



2026 EMPLOYER COMPLIANCE GUIDE

**What Changed . What To Do . How To Stay Ahead
Built for Small and Mid-Sized Employers**

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AT A GLANCE

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Federal Tax Withholding

Source: IRS Publications 15 & 15-T

What Changed

Two new above-the-line deductions are available for tax years 2025-2028.

Qualified Tips

- Up to \$25,000 per year
- Includes voluntary cash and charged tips
- Excludes mandatory service charges
- Subject to income phase-outs

Qualified Overtime

- Up to \$12,500 (single) or \$25,000 (married filing jointly)
- Applies to the overtime premium portion (not base pay)
- Subject to income phase-outs

Important: These deductions are claimed on the employee's tax return. Payroll withholding does not automatically apply them.

Who This Impacts

- Employers with tipped or hourly overtime employees
- Industries: Hospitality, food service, healthcare, manufacturing, retail, logistics

What To Do

- Confirm your payroll system is updated for 2026 IRS withholding tables
- Educate employees on eligibility and limitations
- Encourage employees to review W-4 elections to avoid over- or under-withholding
- Confirm tip reporting processes properly distinguish tips vs. service charges

Retirement Contribution Limits and SECURE 2.0 Provisions

Source: IRS Notice 2025-67

What Changed

- **The 401(k) contribution limit** increased to \$24,500 for 2026, up from \$23,500 in 2025.
- **Catch-up contributions** for employees aged 50 and older rose to \$8,000
- Those aged 60-63 can contribute an extra \$11,250 under the **“super catch-up” provision**.
- **IRA limits** also increased: \$7,500 for regular contributions, with a \$1,100 catch-up for those over 50.
- Starting in 2026, employees who earned more than \$150,000 in 2025 must make **catch-up contributions as Roth contributions rather than traditional pre-tax contributions**. That’s a significant tax change for high earners who were counting on pre-tax deferrals.
- **SECURE 2.0** also introduced new provisions for student loan matching and emergency savings accounts that many employers haven’t implemented yet. **These aren’t mandatory, but they’re competitive advantages in tight labor markets.**

Who This Impacts

- Employers sponsoring retirement plans
- High-earning employees aged 50+

What To Do

- Confirm your retirement plan supports Roth contributions
- Update payroll routing for high-earning employees aged 50+
- Communicate new limits and Roth rules to all eligible employees
- Verify payroll systems can process higher deferrals

PEO Tip: If your plan documents haven’t been updated and employees haven’t been notified, they’re missing opportunities to maximize tax-advantaged savings. That’s not just a compliance gap. It’s a retention issue.

So here’s a key question: are you treating retirement plan administration as a compliance checkbox, or as a strategic tool for attracting and retaining talent?

ACA Affordability & Penalties

Source: IRS Revenue Procedures 2025-25 & 2025-26

What Changed

The ACA affordability threshold increased to 9.96% for 2026 (up from 9.02%). This applies to Applicable Large Employers (50+ full-time equivalent employees).

Safe Harbor Reference

Safe Harbor	2026 Threshold	Notes
Federal Poverty Line	\$129.89/mo	Contiguous U.S. (AK/HI differ)
Rate of Pay	9.96% of wages	Monthly calculation
Form W-2	9.96% of W-2	Determined after year-end

2026 Penalties

- A Penalty: \$3,340 per employee
- B Penalty: \$5,010 per employee

Filing Deadlines (Most Employers)

- Employee forms due: March 2, 2026
- Electronic IRS filing: March 31, 2026

(Employers filing 10+ forms must file electronically.)

