Requires employers to report the total cost of employer sponsor health coverage on employees' Form W-2**

- Reported in Box 12 of Form W-2, code DD
- **Note:** The cost of employer provided health insurance **does not equal employee premiums plus state share**
  - The amount shown on the W-2 will be the amount paid to health insurance providers by the Health Care Authority.
  - This means that the amount shown on the earnings statement will differ (EE premiums + state share) from the amount on the W-2.

# Affordable Care Act Continued

## **Employee (EE) and Employer (ER) Adjustments**

- Ensure that employee premiums and employer amounts are recorded properly for all employees, especially:
  - New employees
  - Terminating employees
  - Employees on leave without pay (LWOP)
- When processing ER medical cost (WT 2550), be sure to also use WT 2575 (provider cost). Failing to do so will cause inaccurate reporting in Box 12, DD.
- Utilize the HRMS Health Care Activity Report ZHR\_RPTBNN36, using Tax Reporter File Format to help identify discrepancies

# Affordable Care Act Continued

## Employee and Employer Reporting Requirements

- **IRS Form 1095-C:** Employer-Provided Health Insurance Offer and Coverage
- **IRS Form 1094-C:** Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns
  - 2025 forms will be postmarked by February 2026
  - IRS identifies the former employer as the contact for retirees
  - Questions can be directed to PEBB via HCA Support or contact 1095 team directly:
    - General email: [ACA1095-C@hca.wa.gov](mailto:ACA1095-C@hca.wa.gov)
    - ACA Guidance page: <https://www.hca.wa.gov/pebb-benefits-admins/administrative-tools-and-resources/hca-reporting-guidance>

# Electronic IRS Form W-2

## 2025 Forms W-2

- In July 2024, OFM implemented the MyPortal Online Selection Tile to Allow for Online-only Forms W-2. W-2s will be available for a rolling 5 years.
- Employees can opt-in for online-only Forms W-2 using the My Online Selections tile in MyPortal. They can make their selection for 2025 through the end of December 2025.
- If they selected online W-2 in 2024, their selection would remain in effect for 2025.
- By default, employees will receive a mailed Form W-2 each year; however, they can now change this default to view their forms online-only

# Electronic IRS Form W-2 Continued

- By choosing to opt-in for online-only Forms W-2, employees will no longer receive a mailed Form W-2. They may switch back to a mailed Form W-2 at any time before the end of the calendar year.
- If an employee separates from state service and their My Online Selection option is set to Online, they will automatically be changed to On Paper upon their withdrawn status.
- To view employees' online selection in HRMS, use Direct Selection field for IT3228 in PA20.
- If an employee opted in for online-only Forms W-2 using My Online Selections in MyPortal, PU19 will not generate a printable test W-2. To view the information that is reported on the employee's W-2, the Generate Audit Report in the PU19 transaction must be checked.
- To view and print an employee's generated online Form W-2, run the Display Online W-2 Forms, PC00\_M10\_ONW2. Instructions are on the HRMS Support hub linked here:  
[Display Online W2 Forms PC00\\_M10\\_ONW2.pdf](#)

# Paid Family and Medical Leave (PFML)

- **PFML Premiums**
  - **2025 0.92% (Employees pay 71.52% and employers pay 28.48%)**
  - **2026 1.13% (Employees pay 71.43% and employers pay 28.57%)**
  - **2026 Wage Base \$184,500 (same as Social Security Wage Base)**
- **Employers are required to notify employees of rate changes**
  - Agencies with fewer than 50 employees (as determined by ESD) do not owe employer premiums. ESD will notify employers in early October if there is a change from small to large, or large to small. Remember to notify OFM if your agency receives this notification.
  - Pay ESD the amount invoiced each quarter
  - Account **035**, General Ledger **5180**, Subobject **BK**
  - Move rounding amounts back to the operating account.
    - Refer to the [Rounding Differences Between ESD Invoice and Accruals in 035 5180 and 035 5183](#) document on the Payroll Resources website.

