

2025 Year-End Planning Guide

Table of Contents

Holiday Planning.....	2
Year End Checklist.....	4
Year-End Processing Schedule	5
Year End Training	6
Year End Topics.....	7
Additional Year End Topics.....	10

Holiday Planning

Holiday Schedule – 2025 and 2026 Dates

Harpers Payroll Services

Holiday	Date Observed (Harpers Closed)
Thanksgiving Day 2025	Thursday, November 27
Day after Thanksgiving 2025	Friday, November 28
Christmas Eve 2025	Wednesday, December 24 – Close at 12PM
Christmas Day 2025	Thursday, December 25
New Year’s Day 2026	Thursday, January 1
Memorial Day 2026	Monday, May 25
Independence Day 2026	Friday, July 3*
Labor Day 2026	Monday, September 7
Thanksgiving 2026	Thursday, November 26
Day after Thanksgiving 2026	Friday, November 27
Christmas Day 2026	Friday, December 25

Federal Reserve

When the Federal Reserve is closed, no direct deposit or tax payments will be sent nor will funds be settled on those days. You should not have checks dated on Federal Reserve Holiday dates.

Holiday	Date Observed (Federal Reserve Closed)
Thanksgiving Day 2025	Thursday, November 27
Christmas Day 2025	Thursday, December 25
New Year’s Day 2026	Thursday, January 1
Martin Luther King, Jr. Day 2026	Monday, January 19
President’s Day 2026	Monday, February 16
Memorial Day 2026	Monday, May 25
Juneteenth Day 2026	Friday, June 19
Independence Day 2026	Saturday, July 4
Labor Day 2026	Monday, September 7
Columbus Day 2026	Monday, October 12
Veterans Day 2026	Wednesday, November 11
Thanksgiving 2026	Thursday, November 26
Christmas Day 2026	Friday, December 25

Upcoming Bank Holidays: Reminder: Thanksgiving, Christmas, and New Year’s Day are bank holidays so please consider this when preparing and submitting payroll on the holiday weeks. Please allow 48 hours from processing date to check date to ensure timely funding of direct deposit into your employees’ accounts.

Independence Day – Check dates will be moved from Friday, July 3rd to Thursday, July 2nd. If you wish to keep your check date as Friday email customerservice@harperspayroll.com..

Payroll Deliveries: Please be aware that delivery delays may occur due to higher than normal delivery volume during the short holiday weeks. Alternative delivery options such as Client Pick-Up (at Harpers office), FedEx or UPS overnight or priority service are available if needed to meet your needs.

Holiday Schedule Guidelines

- **Timely Direct Deposits** – *submit payroll by 2:00 PM two business days prior to check date*
 - Banking holidays may have an impact on the availability of funds for your employees

- **Deliveries** done via courier are scheduled to be completed by 5:00 PM the day after submission
 - Harpers does not guarantee a time for delivery other than by 5:00 PM.
 - If you have concerns regarding delivery times you may consider using alternative delivery methods such as UPS Overnight, FedEx Overnight or Pickup

- **Harpers Payroll is closed on November 28th**
 - Please plan accordingly if you normally transmit or pickup on Friday
 - Delivery of payrolls is not impacted

Year End Checklist

- Audit employee data related to SSN, name and mailing address and make any updates in Harpers by December 5, 2025.
 - Harpers can submit your employee data electronically to the SSA for SSN verification for all employees paid in 2025
 - \$.50 per SSN Minimum Fee \$35
 - Contact customerservice@harperspayroll.com to request SSN Verification

- Review processing deadlines and identify your last payroll of 2025.

- Review holiday schedule and Federal Reserve holidays for 2025 and 2026.

- Review payroll calendar schedule for 2026 and contact your dedicated Customer service Representative or our Customer Service Team @ customerservice@harperspayroll.com for any necessary changes.

- Schedule and Process Year End/Holiday Bonus Payroll

- Register for a Year-End Training Session

- Process any year-end adjustments, such as group term life, personal use of company car, third-party sick pay, 12DD ER Health, etc. before your last payroll of 2025.

- Enter any additional manual and/or voided checks prior to your last payroll of 2025 to ensure they get recorded in 2025. If you enter additional manual checks/or voids after December 26, 2025, or after processing your last payroll for the year, please contact your support team to ensure they are processed prior to W2 printing.

