

Turning the Calendar to 2026: Key Payroll Updates Every Employer Needs to Know

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As we step into 2026, payroll teams have a fresh set of deadlines and compliance updates to ensure they are followed. From W-2 reporting requirements to new contribution limits, here is a breakdown of what employers should be preparing for.

Employee W2s

Employers must issue W-2s to all employees—full-time, part-time, and temporary—by **January 31**.^{*} Copies must also be filed with the Social Security Administration and the Arizona Department of Revenue.

Box 1: Wages, tips, other compensation. Reports taxable wages for federal income tax. Includes taxable fringe benefits but excludes pre-tax contributions (e.g., 403(b), health insurance).

Box 2: Federal income tax withheld. Shows the total federal taxes withheld from paychecks.

Box 3: Social security wages. Box 3 reports the total amount of wages subject to the Social Security tax for 2025. The Social Security tax is assessed on wages up to \$176,100 (for 2025). This limit is called the Social Security wage base.

Box 4: Social security tax withheld. Box 4 reports the total amount of Social Security taxes withheld an employee's paychecks. The Social Security tax is a flat tax rate of 6.2% on wage income, up to a maximum wage base of \$176,100 (for 2025). Wages above the Social Security

wage base are not subject to the Social Security tax. Accordingly, the maximum figure shown in Box 4 should be \$10,918.20 (\$176,100 maximum wage base times 6.2%).

Box 12: Deferred Compensation and Other Compensations. There are several types of compensation and benefits that can be reported in Box 12. Box 12 will report a single letter or double letter code followed by a dollar amount. A complete list of the codes can be found on the box instructions on the W-2 Form. These are the most common codes found on W-2 Form.

- Code C: Taxable cost of group term-life insurance over \$50,000. This amount is included as part of taxable wages in Boxes 1, 3, and 5.
- Code E: Non-taxable elective salary deferrals to a 403(b)-retirement plan.
- Code G: Non-taxable elective salary deferrals and employer contributions (including non-elective –deferrals) to a Section 457(b) retirement plan.
- Code W: Employer and employee contributions to a Health Savings Account.
- Code BB: After-tax contributions to a Roth 403(b) retirement plan.
- Code DD: Reports the cost of your health coverage. Code DD amounts are for informational purposes only.

Box 14: Other Tax Information. An employer may report additional tax information in Box 14. If any amounts are reported, the employer will have a brief description of what the amounts are for.

Box 16: State wages. Box 16 reports the total amount of taxable wages earned in that state.

Box 17: State income tax withheld. Box 17 reports the total amount of state income taxes withheld from the employees' paychecks for the wages reported in Box 16.

Overtime Deduction Under OBBBA

For 2025 W2s many employees may inquire about the overtime tax deduction included in the *One Big, Beautiful Bill Act* (OBBBA) earlier this fall. OBBBA allows for an eligible employee to deduct up to \$12,500 (\$25,000 if married, filing a joint return) of the “half” portion of the time and a half overtime pay required under FLSA from their federal income taxes.

For 2025, the IRS issued Notice 2025-62 (issued 11.5.2025), which provides transition relief for employers with respect to mandatory reporting of tips and overtime compensation. IRS Notice 2025-62 provides that employers will not face penalties for failing to provide a separate accounting of any amounts designated as overtime compensation or tips. There are NO changes to the W2, however we should expect to see a change for 2026 taxable year to include new lines for tips and overtime reporting. The IRS does encourage employers to provide employees with separate accounting of overtime or tip compensation if they are able to do so, however it is not required. Beginning in 2026 tax year, employers will be required to report “qualified overtime compensation” on the W2 with new Box 12, code TT.

Employees can locate guidance from the IRS related to the OBBBA deduction for qualified tips and overtime through [Notice 2025-69](#). This Notice can be provided to employees seeking more information on the eligible deduction.

2026 Payroll Updates

Employers should update payroll systems before the first payroll of the year. Key changes include:

- Employees who claim exempt on their W4 must file a new W4 form by February 15.* If not received, the employee federal tax deduction must be set to the default single filing.
- Employees who file exempt on their Arizona A4 Form must file a new A4 form by February 15.* If not received, the employee state tax deduction must be set to the default rate of 2.0%.
- Federal tax withholdings must be updated prior to the first payroll is processed in 2026.
- All non-exempt/hourly employees must be paid at least the state minimum wage of \$15.15 per hour for all hours worked January 1 and later. (Note, City of Tucson minimum wage is \$15.45 and City of Flagstaff minimum wage is \$18.35).
- Social Security wage limit for 2026 will increase to \$184,500.
- The 403b maximum contribution amount will increase to \$24,500 for calendar year 2026. The catch-up contributions for employees aged 50 and older is \$8,000 and the super catch up for employees aged 60-63 has increased to \$11,250.
- The 457b maximum contribution amount will increase to \$24,500 for calendar year 2026. The catch-up contributions for employees aged 50 and older is \$8,000 and the super catch up for employees aged 60-63 has increased to \$11,250.

2026 brings important payroll changes—from new reporting codes to higher contribution limits. Employers should review their payroll software, update forms, and communicate changes to employees early to avoid compliance headaches.

** For all dates noted above, if the due date falls on a weekend, then the due date will be the next business day.*

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