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Compliance Connection

December 2025
Happy New Year!

Federal Compliance Update

Trump Signs Executive Order to Move Marijuana to Schedule III Drug

On Dec. 18, 2025, President Donald Trump signed an [Executive Order](#) (EO) calling for marijuana to be rescheduled from Schedule I to Schedule III of the Controlled Substances Act (CSA). Schedule III drugs are considered less dangerous and are much less strictly controlled than Schedule I drugs.

Background

Historically, marijuana has been controlled under Schedule I of the CSA. In general, drugs, substances and certain chemicals used to make drugs are classified under five distinct schedules depending on the drug's acceptable medical use or dependency potential. Schedule I drugs are defined as drugs with no currently accepted medical use and a high potential for abuse.

EO Overview

The Trump EO states that, per recommendations from the Department of Health and Human Services (HHS), medical marijuana has a currently accepted medical use. The EO further noted the potential medical benefits from cannabidiol (CBD) and tetrahydrocannabinol (THC) hemp-derived cannabinoid products. In light of this, the EO states the administration's policy to increase medical marijuana and marijuana and CBD research.

To achieve this policy, the EO calls for the U.S. Attorney General to take all necessary steps to complete the rulemaking process related to rescheduling marijuana to Schedule III under the CSA in the most expeditious manner in accordance with federal law. Unlike Schedule I drugs, Schedule III drugs are classified as having a lower potential for abuse than drugs or other substances in Schedules I and II, a currently accepted medical use in treatment in the United States, and a potential for moderate or low physical dependence or high psychological dependence in the event of drug abuse.

The EO also calls for the Deputy Chief of Staff for Legislative, Political, and Public Affairs to work with Congress to update the statutory definition of final hemp-derived cannabinoid products to allow Americans to benefit from access to appropriate full-spectrum CBD products while still restricting the sale of products that pose serious health risks.

Employer Takeaways

The EO does not have an immediate effect on federal marijuana scheduling; rather, it calls for the initiation of the federal rulemaking process. However, if the rescheduling takes effect, it may have implications for employers, particularly those with employees in safety-sensitive roles, such as drivers of commercial vehicles monitor for updates on the rulemaking process and potential effects on workplace operations.

IRS Extends Transition Relief for Some PFML Tax Obligations

The IRS has extended transition relief from enforcement of some paid family and medical leave (PFML) state and employer tax obligations under [Revenue Ruling 2025-4](#).

The extension lasts through calendar year 2026 and applies to the portion of medical leave benefits a state pays to an individual that is attributable to employer contributions.

The extension was contained in [IRS Notice 2026-6](#), published Dec. 19, 2025.

Background: Revenue Ruling 2025-4

Revenue Ruling 2025-4, issued Jan. 15, 2025, addressed the tax treatment of state PFML contributions and benefits. Part of the ruling held that amounts paid to an employee by a state as medical leave benefits attributable to the employer's contribution pursuant to a state's PFML statute:

- Are included in an employee's gross income under IRS Code § 1051;
- Are wages for federal employment tax purposes under §§ 3121(a) and 3306(b); and
- Are third-party payments of sick pay as defined in § 3402(o).

The ruling advised that states and employers must comply with the employment tax and reporting requirements that apply to such payments under § 32.1 and other guidance.

The ruling provided transition relief from enforcement for calendar year 2025.

Extension of Enforcement Relief

States asked the IRS to extend the enforcement relief under Ruling 2025-4 because they needed extra time to comply with the tax and reporting responsibilities in the ruling.

In response, the IRS issued Notice 2026-6, which extends the enforcement relief for one year for third-party sick pay withholding and reporting requirements and employment tax and reporting requirements for medical leave benefits paid to an employee and attributable to employer contributions under a state PFML program.

As a result of the extension, with respect to these benefits, states and employers will not be penalized for failing to file a correct information return or furnish a correct payee statement, nor will they be required to withhold or pay associated taxes. The extension does not apply to "employer pickups," which are any portion of an employee's PFML contribution that an employer pays voluntarily. These voluntary payments must be treated as wages for federal employment tax purposes and reported on the employee's Form W-2.

Employer Takeaway

Notice 2026-6 provides employers with an additional year to comply with some of the tax obligations in Revenue Ruling 2025-4. Employers can take their processes and systems into compliance by 2027.

Federal Mileage Reimbursement Rate for 2026

Starting January 1, 2026, the IRS standard mileage rate will be 72.5 cents per mile driven for business purposes (up from 70 cents in 2025). This rate also applies to electric and hybrid vehicles.

Use of this rate is optional for private employers, though it's widely accepted as an easy and standard reimbursement rate for employees who use their personal vehicle for work. If your organization uses the IRS rate to calculate mileage reimbursement, be sure to update your systems to account for this change.

The 2026 IRS standard mileage rate was [announced](#) on December 29, 2025.

State Compliance Update

FAMLI and Federal Taxes for 2026 – IRS Extension

For Colorado employers in 2026, the IRS has delayed enforcement of new federal tax and reporting obligations for state PFML medical leave benefits, providing breathing room before full requirements take effect — but voluntary employer contributions must still be reported as wages on Form W-2.

IRS Notice 2026-6 — What Colorado Employers Need to Know

The Internal Revenue Service (IRS) announced a one-year extension, through 2026, giving Colorado and other states additional time before new federal FICA and tax reporting requirements for paid medical leave take effect. Full implementation is now expected to begin in 2027.