- Submit 1099-NEC Reporting through payroll

- Verify 1095C ACA coding is complete by **January 30, 2026**
 - If 1095C ACA coding is completed before January 30, 2026, contact customerservice@harperspayroll.com to request print of 1094C/1095C forms
 - Run your ACA Data and Review Report as a final audit

Year-End Processing Schedule

Although Harpers Payroll will accept 2025 adjustments until January 5th for last-minute updates to be included in your 2025 tax forms, we strongly recommend that all adjustments are completed before December 26th, 2025, to avoid additional processing fees and penalty and interest fee assessments from the taxing agencies.

Schedules for W2's and Quarterly Reports are as follows:

W2s, 1099-NECs, and Quarterly reports Schedule:

Last date for processing Year-End Adjustments	Jan 5 *
Distribute W2's and 1099-NEC's	Jan 8-23
W2s Available (PayrollForward/EmployeeForward)	Jan 23
Distribute Qtr4 Quarterlies	Jan 23
Qtr4 Quarterlies Available (PayrollForward)	Jan 23
Quarterly Recon Debits/Credits	Jan 28

*Liability from late adjustments is due by January 7th or sooner depending on liability due.

Please be aware of the following:

- Delaying processing of adjustments after an employee's last paycheck for the year could potentially impact the ability to deduct the required taxes from the employee.
- Although adjustments are accepted until 3PM on 1/5/2026, we strongly recommend that all adjustments be processed before December 26, 2025, to avoid potential penalty and interest fees assessments from tax agencies, and additional processing fees.
- Any penalties and interest assessed on late payments because of adjustments processed after 12/26/2025 is the responsibility of the client and will not be the responsibility of Harpers Payroll.
- **Any changes/corrections submitted after 3PM on 1/5/2026 will result in amended returns, W2C's, additional fees, and will not process until mid to late-February.**

ACA 1094C/1095C Schedule:

Last date for update/changes	Jan 30
Distribute ACA 1095C forms	Feb 2-27

Year-End Adjustment Fee Schedule

Year-end adjustments processed prior to 12/26/2025 – standard payroll processing fee

Year-end adjustments processed between 12/26/2025 and 1/5/2026 – stand payroll processing fee, plus \$75.00

Year-end adjustment processed after 1/5/2026 - minimum fee is \$300.00

Important: IRS Deadlines:

IRS Deadline for supplying W2 and 1099NEC forms to employees	Jan 31
IRS Deadline for filing W2 and 1099NEC with the agency	Jan 31
IRS deadline for supplying ACA forms to employees, if requested	Mar 3
IRS Deadline for filing ACA forms with the agency	Mar 31

Year End Training

Year End Review Webinars

This webinar occurs several times. Please register for the date and time that works best for you.

Year End Review Webinars:

Friday, December 5th 12:00pm – 12:45pm
Wednesday, December 10th 10:00am – 10:45am
Wednesday, December 17th 3:00pm - 3:45pm
Monday, December 22nd 12:00pm – 12:45pmm

Register now!

After registering, you will receive a confirmation email containing information about joining the webinar.

ACA / 1095C Webinars

This webinar occurs several times. Please register for the date and time that works best for you.

ACA Webinars:

Thursday, December 5th 9:00am - 10:00am
Friday, December 6th 12:00pm – 1:00pm
Thursday, December 12th 9:00am - 10:00am
Friday, December 13th 12:00pm – 1:00pm
Thursday, December 19th 9:00am - 10:00am

Register Now!

After registering, you will receive a confirmation email containing information about joining the webinar.

Year End Topics

Items that may generate an adjustment run include but are not limited to the following:

- Manual and voided checks not entered into payroll
- Earning or deduction coding discrepancies
- Bonus or Adjustment Payrolls
- Health Premium Reporting on W2's (12DD W2 Reporting)
- Affordable Care Act Reporting (ACA – 1094/1095C Forms)
- Third Party Sick Pay
- COBRA
- Employer contribution to an HSA plan
- Group Term Life Insurance (GTL)
- Personal use of company vehicle
- Employee Business Expense reimbursements
- Company paid: health club membership, parking, transportation, etc.
- Awards, gifts, etc.
- Auto Allowance
- S-Corp Benefits
- Paid Family Medical Leave (PFML)
- 1099 Reporting
 - PFML impacts

Adjustments must be entered on a payroll when the employee is being paid to avoid tax implications or tax out of balance issues on the 941. All adjustments done after December 26, 2025, will be a minimum fee of \$75 and may result in additional penalty and interest.