# PFML Changes Effective January 2026

Starting Jan. 1, 2026, other aspects of the Paid Leave program will also update due to legislative changes. ESD will be adding resources to their website as they become available. Topics include:

- **Job protection:** Enhances job protection for employees taking Paid Leave from employers with 25 or more employees.
- **Health care benefits:** Clarifies when employers are required to maintain health care benefits for employees taking job-protected Paid Leave.
- **Weekly claim minimums:** Reduces the minimum amount of time an employee must miss in a week to be eligible for Paid Leave from 8 hours to 4 hours.

[Updates – Washington State's Paid Family and Medical Leave](#)

# Long Term Services and Support (LTSS)

- **LTSS Premiums for employees**

- Premiums are currently 0.58% of gross wages
- Account **035**, General Ledger **5183**, no Subobject (premiums are employee only)
- There is no limit on the amount of wages subject to LTSS
- If the employee has an ESD approved exemption, use the Exempt, reportable “R” on IT0235 (Other Taxes US)
- For employees whose work is non-localized or who are determined as not liable for LTSS and PFML premiums, use the Exempt, not reportable “Y” on IT0235 (Other Taxes US)
- Employer Q & A located on the Payroll Resources website (last updated Oct 5, 2023):  
[https://ofm.wa.gov/sites/default/files/public/resources/payroll/Employer\\_LTSS\\_Q\\_A.pdf](https://ofm.wa.gov/sites/default/files/public/resources/payroll/Employer_LTSS_Q_A.pdf)

# Out of State Telework

- **Out of State Telework Guidance and Resources**

- Reasons why an agency may want to consider approving a request to work outside the state
- Guidance on how to manage out of state tax and benefit compliance issues, especially for Oregon and Idaho-based workers.
  - <https://ofm.wa.gov/state-human-resources/statewide-telework-and-hybrid-work-resources/out-state-remote-work-guidance-and-resources>
  - **Automated tax processing in HRMS for OR and ID**

- **Payroll Out of State Employee Tax Resources**

- HRMS Other State Tax Wage Types
- Washington Labor & Industry Reciprocal States
- Multistate Employer Registration Form for New Hire Reporting
- Federation of Tax Administrators – State Tax Agencies
  - <https://support.hrms.wa.gov/resources/payroll-out-state-employee-tax-resources>

# Out of State Telework Continued

- **Areas of Consideration, but not limited to**
  - Taxes
    - State and local
    - Unemployment
    - Workers' Compensation
    - Paid Family and Medical Leave
  - Wage and Hour law
  - Non-discrimination laws
  - Time zone differences
  - Medical, dental, and vision insurance
  - Privacy laws
  - Authorization to work out of state
  - Travel

# Need Help?

- **OFM – Statewide Accounting**

Accounting-related problems or concerns and payroll issues (see below for OST-related items or HRMS system concerns)

- Elizabeth Smith, Louisa Green, Sheila Meyer
- ofmmiswapayroll@ofm.wa.gov

- **OST – Office of the State Treasurer**

Tax payments not made through HRMS / OFM – (*email is preferred*)

