Payroll Insights

Employment tax news to guide you now and for the future

November 2026



John's fresh take: Year-end payroll readiness requires connected planning

While payroll professionals are reconciling 2026 wage records and confirming that pay codes are appropriately mapped to Form W-2 (Wage and Tax Statement), states and other taxing jurisdictions are thinking ahead to 2027 and publishing tax rates, wage bases, and interest rates effective January 1. These changes for 2027 may seem to be discrete updates; however, operationally, they affect the same interconnected processes: payroll configuration, employee and employer tax calculations, wage reporting, reconciliations, and employee communications. These parallel processes underscore a familiar year-end challenge: payroll teams must manage the rapidly approaching year-end filing and reporting requirements while also preparing systems for changes that take effect in 2027.

These workstreams should be addressed in a defined process that considers both a year-end checklist and updates that should be implemented before the next year's first paycheck. Some 2027 updates, such as new state unemployment insurance tax rates and wage bases, may not affect payroll until the first tax deposit is due, typically in April. Other 2027 updates, including increases to the Social Security wage base ($192,300 in 2027) and New York paid family medical leave withholding rate (0.452% in 2027), should be implemented before the first paycheck of the calendar year to ensure the appropriate taxes are withheld. Third party payroll providers may automatically update their systems for changes in 2027, but the employer remains responsible for verifying that the updates have been applied to their payroll.

The year-end reconciliation process alone absorbs much of the payroll tax team's time. It may seem daunting to incorporate 2027 changes in the same breath, but separate but coordinated checklists for the different workstreams can help ease the anxiety of missing crucial steps in the process. Strong governance at year-end can reduce the risk that a seemingly small configuration change becomes a reporting or withholding issue later in the year.

KPMG and Bloomberg Tax host an annual year-end webcast designed to help you navigate your year-end checklist and key compliance considerations. Register for Preparing for Payroll Year End 2026 on November 18 here. KPMG will also host a TaxWatch webcast on December 2 covering year-end payroll considerations and what's ahead for 2027. Register for the December 2 webcast here.

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Federal updates

2027 Social Security wage base increases to $192,300

The Social Security taxable wage base will increase from $184,500 in 2026 to $192,300 in 2027. The tax rate is unchanged at 6.2% for the employee and 6.2% for the employer contributions, resulting in a maximum Social Security tax of $11,922.60 for each. The Medicare tax rate remains 1.45% for the employee and 1.45% for the employer contributions with no wage-base limit. Employee Medicare wages exceeding $200,000 should continue to be subject to the Additional Medicare tax withholding rate of 0.9%.

Social Security Administration modernizes Form W-2/W-2c online application

The Social Security Administration launched an updated Form W-2/W-2c online application on September 19. Available through Business Services Online, the application includes Box 12 code descriptions, enhanced printing functionality, simplified instructions, and streamlined navigation. Territory wage reporting is expected to be added in December.

IRS issues technical requirements for substitute Forms W-2c and W-3c

Revenue Procedure 2026-29 (Publication 1223) establishes technical requirements for substitute corrected wage statements and transmittals. The guidance addresses form layout, paper and printing standards, electronic filing, and restrictions on logos and advertising. It also incorporates the January 2026 revision that divides Box 14 into Boxes 14a and 14b, with Box 14b used for Treasury Tipped Occupation Codes.

IRS updates special per diem rates for 2026-2027 business travel

IRS Notice 2026-60 provides updated special per diem rates for business travel and payments made for business travel on or after October 1, 2026, for the transportation industry, incidental expenses, and the high-low substantiation method.

- The transportation-industry meal and incidental expense rates are $80 per day within the continental United States and $86 per day outside the continental United States.
- The per diem rate for incidental expenses remains $5.00 per day.
- The rates for the high-low substantiation method of determining per diems are $329 for high-cost localities and $230 for other localities within the continental U.S.(CONUS). The high-low substantiation method, prescribed in Revenue Procedure 2019-48, permits a payor to apply one "high" rate to localities specified in the Notice and one "low" rate to every other locality within CONUS to ease the administrative burden of researching the specific rate of each traveler. The method should be used consistently within a calendar year for each employee.

Tax Court limits collection of trust fund recovery penalties

Section 6672 of the Internal Revenue Code imposes a penalty of 100% of tax that a responsible person collects and willfully fails to pay over the tax or willfully attempts to evade tax. Income tax withheld from employee wages and excise taxes are trust fund taxes because they are collected and held "in trust" until remitted to the IRS. Penalties imposed under Section 6672 are referred to as trust fund recovery penalties (TFRPs).