Health Premium Reporting on W2's (12DD)

Effective 2014 employers that report 250 or more W2's in a calendar year are required to report the total cost of health care premiums on the W2's. If you have 250 or more W2's in 2025, contact your customer service Representative for further guidance and instructions.

IRS Form 1094C and 1095C

The Affordable Care Act requires employers who are an Applicable Large Employer (ALE) with 50 or more Full Time employees (including full time equivalents), to report the coverage offered to all benefit eligible employees to their employees and the IRS under an employer-sponsored group health plan. Whether you have fully or self-insured benefits plans, you are required to file these forms.

The IRS requires ALE employers to provide the IRS Form 1094C to all benefit eligible employees. Part 1 and 2 of this form must be completed for fully insure plans. Part 1, 2 and 3 of this form must be completed for all self-insured plans.

IRS Form 1095C

- **Plan Start Month Required:** Part II of Form 1095-C provides space to enter a 2-digit number, indicating the plan start month. Completion of this field, which was optional in past years, is now required.
- **Affordability Threshold Increases for 2026:** The IRS has announced that the ACA affordability percentage used to determine compliance with the employer mandate will increase from 9.02% (2025) to 9.96% (2026) of the employee’s household income, as determined under one of the three safe harbor approaches available to employers.
- **1095-C Age and Zip Code Fields Now Apply:** Form 1095-C now contains a box for the employee’s age, and a new line 17 to enter the employee’s ZIP code. These fields should be completed by employers offering an Individual Coverage Health Reimbursement Arrangement (ICHRA).

The Paperwork Reduction Act of 2025 allows employers to furnish 1095C-Forms only upon request to those covered individuals. This means that employers are no longer required to send these forms automatically to all employees, reducing the paperwork burden. Upon employee request, employers are required to provide 1095C Forms to those employees for the calendar year 2025 by March 3, 2026. Form 1094C and 1095C are due to be filed to the IRS by March 31, 2026. The 1094C form is the transmittal form which must be completed and submitted to the IRS.

To ensure timely processing of the forms, please populate the ACA information in the payroll system by January 26, 2026.

Employee Level Coding Common Examples:

For Months that the employee was offered insurance and accepted

Offer of Coverage	1E (Plan with MEC providing min value offered to EE, dependent, and spouse)
Employee Share	Lowest rate offered (Employees Monthly amount)
Employer Relief	2C (employee enrolled in coverage offered)
Self-Insurance	No (Unless you are self-insured, then this would be YES)

For Months that the employee was offered insurance and declined coverage

Offer of Coverage	1E (Plan with MEC providing min value offered to EE, dependent, and spouse)
Employee Share	Lowest rate offered (Employees Monthly amount)
Employer Relief	2F, 2G or 2H (Employer Relief)
Self-Insurance	No

For Months that the employee was not offered insurance because they were not employed

Offer of Coverage	1H (No offer providing minimal essential coverage)
Employee Share	0.00
Employer Relief	2A (Not Employed)
Self-Insurance	No

For Months that the employee was not offered insurance because they were in waiting period

Offer of Coverage	1H (No offer providing minimal essential coverage)
Employee Share	0.00
Employer Relief	2D (Employee in a section 4980H(b) Limited Non-Assessment Period)
Self-Insurance	No

Common Reporting Issues:

- Coverage no Status
 - If the coverage is valid, there must be a valid status line
 - If the coverage is not valid, it must be deleted
- Status no Coverage
 - If the status is valid, there must be valid coverage information
 - If the status is not valid, it must be deleted
- Overlapping dates (status/coverage)
 - Dates need to be corrected if they are overlapping months or years
- Term status no term date
 - A term date should be populated for any employee with a termination status
- Hire, Rehire and term dates must be correct
 - This is how the counts are determined, so in order for the counts to be correct, the dates need to be correct (in chronological order)
- Hire and term dates cannot be the same
 - Should make the term date the next day
- Cannot have "--" in name or address fields
 - Remove the "--" and replace with a single dash
- Master employee must be chosen for ALL duplicate EE's regardless if they are ACA eligible or not
- Birth Date must be a valid birth date for covered employee

