

SOCIAL SECURITY/MEDICARE/SDI TAXES PAID BY AN EMPLOYER

An employer may pay an employee's share of Social Security/ Medicare (taxes imposed under the Federal Insurance Contributions Act - FICA) and/or State Disability Insurance* (SDI) without deduction from the employee's salary. The payments made by the employer on behalf of the employee may constitute additional wages, depending on the type of employer.

HOUSEHOLD OR AGRICULTURAL EMPLOYER

When a household or agricultural employer pays **Social Security and Medicare (FICA)** without deduction from an employee's wages, the additional amount **is not** considered an increase to the employee's wages when calculating the Unemployment Insurance (UI), Employment Training Tax (ETT), or SDI taxes.

When a household or agricultural employer pays **SDI** without deduction from the employee's wages, the additional amount **is** considered an increase to the employee's wages for payroll tax purposes and **is** subject to UI, ETT, and SDI.

Household and agricultural employers are not required to withhold personal income tax (PIT) from wages. However, the amount the employer paid in **FICA and/or SDI** without deduction from the employee's pay is to be included as part of the employee's wages when reporting PIT wages. These amounts should be included on the W-2 and reported by the employee as taxable income on his or her personal income tax returns.

ALL OTHER EMPLOYERS

When employers other than household or agricultural pay the employee's share of FICA and/or SDI without deducting it from the employee's wages, the employee's wages increase by the amount of FICA and/or SDI paid. The amount the employer paid is subject to UI, ETT, and SDI, is reportable as PIT wages, is subject to PIT withholding, should be included on the W2, and should be reported by the employee as taxable income on his or her personal income tax returns.

DETERMINING TOTAL SUBJECT WAGES (Wages subject to UI, ETT, and SDI)

The following formula is used to calculate the total subject wages:

$$\text{Formula: } \frac{S}{(1 - R)} = W$$

S = Actual amount of salary paid, without deductions
R = Rate of tax or taxes paid
W = The employee's reportable wage

DETERMINING PIT WAGES

Please follow specific example as provided.

RATE TABLE

	2006	2007	2008
SDI ONLY	.0080	.0060	.0080
FICA ONLY	.0765	.0765	.0765
FICA & SDI	.0845	.0825	.0845

NOTE: The percentage rate used in the formula will change whenever the FICA or SDI tax rate changes.

Wage and Tax Statement (Form W-2)

For purposes of the W-2, the state wages should include the increase discussed above based on your calculations. Also, the SDI paid by the employer should be shown on the W-2 as though the SDI amounts were actually withheld from the employee's pay.

Voluntary Plan Disability Insurance

If the employer has an approved voluntary disability insurance plan (VPDI) in lieu of SDI, the amounts paid into the plan by the employer do not constitute additional wages to the employee. The VPDI amount shown on the W-2 should be zero.

The following examples illustrate the possible reporting calculations for employers.

Employer pays both the employee's share of FICA and employee's SDI

Example 1

Household or Agricultural Employers

Salary paid to your employee in the first quarter of 2008 is \$1,000.00. Payments made for FICA for your employees are not included when calculating UI, ETT, and SDI taxes.

*Includes Paid Family Leave (PFL) contributions.

Therefore, to calculate **total subject wages** (wages subject to UI, ETT, and SDI), use the SDI rate (.0060 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000.00 \div (1 - .0080) = \$1,008.06$$

To calculate **PIT wages**, use the factor 1.08518** to complete the calculation:

$$\$1,000.00 \times 1.08518 = \$1,085.18$$

**The factor is the result of using $1 + ([\text{total subject wages} \div \text{actual salary paid}] \times [\text{FICA rate} + \text{SDI rate}])$. The total subject wages rate is the total subject wages divided by the actual salary paid. For the year 2008, the basis of the factor is:

$$1 + (1.00806 \times .0845) = 1.08518$$

^
(.0765 + .0080)

Total subject wages of \$1,008.06 must be reported on the *Quarterly Wage and Withholding Report* (DE 6) or the *Employer of Household Worker(s) Quarterly Report of Wages and Withholdings* (DE 3BHW). PIT wages of \$1,085.18 must be reported on the DE 6 or DE 3BHW and included as wages on the employee's W-2.

Example 2

All Other Employers

Salary paid to your employee in the first quarter of 2008 is \$1,000.00. To calculate **total subject wages** (wages subject to UI, ETT, and SDI) and **PIT wages**, use the rate in the "FICA & SDI" row:

$$\$1,000.00 \div (1 - .0845) = \$1,092.30$$

Total subject wages of \$1,092.30 must be reported on the DE 6. PIT wages of \$1,092.30 are subject to PIT withholding, must be reported on the DE 6, and should be included as wages on the employee's W-2.

Employer pays employee's share of FICA only

Example 3

Household or Agricultural Employers

Salary paid to your employee in the first quarter of 2008 is \$1,000.00. Payments made for FICA for your employees are not included when calculating the UI, ETT, and SDI taxes. Therefore, the **total subject wages** are \$1,000.00.

To calculate **PIT wages**, use the FICA ONLY row in the RATE TABLE:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Example 4

All Other Employers

Salary paid to your employee in the first quarter of 2008 is \$1,000.00. To calculate **total subject wages and PIT**

wages, use the rate in the "FICA Only" row of the RATE TABLE:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Total subject wages of \$1,082.84 must be reported on the DE 6. PIT wages of \$1,082.84 are subject to PIT withholding, must be reported on the DE 6, and should be included as wages on the employee's W-2.

Employer pays the employee's SDI only

Example 5

For All Employers (including Household and Agricultural Employers)

Salary paid to your employee in the first quarter of 2008 is \$1,000.00. To calculate **total subject wages and PIT wages**, use the rate in the "SDI Only" row of the RATE TABLE:

$$\$1,000.00 \div (1 - .0080) = \$1,008.06^{***}$$

Total subject wages of \$1,008.06 must be reported on the DE 6 or DE 3BHW. PIT wages of \$1,008.06 must be reported on the DE 6 or DE 3BHW and included as wages on the employee's W-2.

***For all employers except household and agricultural employers, PIT wages of \$1,008.06 are subject to PIT withholding.

REFERENCES

The California Unemployment Insurance Code (CUIC) governs and defines reportable wages in California. Section 935 of the CUIC excludes from wages, for UI, ETT, and SDI purposes, payments made by household and agricultural employers for the employee's share of FICA. Section 926 of the CUIC governs all other employers when determining wages subject to UI, ETT, and SDI.

Household and agricultural employers are not required to withhold PIT from wages. However, these wages should be reported by the employees as taxable income on their personal income tax returns. Therefore, the employer is required to report the wages as PIT subject wages. Sections 13020, 13009, and 13009.5 of the CUIC govern PIT withholding and reportable PIT wages.

ADDITIONAL INFORMATION

For further information, you may visit your local Employment Tax Office listed in the *California Employer's Guide* (DE 44) or on our Web site at www.edd.ca.gov/payroll_Taxes/contact_Us_About_Payroll_taxes.htm. You may call us toll-free at 1-888-745-3886.

EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 1-888-745-3886 (voice) or TTY 1-800-547-9565.