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ACCOUNTANTS + ADVISORS

YEAR-END PAYROLL & INFORMATION REPORTING SEMINAR 2025: SUMMARY OF KEY UPDATES

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H.R. 1 PROVISIONS RELATED TO W-2 REPORTING – NO TAX ON TIPS AND NO TAX ON OVERTIME

NEW: No Tax on Tips

New Deduction: Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations listed by the IRS as customarily and regularly receiving tips on or before December 31, 2024, and that are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137.

Qualified Tips:

- Qualified tips must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash, or another form of electronic settlement or mobile payment application (excluding most digital assets) denominated in cash.
- Qualified tips must be received from customers or, in the case of an employee, through a mandatory or voluntary tip-sharing arrangement, such as a tip pool.
- Qualified tips must be paid voluntarily by the customer and not be subject to negotiation. Qualified tips do not include some service charges. For instance, in the case of a restaurant that imposes an automatic 18% service charge for large parties and distributes that amount to waiters, bussers and kitchen staff; if the charge is added with no option for the customer to disregard or modify it, the amounts distributed to the workers from it are not qualified tips.
- Any amount received for illegal activity, prostitution services, or pornographic activity is not a qualified tip.

Qualified Occupations:

- **Categories:**
 - 100s – Beverage and Food Service
 - 200s – Entertainment and Events
 - 300s – Hospitality and Guest Services
 - 400s – Home Services
 - 500s – Personal Services
 - 600s – Personal Appearance and Wellness
 - 700s – Recreation and Instruction
 - 800s – Transportation and Delivery
- **Detailed List** available: <https://home.treasury.gov/system/files/136/Tipped-Occupations-Detailed-8-27-2025.pdf>

The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and payors subject to the new reporting requirements.

NEW: No Tax on Overtime

New Deduction: Effective for 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (such as the “half” portion of “time-and-a-half” compensation) that is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual.

The Fair Labor Standards Act (FLSA) requires OT pay of at least “time and a half” x regular hourly compensation, or regular rate of pay for each hour worked over 40 hours in the workweek. Some states and employers may use a daily or other calculation for overtime pay. The amount that is to be reported is the premium portion paid for overtime over 40 hours per week.

Calculation: Jane works for YZ Company and her regular rate of pay is \$20/hour. She works a total of 48 hours in a work week. Her earnings would be calculated as follows:

Regular Pay: 48 hours x \$20 = \$960.00
OT Premium Pay: 8 hours x \$10 = \$80.00
Total Pay: \$1,040.00

Under H.R. 1, YZ Company will include OT pay of \$80 in W-2 reported amount.

Reporting: Employers and other payors are required to file information returns with the IRS (or SSA) and furnish statements to taxpayers showing the total amount of qualified overtime compensation paid during the year.

The IRS will provide transition relief for tax year 2025 for taxpayers claiming the deduction and for employers and other payors subject to the new reporting requirements.

INFORMATION RETURNS: WHEN AND WHERE TO FILE – FEBRUARY 2, 2026, DEADLINE (SINCE JANUARY 31, 2026, FALLS ON A WEEKEND)

Form W-2 and W-3:

- For tax year 2025, W-2 Copy A files must be submitted to the SSA by **February 2, 2026**, for both paper and electronic filing.
- Regulations section 301.6011-2 was amended by Treasury Decision 9972, published February 23, 2023, which lowers the threshold to 10 for which employers must file certain information returns electronically, including Forms W-2, W-2AS, W-2GU, W-2VI, and Form 499R-2/W-2PR (collectively Forms W-2), but not Form W-2CM. To determine whether they must file information returns electronically, employers must add together the number of information returns (see the list below) and the number of Forms W-2 they must file in a calendar year. If the total is at least 10 returns, they must file them all electronically. The new threshold is effective for information returns **required to be filed** in calendar years beginning in 2024.
- The following information return forms must be added together for this purpose: Form 1042-S, the Form 1094 series, Form 1095-B, Form 1095-C, Form 1097-BTC, Form 1098, Form 1098-C, Form 1098-E, Form 1098-Q, Form 1098-T, the Form 1099 series, Form 3921, Form 3922, the Form 5498 series, Form 8027, and Form W-2G.
- If the original Form W-2 was required to be filed electronically, any Form W-2c correcting that form must be filed electronically. If the original Form W-2 was permitted to be filed on paper and was filed on paper, then any Form W-2c correcting that form must be filed on paper.
- If you have questions about electronic filing of Forms W-2, contact the SSA at 1-800-772-6270 or visit the SSA website at www.socialsecurity.gov/employer. “Business Services Online” link on the SSA website allows you to register for a user ID that is required to e-file the W-2 Forms.

Forms 1099-NEC and W-2:

- For tax year 2025, these files must be submitted to the IRS by **February 2, 2026**, for both paper and electronic filing.