What To Do

- Recalculate employee contributions using the 9.96% threshold
- Select and document your affordability safe harbor
- Prepare for mandatory electronic filing if you have 10+ employees
- Correct prior-year filing errors early

State Minimum Wage Changes

Source: State Labor Departments, Economic Policy Institute

What Changed - Quick Facts

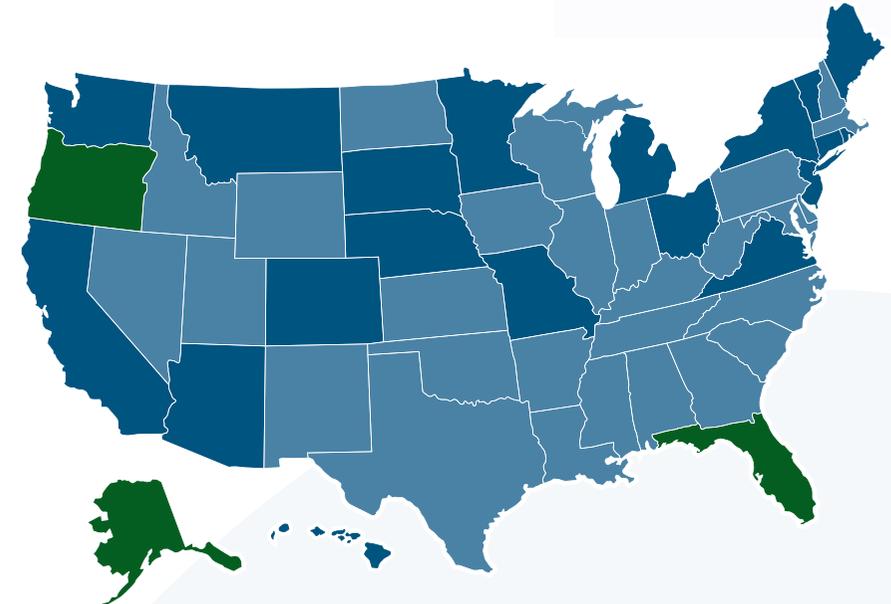
- 22 states increasing minimum wages in 2026
- 19 states effective January 1st. 3 states increase mid-year
- 17 states + DC now at \$15 or higher
- Highest state: Washington (\$17.13)

Who This Impacts

- Employers with operations in multiple states or cities
- Industries: Retail, hospitality, healthcare, food service, logistics, manufacturing

What To Do

- Identify where each employee works and document applicable minimum wage rates
- Update payroll systems with correct rates for all jurisdictions
- Review exempt employee salaries to ensure they meet state thresholds
- Set calendar reminders for mid-year changes (Alaska/Oregon July 1, Florida Sept 30)
- Update and post required labor law notices in all locations



January 1, 2026 Increases

WA	\$17.13	MO	\$15.00
CT	\$16.94	NE	\$15.00
CA	\$16.90	VT	\$14.42
NY	\$16 - \$17	MI	\$13.73
HI	\$16.00	VA	\$12.77
RI	\$16.00	SD	\$11.85
NJ	\$15.92	MN	\$11.41
CO	\$15.16	OH	\$11.00
AZ	\$15.15	MT	\$10.85
ME	\$15.10		

Mid-Year 2026 Increases

AK	\$14.00 (7/1/26)
OR	\$14.05 - \$16.30* (7/1/26)
FL	\$15.00 (9/30/26)

*Note: These are current rates; July 2026 rates TBD based on inflation

PEO Tip: Multi-state compliance is one of the top risk areas for SMBs.



Multi-State Compliance Challenges

Source: GovDocs Compliance Resources, Paycor State Law Guides

The Issue

Operating in multiple states no longer just means dealing with different tax rates and unemployment insurance rules—it means navigating fundamentally different labor law frameworks that often conflict.

Paid Sick Leave Conflicts

Some states mandate accruals. Others require upfront grants. A few allow use-it-or-lose-it policies. Others ban them entirely. If you have employees in five states, you might be managing five different sick leave policies simultaneously.

Pay Transparency Laws

Several states now require salary ranges in job postings. Some apply only to in-state positions. Others extend to remote workers who could theoretically work from that state. Definitions vary, penalties differ, and enforcement is inconsistent.

Predictive Scheduling

A handful of cities require advance notice of schedules, penalties for last-minute changes, and premium pay for split shifts or clopening. If you operate retail or food service locations across multiple jurisdictions, compliance is nearly impossible without specialized scheduling software.