Self-Insured Clients:

- Dependents must have a valid SSN or date of birth for Self-Insured client A valid SSN or date of birth must be entered for all dependents on self-insured clients

Third Party Sick Pay

Third party sick pay must be reported to the IRS and Social Security Administration during the same tax year that the employee received the disbursement. Employers receive a copy of each disbursement when the employee is paid by the third party vendor. We strongly recommend that third party sick pay be entered into payroll when received. At a minimum it should be entered on a quarterly basis in order for the tax liability to be reported and paid during the correct liability period. The third party sick pay carrier will send an annual reconciliation of benefits, but unfortunately this usually arrives to the client after the filing deadlines of the IRS. The annual reconciliation can be compared to payroll reports to ensure accuracy. If any of your employees received a disbursement from a third party sick policy in 2025, those disbursements must be posted to payroll no later than January 3, 2026. Make sure your third party sick pay vendor knows that you need the data to report on your payroll or to Harpers Payroll Services. Late reporting of income and tax deposits due to late receipt of information from your vendor is not an acceptable explanation to the IRS.

Please make sure that you are aware of your filing requirements when entering third party sick pay into payroll. There are several different methods accepted for reporting Third Party Sick Pay, and it will be necessary to know who will be responsible for issuing the W2 for the wages paid by the vendor. In some instances, the insurance vendor issues the W2's and the employer is only responsible for reporting the wages and paying the employer portion of taxes. This information is extremely important to ensuring accurate filings. Please contact your customer service representative for assistance.



Bonus or Adjustment Payrolls

Please notify Harpers in advance of changes to your processing dates and any special instructions for additional payrolls. Due to the substantial increase in adjustment and bonus payrolls Harpers receives from clients in November and December, for Harpers to maintain the high level of customer service that you are accustomed to, we require that all clients adhere to the following specifications:

Your normal payroll transmission time is a minimum of 2 business days before check date.

Due to time constraints, all adjustments must be completed before your last payroll of the year. Remember, no matter how early you submit your adjustment or bonus payrolls; the check date activates the money movement from your account.

Note: Your bonus or adjustment payroll, either by itself or in combination with a payroll with the same filing period, may generate federal tax liabilities in excess of \$100K. The tax deposit becomes due the next business day after the check date. Please make sure all payrolls are submitted on time so tax deposits can be paid within federal and state guidelines.

Additional Year End Topics

Company Policy Changes

Changes to company policies that are intended to affect payroll in 2026 should be emailed to your Harpers Customer service Representative or customerservice@harperspayroll.com no later than November 17, 2025. These changes include but are not limited to: pay frequencies, insurance rate changes, time off policies, general ledger, 401k, etc. This gives our Customer service Team time to set-up and test changes before implementation. We cannot guarantee the implementation of policy changes for the first payroll of 2026 on requests received after November 17, 2025.

Banking Changes

It is important to notify Harpers timely of any banking changes for your company.

2026 Payroll Calendar

Your payroll calendar automatically updates each time you process payroll. A one year calendar is kept at all times. This means that as you process a check date, your scheduling rules set-up in our system will add a new check date one year in advance. Currently the calendar year 2026 has been produced through early November 2026. At the end of December, if you need to review the calendar set-up for 2026, please contact your customer service Representative via email and the calendar will be printed and emailed to you. If changes are required or if known bonus/commission payroll dates are to be added, please note them on the calendar and return them to your customer service Representative.

W2 Printing

We will produce multiple W2's for any employee that has paid taxes in more than one state or local jurisdiction during the year. All W2's will be filed with the Social Security Administration electronically for all clients.

New Hire Reporting Requirements

Please be aware of the importance of providing complete information when adding new hires, including social security number and home address information.



This information is crucial for meeting state new hire reporting requirements. All necessary data should be added when adding the employee to payroll. Missing data when initially adding the employee will result in non-compliance of new hire reporting.