Amodio v. Commissioner, T.C. Memo. 2026-96 (Sept. 28, 2026), involves the founder (Amodio) of a construction company (Creative) and Creative's failure to satisfy its employment tax obligations in 2015 and 2016. For the years at issue, the office manager and a third-party payroll processing company made the decision to withhold payment of employment taxes to the IRS in order to ease cashflow problems. Amodio became aware of this after the fact but continued to use the funds to satisfy other liabilities. Creative entered into an offer-in-compromise with the IRS in 2020 that satisfied some or all of its employment tax liabilities.

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Amodio argued that the IRS could not collect from him because the failure was not willful on his part. The Tax Court said "willfullness is demonstrated if a 'person,' after becoming aware of a corporation's outstanding employment taxes, uses unencumbered corporate funds for purposes other than paying the corporation's outstanding employment taxes." While the initial decision to use the trust fund taxes to satisfy other cash flow problems was made by the office manager and third-party payroll processing company, the Court held that the petitioner, who controls the company, demonstrated willfulness for purposes of the Section 6672 penalty because he continued to use the funds to satisfy other creditors after learning of the tax delinquency instead of satisfying the outstanding employment tax liabilities.

Amodio also argued that the offers-in-compromise affected the amount resulting from the failure. The penalty under Section 6672 is joint and several; although the IRS can collect a joint and several liability only once, the IRS has the discretion to collect from any of the liable parties. Because Creative entered into offers-in-compromise with the IRS to satisfy some or all of its employment tax liabilities, Amodio argued that his liability should also be reduced. The IRS argued that Amodio was responsible for any excess above Creative's offer-in-compromise-reduced employment tax liability. The Tax Court agreed with Amodio and held that collection action was enforceable up to the employment taxes as adjusted in the offer-in-compromise.

Updated Model Tax Convention on Income published

The Organisation for Economic Co-operation and Development (OECD) provides the model for tax conventions, including income tax treaties, used by both member and nonmember countries as a guide for consistency in certain multinational agreements and a basis for negotiations.

On November 19, 2025, the OECD released the 2025 update to the OECD Model Tax Convention on Income and on Capital, providing new and detailed guidance on short-term cross-border remote work and on the taxation of income from natural resource extraction. On September 30, 2026, the OECD published the 11th edition of the full version of the Model Tax Convention on Income and on Capital. Article 5 addresses permanent establishment; commentary to Article 5 suggests that an individual that spends at least 50% of their working time in a place during a 12-month period may create permanent establishment concerns for an employer.

The OECD conventions are guidelines for multinational agreements and not legally binding. The home office provisions may be included in new or amended income tax treaties, but the enacted, country-specific treaties should continue to be followed.



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State and local updates

Arizona establishes 2027 UI operating fund contribution

Effective January 1, 2027, experienced rated employers will fund a new unemployment insurance operating fund through a contribution equal to 3.15% of their unemployment insurance tax liability. Arizona will offset the contribution by reducing experienced-employer unemployment insurance tax liability by 3.15%, resulting in a net $0 effect on the employer.

Indiana updates state and county withholding guidance

Indiana issued Departmental Notice #1 with updated state and county income tax withholding rates beginning on or after October 1, 2026. The notice includes revised county tax rates and, as in the prior version, addresses de minimis rules for a nonresident employee performing services in Indiana for 30 days or less in the calendar year. If the employer believes the employee will perform services within the state for no more than 30 days, they are not required to withhold state or county income tax. Also, if the employee provides the employer Form WH-4AFF (Withholding Tax Waiver for Nonresident Employee), the employer should not be required to withhold state or county income tax until after 30 days. This threshold includes workdays performed by an employee in Indiana for a prior employer within the calendar year. If the de minimis threshold is exceeded, wage withholding may be increased subsequent to the 30 days to cover underwithheld taxes.

New York increases contribution rate for Paid Family Leave

New York funds its Paid Family Leave (PFL) program through employee contributions withheld from gross wages. The contribution rate for 2027 will be 0.452% of gross wages, up to a maximum annual contribution of $451.81, which is an increase from the 2026 rate of 0.432% of gross wages with a maximum annual contribution of $411.91.

Washington increases premium rate for Paid Family and Medical Leave

Washington funds its Paid Family Medical Leave (PFML) program through employee and/or employer contributions withheld from gross wages. The premium rate for 2027 will be 1.2%, an increase over the 2026 rate of 1.13%, up to the annual Social Security wage base ($192,300 in 2027). Of the 1.2% rate, 70.7% may be withheld from employee wages and 29.3% is paid by the employer. However, employers with fewer than 50 employees are not required to pay the employer portion.



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