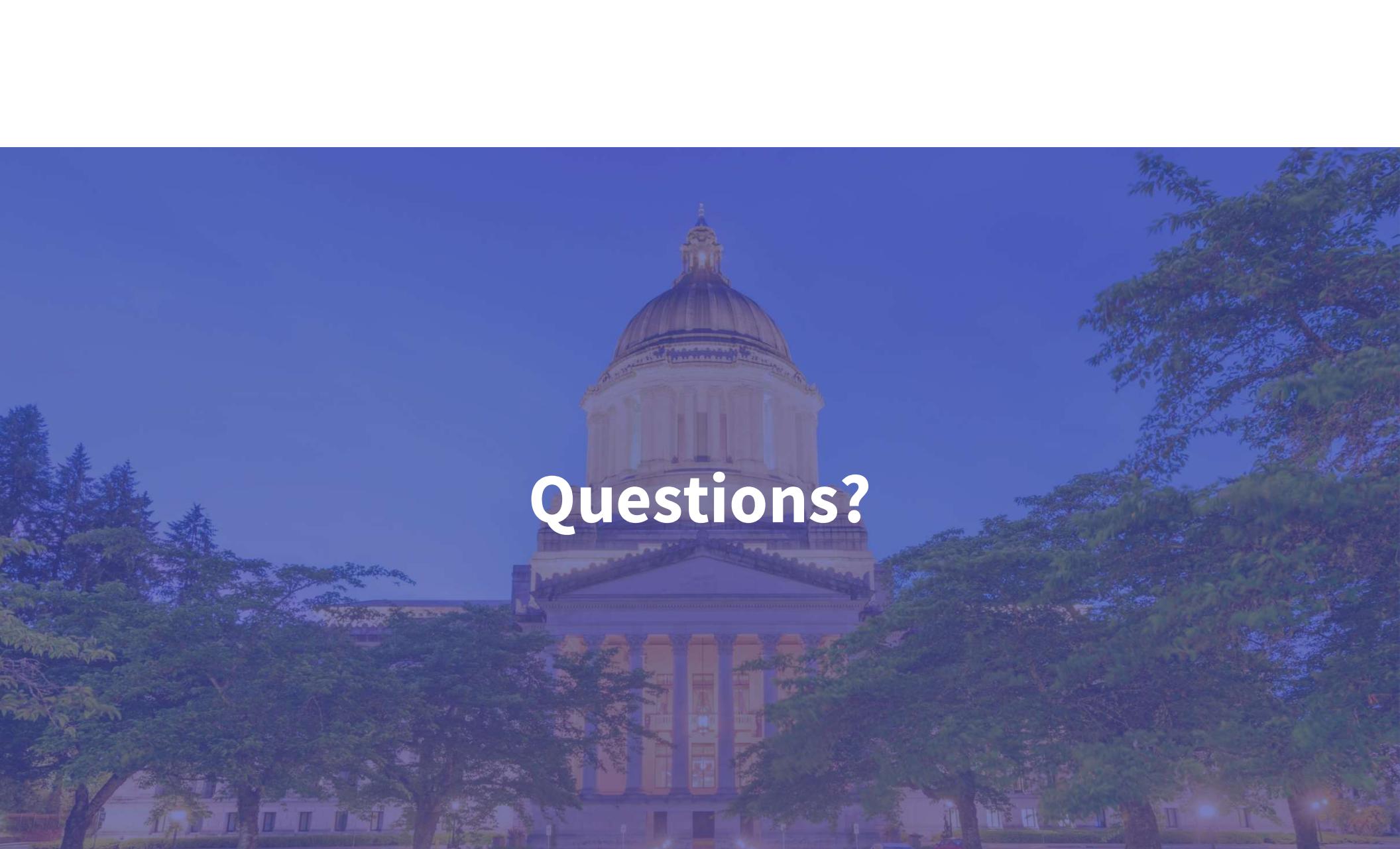
- Cindy Doughty      360.902.8908      [EFTJV@tre.wa.gov](mailto:EFTJV@tre.wa.gov)
- Ryan Pitroff      360.902.8917      [EFTJV@tre.wa.gov](mailto:EFTJV@tre.wa.gov)
- Lesa Williams      360.902.8911      [EFTJV@tre.wa.gov](mailto:EFTJV@tre.wa.gov)
- Vicki Boudia      360.902.8988      [EFTJV@tre.wa.gov](mailto:EFTJV@tre.wa.gov)

Payroll warrants – (*email is preferred*)

- Warrant Division      360.902.8994      [warrantinquiry@tre.wa.gov](mailto:warrantinquiry@tre.wa.gov)

# Need Help?

- **OFM – Information Technology Services**
  - OFM Help Desk            360.407.9100  
[heretohelp@ofm.wa.gov](mailto:heretohelp@ofm.wa.gov)
  - Toll free number        855.928.3241
- Payroll Vendors (*3rd party payments*)
  - Payee Help Desk        360.407.8180  
[payeeregistration@ofm.wa.gov](mailto:payeeregistration@ofm.wa.gov)



Questions?

# For more information

## Contact:

SWA Payroll Unit  
[ofmmiswapayroll@ofm.wa.gov](mailto:ofmmiswapayroll@ofm.wa.gov)



Scan the QR code to visit  
[ofm.wa.gov](http://ofm.wa.gov) or find us on  
social media.