Correcting W2 data

Harpers Payroll Service emphasizes the importance of verifying all employee demographic information for Year-End. Please review all employee information carefully. Fax and Autopay clients should send any changes with payroll before your last payroll of the year. Verifying employee Social Security Numbers is extremely important to the employee and you, the employer. Correct numbers as well as names will ensure accurate Federal (SSA), State unemployment reports, accurate records for your employees' retirement and will avoid possible penalties for you.

In the past we have received requests for W2c as result of an incorrect address. The Social Security Administration and the IRS does not want W2c for this change. They suggest you place the W2 in an envelope with the correct address.

If a W2c is required as a result of an incorrect name and/or SSN the Social Security Administration (SSA) only wants a W2c for the most recent incorrect year filed. SSA will automatically review their records and correct prior years.

Social Security Numbers (SSN) and W2 Reporting

To help protect employees from identity theft, the Internal Revenue Service (IRS) has announced it will truncate Social Security Numbers (SSNs) on copies of the Form W-2.

This includes copies that are provided to employees to report third party sick pay and group-term life insurance. SSNs, however, should **not be truncated** on the employer filing copies of the Form W-2.

The first five digits of truncated SSNs will be replaced with either an asterisk (*) or an X. For example, a truncated SSN would appear as either ***-**-1234 or XXX-XX-1234.

Since SSNs will be truncated on copies of the Form W-2, it is important that your employees' SSNs are accurate and up-to-date, as employees **will not have visibility to their full SSNs** once W-2s are printed and distributed.

You can verify that your employees' names and SSNs match the Social Security Administration's records using the free verification service that the SSA provides on their <https://www.ssa.gov/employer/ssnv.htm> or Harpers can submit your employee data electronically to SSA for SSN verification (\$.50 per SSN with a Minimum Fee \$35).

According to the Internal Revenue Service (IRS) "General Instructions for Forms W-2" the following is noted:

"If you do not provide the correct employee name and SSN on Form W-2, you may owe a penalty unless you have reasonable cause. For more information, see Publication 1586, Reasonable Cause Regulations & Requirements for Missing and Incorrect Name/TINs (SSN)".

SSN: Social Security Number

- An SSN will NEVER begin with 000-##-####, 666-XX-XXXX or a range of 900-999-##-####
- The fourth and fifth digits will never be 00 (###-00-XXXX is an example of an invalid SSN)
- The last four digits will never be 0000 (###-##-0000 is an example of an invalid SSN)

The IRS further states: "Do not accept an ITIN in place of an SSN for employee identification or for work. An ITIN is only available to resident and nonresident aliens who are NOT ELIGIBLE for U.S. employment and need identification for other tax purposes."

ITIN: Individual Taxpayer Identification Number

- An ITIN begins with a “9”
- Its format is similar to an SSN 9##-##-####

401(k) Limits:

- The 2026 401(k) contribution limit increased to \$24,500, up from \$23,500 in 2025.
- Employees aged 50 and older can contribute an additional \$8,000 for a total of \$32,500.
- Employees aged 60 to 63 catch-up limit of \$11,250 remains the same.

The Internal Revenue Service boosted the annual contribution limit for 401(k)s, 403(b)s, governmental 457 plans and the federal government’s Thrift Savings Plan to \$24,500, up from \$23,500 in 2025.

The catch-up contribution limit for employees age 50 and older is \$8,000 for 2026, for a total contribution of \$32,500. and employees between the ages of 60 and 63 have a higher catch-up limit of \$11,250.

Secure Act 2.0

Catch-Up Contributions: Starting January 1, 2026, individuals aged 50 or older and earning over **\$145,000**, these catch-up contributions must be made to a Roth account. This includes Super Catch-Up Contributions, which allows additional catch-up contributions for individuals aged 60-63. Roth codes will be automatically added for 401k, 403b and 457b plans.

Catch-Up contributions must be Roth, post-tax, if FICA Wages (Box 3) over \$145,000 in prior year – this applies to 401(k), 403(b) and 457(b) plans.

“FICA wages” are wages for purposes of Social Security taxation as reported in Box 3 of Form W-2. A participant who does not have “FICA” wages, will not be subject to the Roth catch-up requirement.

Secure Act 2.0: Support for Roth Catch-up Contributions

Updates have been made to support Section 603 of the SECURE 2.0 Act of 2022, which places new requirements on elective deferrals for certain employees. Specifically, employees who are at least 50 years old, earned \$145,000 or more in FICA wages in the previous calendar year, and choose to make catch-up contributions, must now do so on a Roth basis. To comply with this regulation, the system has been enhanced to automatically identify and apply Roth catch-up contributions during the payroll process for employees who meet these criteria.