According to the Colorado FAMLI website [article](#), the extension is formally outlined in IRS Notice 2026-2.

What This Means for Colorado Employers in 2026

For the 2026 calendar year, Colorado's FAMLI program will continue to operate under its current federal tax treatment.

Specifically:

- FAMLI medical leave benefits will not be treated as “third-party sick pay” and will continue to be handled like other state benefits.
- No new employer withholding or federal tax reporting requirements will apply.
- Employer FICA tax responsibilities remain unchanged.
- Employees may continue to elect federal income tax withholding, regardless of benefit type.
- FAMLI will continue to issue Form 1099-G directly to employees for benefits paid.

Color FAMLI Leave for NICU Care (Just a reminder)

Starting January 1, 2026, Colorado's paid family and medical leave insurance program (FAMLI) will allow employees to take an *additional* 12 weeks of leave if their child is receiving inpatient care in a neonatal intensive care unit (NICU). Since employees were already able to take an additional four weeks of leave for a serious health condition related to pregnancy or childbirth, this will raise the maximum amount of FAMLI leave to 28 weeks in a 12-month period should all these circumstances arise.

[SB25-144](#) was signed by the governor on May 30, 2025.

Colorado Creates AI Obligations for Employers

Beginning June 30, 2026, the Colorado Artificial Intelligence Act (CAIA) will require employers to take certain steps to protect applicants and employees in the state from algorithmic discrimination—that is, discrimination by artificial intelligence (AI) systems they use to make employment-related decisions.

The CAIA will apply to employers of all sizes that do business in Colorado and use AI systems that make, or help make, significant employment-related decisions. An example would be an employer that uses an AI applicant tracking software that automatically screens out applicants prior to human review.

As the law is currently written, covered employers will have significant duties, including, but not limited to:

- Implementing an AI risk management policy and program
- Conducting annual AI impact assessments and reassessing within 90 days of certain modifications to the AI system
- Evaluating the AI system at least annually to ensure it isn't causing discrimination
- Notifying applicants and employees about the AI system, including about any adverse decision it made that affects them
- Posting specific notices (public disclosures) about the AI system on their website
- Notifying applicants and employees who interact with the AI system that they are interacting with AI

The law contains certain exceptions, most notably one for employers with 49 or fewer full-time equivalent employees that don't use their own data to train or improve their AI system (if you don't know whether you do this, we recommend checking with the provider of your AI system). These employers don't have to implement a risk management program, conduct impact assessments, or post public disclosures.

However, they're still obligated to exercise reasonable care to protect against risks of algorithmic discrimination.

The governor has urged lawmakers to further improve and fine-tune the law before its effective date, so these requirements may change. We'll continue to track any changes to the law that affect employers and will post another alert if there are significant updates.

[SB 24-205](#) was signed by the governor on May 17, 2024.
[SB 25B-004](#) was signed by governor on August 28, 2025.

Colorado Overtime and Minimum Pay Standards (COMPS) Poster

Just a reminder that employers are required to post the current COMPS poster alongside their other mandatory labor law posters in a conspicuous location, provide a copy to all new employees at the time of hire, and ensure the poster is included in their employee handbook. Failure to post or distribute the updated COMPS notice may result in compliance violations and potential penalties, so employers should review their posting practices and handbook content as soon as possible.

Minimum Wage Changes

Colorado's minimum wage landscape and exemption salary levels changed effective January 1, 2026. The statewide minimum wage increased to \$15.16 per hour (with a tipped employee wage of \$12.14) — and employers must pay the highest applicable rate when local laws require more. Here is a list of other Colorado minimum wages to be aware of:

- City & County of Denver: \$19.29 (tipped \$16.27).
- City of Boulder: \$16.82 (tipped \$13.80).
- Unincorporated Boulder County: \$16.82 (tipped \$13.80).
- City of Edgewater: \$18.17 (tipped \$13.50).

Exempt Wage Threshold Increased

For exempt employees under Colorado's COMPS Order, the minimum salary threshold for executive, administrative, and professional exemptions increased to \$1,111.23 per week (about \$57,784 annually). The minimum hourly threshold for highly technical computer employees is \$34.85 per hour, and the threshold for a highly compensated employee exemption is \$130,014 annually — all of which are higher than prior years and must be met (along with the duties tests) to classify employees as exempt from overtime under state law.

Here is a link to the [COMPS Poster and Notice](#) effective January 1, 2026. Please scroll down to the "Table: Posters & Notices" section for the direct link for the poster published on December 17, 2025.

Compliance Calendar

December

January

Get caught up on year end!

February

2/1 – Deadline to Post OSHA Form 300A

2/2 – Forms W2 and 1099-Misc Distribution Deadline

March

3/2 – Deadline to Distribute Forms 1095-B and 1095-C

3/2 – Deadline to Submit OSHA 300, 300A, and 301 Data

3/2 – Forms 1094-B, 1095-B, 1094-C, and 1095-C Filing Deadline (paper filers)

3/2 – Medicare Part D Creditable Coverage Disclosure Deadline (calendar year plans)

3/31 – Forms 1094-B, 1095-B, 1094-C, and 1095-C Filing Deadline (electronic filers)

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