Who This Impacts

- Employers with employees in multiple states or cities
- Companies with remote workforce across state lines
- Multi-location retail, restaurant, and hospitality businesses
- Growing companies expanding into new markets

What To Do

- Map where every employee works and which state/local laws apply to each location
- Implement software that tracks employee locations and automatically applies jurisdiction-specific rules
- Create location-specific employee handbooks (don't use one-size-fits-all policies)
- Monitor regulatory changes in all jurisdictions where you operate
- Document which state's laws apply to remote workers who move or work across state lines

PEO Tip: Employers who manage multi-state compliance well don't try to force one policy everywhere. They build systems that automatically apply the proper rules based on where each employee works. Manual tracking won't scale—automation is essential.

Overtime & Exempt Classification

Source: U.S. Department of Labor Wage and Hour Division, State Labor Departments

The Issue

The Department of Labor's attempts to raise the salary threshold for exempt classification got blocked in court, but that doesn't mean classification rules are simple. Federal law sets a baseline, but states can—and do—impose higher standards.

State Salary Thresholds Rising Automatically

California's rules are notoriously strict. So are New York's. Because salary thresholds in several states are tied to minimum wage, they're rising automatically in 2026 without new legislation.

The audit risk: If you classified someone as exempt based on federal standards but your state requires a higher salary, you've been underpaying overtime for however long that person has worked for you. Back wages, penalties, and legal fees add up fast.

Duties Tests Matter

The FLSA also requires that exempt employees meet specific duties tests. Calling someone a manager doesn't make them exempt. They need to actually manage people, exercise discretion, and perform primarily executive, administrative, or professional duties.

Cost of Misclassification: Misclassification lawsuits are among the most expensive employment claims because they trigger:

- Back pay for every hour of unpaid overtime
- Liquidated damages that double the amount
- Attorneys' fees
- A single misclassified employee over 3 years can cost 6 figures to settle

Who This Impacts

- All employers with salaried employees
- Especially critical in CA, NY, and states with wage-indexed thresholds
- Companies with “managers” who don't actually manage people
- Industries with thin margins where misclassification is common: retail, hospitality, healthcare

What To Do

- Audit all exempt classifications annually—review job duties, not just titles
- Confirm all exempt employee salaries meet both federal AND state thresholds
- Document how each exempt employee meets the duties test (management, discretion, professional)
- When unsure about a classification, err on the side of non-exempt and pay overtime
- Track state-specific threshold increases tied to minimum wage changes

PEO Tip: The safest approach is annual classification audits. The cost of an audit is far less than the cost of one misclassification lawsuit.

2026 Compliance Timeline

NOW

- Verify payroll updates
- Model ACA affordability
- Review retirement plan readiness

JANUARY

- Communicate 2026 changes to employees
- Encourage W-4 updates for tip/overtime deductions
- Review exempt employee salaries against state thresholds
- Adjust minimum wages for states with January 1 increases

FEBRUARY

- Prepare ACA Forms 1095-C for distribution to employees
- Review and correct prior-year ACA filing errors
- Finalize retirement plan document amendments for 2026 limits
- Reconcile Q4 2025 payroll with year-end tax filings

MARCH

- Distribute ACA Forms 1095-C to employees (by March 2)
- File ACA Forms 1094-C and 1095-C electronically with IRS (by March 31)

APRIL

- Complete Q1 payroll tax reconciliation (by April 30)

JULY

- Implement Alaska & Oregon minimum wage increases (July 1)
- Conduct mid-year benefits and compliance check-in
- Complete Q2 payroll tax reconciliation (by July 31)

SEPTEMBER

- Implement Florida minimum wage increase to \$15 (September 30)

OCTOBER:

- Begin benefits open enrollment preparation for 2027
- Review upcoming 2027 compliance changes
- Complete Q3 payroll tax reconciliation (by October 31)

Q4 (OCT-DEC):

- Track ACA measurement period for full-time employee determinations
- Conduct year-end payroll audits
- Plan and budget for 2027 regulatory changes
- Prepare for Q4 payroll tax reconciliation (complete by January 31, 2027)



Need Help Staying Compliant?

Contact INFINITI HR. Our tailored PEO solutions encompass everything from payroll processing and tax administration to benefits management and regulatory compliance, allowing you to focus on what truly matters—running and expanding your business.

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