A new Additional Settings tab has been added within the Company Setup > Deductions screen. This tab will only be visible for deduction codes that use a 401k, 403b, or 457b deduction type. Within this tab, users will need to select the appropriate Roth deduction code that will be applied when catch-up contributions are required to be made on a Roth basis.

When an employee qualifies for Roth catch-up contributions, the system will begin deducting on a Roth basis automatically during payroll. In situations where prior-year FICA wages are not available, an override can be manually configured within the Employees > Deductions screen.

Secure Act 2.0: Additional Settings Tab in Employee Deductions

A new Additional Settings tab has been added under Employee>Deductions.

This enhancement allows users to manually specify the year an employee met the \$145,000 wage threshold, overriding the system look-back logic. It is designed to assist in situations where prior year Year-to-Date (YTD) data is not available in the system.



Deferred Comp/Retirement Plan Box 13 box on the W2

(1) Any employee that contributes to a deferred compensation plan by payroll deduction will have the Retirement Plan box marked on their W2 automatically.

(2) If your company has a qualified pension plan that does not run through payroll, the Retirement Plan box should be marked for any individual that you have made contributions. This is not automated. It is the employer’s responsibility to indicate what applies in these circumstances. The “retirement plan” box is located on the employees’ miscellaneous tab in the employee module. Fax clients must notify us in writing before the W2’s are printed if they need these boxes marked.

FUTA Tax

The FUTA tax rate is 6.0%. However, the effective FUTA tax rate is 0.6% after receiving the maximum credit of 5.4% for payments made timely to the States for Unemployment (6.0% less 5.4% credit = .6% rate). Some of this 5.4% credit will be reduced as a result of states that have not paid back loans by November 10, 2025. The following states have outstanding loans and will affect the FUTA Credit and therefore additional FUTA cost per employee will exist.

Using California as an example for a Credit Reduction state, the effective FUTA rate would be 1.8% [6% less (5.4% Maximum Credit – 1.2% FUTA Credit Reduction)] =1 .8%

<u>STATE</u>	<u>FUTA CREDIT REDUCTION</u>
California	1.2%
Virgin Islands	4.5%

1094/1095C Printing

If you have opted in to our ACA Services, we will produce the 1094C and, if requested, 1095C Forms for any employee receiving a 1095C Form. The Paperwork Reduction Act of 2025 allows employers to furnish 1095C Forms only upon request to those covered individuals. This means that employers are no longer required to send these forms automatically to all employees, reducing the paperwork burden. For PayrollForward clients with Rept-2-PF, the 1095C forms will load to the company > Documents > Tax Form Folder.

W2 Billing and 1094/1095C Billing

W2 billing will appear on the last invoice in January 2026.
1094/1095C billing will appear on the last invoice of the month printed.

Year-End Client package will include the following:

- One set of pressure sealed employee W2’s.
- One set of employer W2’s (four to a page).
- Includes Total Record (in lieu of Form W3).

- One set of pressure sealed employee 1095C *If printing of forms requested*
- One set of employer 1095Cs – *If printing of forms requested*
- One set of employer 1094C

We will begin shipping W2’s and 1099’s on or about January 8, 2026. W2 reprints will be processed after all first run W2’s are completed. There will be an additional charge for W2 reprints

Wage reporting errors will require amendments to the IRS and State taxing agencies. Harpers will file amendments per the clients' request. The total of all W2's and W2C's must equal the total of all 941's & 941-X's filed for the calendar year. The smallest variance will generate a notice from the SSA and other tax agencies.

1099-NEC

The Internal Revenue Service (IRS) introduced a new form for contractors in 2022 called the Form 1099-NEC, which should be used to report non-employee compensation. **These amounts were previously reported in Box 7 of the Form 1099-MISC.** You will no longer report non-employee compensation on the 1099-MISC. You must use the new Form 1099-NEC to report this information. The IRS has rearranged the box numbers for reporting certain incomes on the Form 1099-MISC. Please keep this in mind as you fill out this form. You can access the new Form 1099-NEC on the IRS website <https://www.irs.gov/forms-pubs/about-form-1099-sec>

1099-NEC, 1099M and 1099R

Harpers can provide employee/employer copies of forms 1099-NEC, 1099M and 1099R. All information pertaining to 1099's must be submitted no later than your last payroll processing in December 2025. All 1099's will be sent directly to the client for distribution to the recipient.