Forms 1099 series (other than 1099-NEC) and 1098:

- For tax year 2025, these files must be submitted to the IRS by March 2, 2026, if paper filing and March 31, 2026, if filing electronically.

Online filing of Forms W-2 and W-3:

- You may file Forms W-2 and W-3 electronically by visiting SSA’s website at www.socialsecurity.gov/employer and selecting “Business Services Online (BSO).” Once registered, you can upload electronic wage files or use SSA’s “Create Forms W-2 Online” to send electronic information to the Social Security Administration. This option allows you to create “fill-in” versions of Forms W-2 for filing with the SSA and to print out copies of the forms for filing with state or local governments, distribution to your employees and for your records. Form W-3 will be created for you based on your Forms W-2.

Online Wage Reporting:

- You can access SSA's Business Services Online (BSO) to electronically report wage data. To obtain information regarding filing wage data electronically with SSA or to access BSO, visit the SSA's W-2 filing instructions and information website at www.socialsecurity.gov/employer. Corrections to previously filed wage data can be made by accessing BSO. Call the SSA at 1-888-772-2970 if you experience problems using any of the services within BSO.

The website includes information on electronic filing, some IRS and SSA publications, and general topics of interest about annual wage reporting. You can also use BSO to ask questions about wage reporting.

RETIREMENT PLANNING – NEW LIMITS FOR 2026

The IRS announced the cost-of-living adjustments applicable to dollar limits on benefits and contributions under qualified retirement plans. Below is a summary of some of the more common employee/individual contribution limits:

Elective deferral limits:	<u>2025</u>	<u>2026*</u>
401(k) and 403(b) Plans	Lesser of \$23,500 or 100% of participant's compensation	Lesser of \$24,500 or 100% of participant's compensation
Simple 401(k) Plans and Simple IRA Plans	Lesser of \$16,500 or 100% of participant's compensation	Lesser of \$17,000 or 100% of participant's compensation
Additional "Catch-Up" Limits**		
(Individuals age 50 or older):	<u>2025</u>	<u>2026*</u>
401(k) and 403(b) Plans	\$7,500	\$8,000
Simple 401(k) and Simple IRA Plans	\$3,500	\$4,000***
(Individuals age 60-63):	<u>2025</u>	<u>2026*</u>
401(k) and 403(b) Plans	\$11,250	\$11,250
Simple 401(k) and Simple IRA Plans	\$5,250	\$5,250

***Projected at time of printing**

****AGE AND WAGE CATCH-UP**

Beginning January 1, 2026, catch-up contributions for employees age 50 or older and earning over \$145,000 (indexed) in the prior year will be required to treat these catch-up contributions as Roth (pre-tax) contributions. The new rules apply to 401(k) and 403(b) plans. Simple 401(k) and IRA plans are unaffected by this new regulation.

*****EMPLOYER LESS THAN 25 EMPLOYEES**

GOLDEN PARACHUTE TAX RULES – NEW GUIDANCE

What Triggers a Golden Parachute?

A payment is a parachute payment if all are true:

- It is compensation (cash, equity, bonuses, severance, accelerated vesting, etc.).
- It is paid to a disqualified individual (shareholder, officer, or highly-compensated individual within 12 months before the change in control).
- It is contingent on a change in control (ownership, controlling interest, or substantial asset sale).
- The aggregate present value of all such payments $\geq 3\times$ the “base amount.”

Base amount: Average taxable compensation over the prior 5 years.

What Is an Excess Parachute Payment?

- Once parachute payments $\geq 3\times$ base amount, the portion above $1\times$ base amount is the excess.
- Reductions are allowed for reasonable compensation (proven via clear and convincing evidence).
- Reasonable compensation can relate to services before or after the change in control.

Tax Consequences

For the Recipient:

- A 20% federal excise tax on the excess parachute payment.
- Applies in addition to regular income and employment taxes.

For the Company:

- No tax deduction is allowed for the excess parachute payment.
- Must withhold the 20% excise tax if the recipient is an employee.

Reporting Requirements

- **Employees:** Report on Form W-2, including excise tax withholding.
- **Non-employees (2025 forward):** Report parachute payments on Form 1099-NEC, Box 3.

Common Exclusions/Exceptions

- Payments from qualified retirement plans.
- Payments clearly documented as reasonable compensation for services (before or after the transaction).
- Small business corporation exception (if the corporation meets the rules to opt out of §280G with shareholder approval — generally available for private companies).

Planning Opportunities

- Structure compensation to stay below the $3\times$ threshold.
- Use shareholder approval process (private companies) to avoid §280G altogether.
- Document reasonable compensation studies to reduce “excess” amounts.
- Consider timing of vesting, bonuses, and transaction-related payouts.