Harpers Payroll Service does not provide Form 1096, Annual and Transmittal as these forms are filed electronically and therefore not required. If we are printing the recipient copies of form 1099-NEC, 1099M or 1099R, we will file those forms with the IRS on your behalf.

Paid Family Medical Leave

Employer Pick-up of Employee PFML Contributions

On January 15, 2025, the Internal Revenue Service (IRS) issued [Revenue Ruling 2025-4](#), which provides guidance on the federal income and employment tax treatment of mandatory employee contributions when voluntarily paid by the employer, which the IRS refers to as "employer pick-up of employee contributions" under a state paid family and medical leave program (SPFML), as well as the related reporting requirements.

Key Takeaways from Revenue Ruling 2025-4

- If an employer pays all or part of an employee's required PFML contributions, those amounts are considered taxable wages for federal income and employment tax purposes.
- These amounts must be reported in Boxes 1, 3, and 5 of the employees' Form W-2.
- Calendar year 2025 will be regarded as a transition period for purposes of IRS enforcement and administration of the information reporting requirements.

Taxability of PFML Benefits

Also, included in the IRS issued Revenue Ruling 2025-4 ("the Ruling") is the first comprehensive guidance from the IRS on the federal income and employment tax treatment of PFML benefits and contributions to state PFML programs.

Although the Ruling is effective as of January 1, 2025, the IRS has announced calendar year 2025 (January 1 – December 31) as a transition year for enforcement and administration of the new reporting requirements. IRS enforcement of the Ruling will begin in 2026



Starting on January 1, 2026, employers participating in state-run Paid Family and Medical Leave (PFML) programs must comply with new IRS tax and reporting requirements as certain portions of medical leave benefits will be treated like third-party sick pay (wages).

Employers with employees who receive medical leave benefits that are considered third-party sick pay will be responsible for remitting employer portions of FICA (Medicare and Social Security) and FUTA (federal unemployment) taxes on these benefits. Employers should make sure that the appropriate personnel or individuals have access to the Employer Portal on the state website tied to PFML to receive this important tax-related information as it will be the client responsible for reporting the information in payroll to apply the additional employer wages for tax reporting

There is no change in the treatment of family leave benefits. These benefits will be reported to employees and the IRS on Form 1099-G.

Overtime and Tips

The One Big Beautiful Bill ("OBBB") introduced two "no tax on" provisions that impact both employers and employees starting in 2025.

"No Tax on Overtime"

Taxpayers can deduct up to \$12,500 (\$25,000 married filing jointly) of "qualified overtime compensation." These deductions begin to phase out when modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers).

"No Tax on Tips"

Taxpayers in qualifying tipped occupations can deduct up to \$12,500 (\$25,000 married filing jointly) of "qualified tips" per year. This deduction also phases out when modified adjusted gross income exceeds \$150,000 (\$300,000 married filing jointly).

These "no tax" provisions are in effect for the 2025 – 2028 tax years.

2025 Reporting

The IRS announced there will be no changes to the 2025 W-2. However, employers will be required to provide statements to employees showing the total qualified overtime compensation for the year.

2026 Reporting

The IRS has released a [draft of the 2026 Form W-2](#) that introduces a new Box 12 codes for this purpose. To report qualified overtime and tips, two new codes have been introduced for Box 12. Code TT will be used to report qualified overtime, and Code TP will be used to report qualified tips.

There is no change to wage withholding or payroll taxes, Proper reporting will be necessary to allow employees to benefit from the deduction and to maintain compliance with IRS requirements. For 2025, Harpers Payroll will provide a report as a personal statement for each employee to account for overtime and tips for income tax reporting. Once available, further communication will follow.

Taking time now to address these items will ensure a smooth Year-End and avoid late tax deposits and penalties. Harpers Payroll Service will begin processing quarter end and Year-End returns after your last regularly scheduled check date for December 2025.

Best Regards,
Harpers Customer Service Team