Why It Matters

The combination of lost deductions + 20% excise tax creates a significant economic cost. Companies typically review 280G exposure during due diligence, executive compensation planning, and M&A negotiations.

FORM 1099-DA (DIGITAL ASSETS) – NEW

Form 1099-DA, titled "Digital Asset Proceeds From Broker Transactions," is a **new IRS informational tax form used by brokers** (such as cryptocurrency exchanges and hosted wallet providers) to report customer sales and exchanges of digital assets, including cryptocurrencies, stablecoins and non-fungible tokens (NFTs). The form helps both taxpayers and the IRS track and verify income and capital gains from digital asset transactions to ensure proper tax compliance.

Brokers are required to start reporting gross proceeds for transactions effected on or after January 1, 2025. Taxpayers will begin receiving these forms in early 2026 for their 2025 tax returns.

You should receive a Form 1099-DA if you sold, exchanged or otherwise disposed of a financial interest in a digital asset through a broker.

What It Reports

- **Starting 2025 (reported in early 2026):** Primarily reports the gross proceeds from sales.
- **Starting 2026 (reported in early 2027):** Will also include the cost basis (what you originally paid) and acquisition/sale dates for "covered securities" (digital assets acquired after 2025).

When you receive a Form 1099-DA, you should use the information to prepare your tax return, typically using it to complete Form 8949 to calculate your capital gains or losses.

If your personal records don't match the form, you can supplement or modify the information on your tax return (Form 8949); you cannot change the 1099-DA form itself.

For more information, official guidance and instructions are available at <https://www.irs.gov/pub/irs-pdf/f1099da.pdf>.

7A 7A		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-2330	
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Applicable checkbox on Form 8949		2025 Form 1099-DA	
FILER'S TIN		RECIPIENT'S TIN		1a Code for digital asset	
RECIPIENT'S name		1c Number of units		1b Name of digital asset	
Street address (including apt. no.)		1d Date acquired		1e Date sold or disposed	
City or town, state or province, country, and ZIP or foreign postal code		1f Proceeds \$		1g Cost or other basis \$	
Account number		1h Accrued market discount \$		1i Wash sales loss disallowed \$	
CUSIP number		2 Check if basis reported to IRS <input type="checkbox"/>		3a Reported to IRS: <input type="checkbox"/> Gross proceeds <input type="checkbox"/> Net proceeds	
5 Check if loss is not allowed based on amount in 1f <input type="checkbox"/>		6 Gain or loss: <input type="checkbox"/> Short-term <input type="checkbox"/> Long-term <input type="checkbox"/> Ordinary		3b Check if proceeds from: <input type="checkbox"/> Reserved for future use <input type="checkbox"/> QOF	
9 Check if digital asset is a noncovered security <input type="checkbox"/>		7 Check if 1f is only cash <input type="checkbox"/>		4 Federal income tax withheld \$	
11b If 11a checked, number of transactions		11c For aggregate reporting of specified NFTs, aggregate gross proceeds reported in 1f that are attributable to first sales by creator or minter \$		8 Check if broker relied on customer-provided acquisition information <input type="checkbox"/>	
14 State name		15 State identification no.		11a Check if gross proceeds reported in 1f is an aggregate amount for: <input type="checkbox"/> Qualifying stablecoins <input type="checkbox"/> Specified NFTs	
16 State tax withheld \$		12a Number of units transferred in		12b If transferred in, provide transfer-in date	
Form 1099-DA		Cat. No. 735671		www.irs.gov/Form1099	
www.irs.gov/Form1099DA		Department of the Treasury - Internal Revenue Service		13	

Digital Asset Proceeds From Broker Transactions
Copy A
For Internal Revenue Service Center

For filing information, Privacy Act, and Paperwork Reduction Act Notice, see the General Instructions for Certain Information Returns.

MARYLAND 3% TECH TAX – EFFECTIVE 7/1/25

Maryland's HB 0352 (2025) imposes a 3 % sales and use tax on certain technology, data, and IT services, **effective 7/1/25**.

The tax is distinct from Maryland's regular 6 % sales tax. Services not previously taxed may now be taxed at 3 %, while goods or services already subject to 6 % remain taxed at 6 %.

The law defines taxable services via specific NAICS codes primarily:

- **518** — Data processing, hosting, and related services
- **519** — Other information services
- **5415** — Computer systems design and related services
- **5132** — Software publishing (system / application software)

Examples of Services Included

- Cloud computing, cloud storage, hosting, and backup
- Web hosting and related services
- Data processing, analytics, and data services
- IT consulting, systems integration, software development services
- Software publishing and subscription models (SaaS)

Exemptions & Special Rules

- **Exempt Entities / Sales:**
 - Sales to nonprofit organizations or government entities may be exempt if valid exemption certificates are provided.
 - Certain qualified cybersecurity businesses may be exempt from the tech tax.
 - Some services sold by or to companies in designated “emerging technology development areas” may qualify for exemptions.
- **Multiple Points of Use Certificate**
 - If a service is used both inside and outside Maryland (i.e. multi-jurisdiction use), the purchaser may submit an MPU certificate which allows tax to be apportioned. In such cases, the responsibility to remit the tax may shift from seller to purchaser
 - A separate MPU Certificate must be obtained for each transaction.
 - Buyer must apply to the Comptroller's office for MPU Certificate.

Compliance & Administration

- Vendors (in-state or out-of-state) with Maryland customers must register, collect, and remit the 3% tax when applicable.
- Out-of-state providers with economic nexus (e.g., more than \$100,000 in MD sales or 200+ transactions) will also need to comply.
- Sellers must carefully classify their services (using NAICS definitions) to decide if 3% tax applies.
- Bundled services: if not properly itemized, a bundle that includes taxable services may make the entire bundle subject to the 3% tax.

If service will be resold in its original state, buyer must issue a resale certificate to subcontractor

- If an individual or company is providing taxable services to a buyer who will be reselling those services to another customer the buyer should provide a MD resale certificate to the subcontractor to indicate that sales tax should not be charged.
- Resale certificates can be produced on the MD Tax Connect website by anyone with a valid CRN #.
- **Website:** <https://www.marylandcomptroller.gov/individuals/2025-tax-updates.html>

Technical Bulletin with More Information

<https://www.marylandcomptroller.gov/content/dam/mdcomp/tax/legal-publications/technical-bulletins/tb-56.pdf>

MARYLAND PAID FAMILY AND MEDICAL LEAVE (FAMLI) – NOW STARTING IN 2028 (PREVIOUSLY 2026)

Maryland is preparing to launch a new paid family and medical leave system! **Starting in 2028 (previously 2026)**, the Maryland FAMLI system will ensure that workers can take time away from work to care for themselves or a family member while still receiving job protection and earning up to \$1000 a week for up to 12 weeks. Any worker in MD who has worked 680 hours in the past 12 months will be eligible to receive these benefits.

FAMLI was established through the Time To Care Act passed by the Maryland General Assembly. Maryland is the 11th state (including DC) to pass such a law. Three more have since followed. All employers will be required to provide family and medical leave insurance. Employers will either enroll in the State Plan run by the Maryland Department of Labor's FAMLI Division or seek approval for a Private Plan (commercial or self-administered) with benefits equal to or greater than those provided by the State Plan.

Proposed regulations were published in November, 2024 and can be viewed online at <https://paidleave.maryland.gov/stakeholders/Documents/FAMLI%20Regs%20Draft.pdf>.

NOTE: These have not been approved as final.

Employers will register with the State through an online web application.

Registered employers will automatically enroll into the State Plan administered by the FAMLI Division. The State Plan will provide a seamless way to comply. Alternatively, an employer may apply to use a commercial or self-insured plan. Employers who wish to use a private plan must submit a declaration of intent to be exempt from paying tax to the FAMLI plan. Quarterly reporting must be submitted on the FAMLI website, regardless of whether the employer participates in the state FAMLI plan or a private plan. This is to ensure one central location for tracking employees' eligibility.

Employee and Employer contributions are set to begin on January 1, 2027, with quarterly reporting due 4/30/2027 for Q1-2027. Following is a list of guidelines:

- The definition of "wages" will match the Maryland Unemployment Insurance statute. Aligning the definitions will eliminate the need to calculate two different sets of wages for the two programs.
- There are no exemptions for employers of any size or any type of group (i.e. non-profit, religious, etc.). Only the federal government is excluded from participating in FAMLI.
- The rate will be 0.90% of covered wages up to the Social Security cap, equally divided between employees and employers (.45% each)
- Employers with 15 or more workers are required to submit employer .45% in addition to employee .45%. Total employee count is based on employees in all states by an employer, not just the number of employees in Maryland.
- Employers with 14 or fewer employees - ER portion is optional
- All Maryland employees' contribution rate is .45%. Employers may choose to cover part or all of their employees' contributions.
- Self-employed individuals may "opt-in", paying the full .9%

Benefits:

- Eligibility for FAML I leave follows FMLA with the same qualifying events
- Employer and Employee can agree to use employer provided time off to “top off” FAML I benefit
- Employer is required to provide notice to employees:
 - At time of hire.
 - Annually.
 - When employee requests to use FAML I leave.
 - When employer knows that an employee’s leave request is for a covered reason.
- FAML I and Short-term disability can run concurrently. FAML I leave is primary in that case.

For more information:

- Email: Paid.leave@maryland.gov
- Website: <https://paidleave.maryland.gov/Pages/default.aspx>
- Sign up for emails: <https://public.govdelivery.com/accounts/MDDLRL/signup/39552>