

SOCIAL SECURITY/MEDICARE/STATE DISABILITY INSURANCE/FEDERAL INCOME 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]), State Disability Insurance* (SDI), and/or federal income taxes 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 *Wage and Tax Statement*, [Form 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. This amount is also reportable as PIT wages, is subject to PIT withholding, should be included on the Form W-2, 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 (total subject wages)

*Includes Paid Family Leave (PFL).

RATE TABLE (R)			
	2015	2016	2017
SDI ONLY	.0090	.0090	.0090
FICA ONLY	.0765	.0765	.0765
FICA & SDI	.0855	.0855	.0855
NOTE: The rate used in the formula will change whenever the FICA and/or SDI tax rate changes.			

Form W-2

For purposes of the Form 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 Form W-2 as though the SDI amounts were actually withheld from the employee's pay.

Voluntary Plan Disability Insurance (VPDI)

If the employer has an approved 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 Form W-2 should be zero.

DETERMINING PIT WAGES

Please follow specific example as provided.

EXAMPLES

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 2017 is \$1,000. Payments made for FICA for your employees are not included when calculating UI, ETT, and SDI taxes.

Therefore, to calculate **total subject wages** (wages subject to UI, ETT, and SDI), use the "SDI ONLY" rate (.0090 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000 \div (1 - .0090) = \$1,009.08$$

To calculate **PIT wages**, use the factor rate of 1.08628** to complete the calculation:

$$\$1,000 \times 1.08628 = \$1,086.28$$

**The factor is the result of $1 + ([\text{total subject wages} \div \text{actual salary paid}] \times \text{FICA \& SDI rate})$. For the year 2017, the basis of the factor is:

$$1 + ([\$1,009.08 \div \$1,000] \times .0855) = 1.08628$$

Total subject wages of \$1,009.08 must be reported on the *Quarterly Contribution Return and Report of Wages (Continuation)*, [DE 9C](#), or the *Employer of Household Worker(s) Quarterly Report of Wages and Withholdings*, [DE 3BHW](#). The PIT wages of \$1,086.28 must be reported on the DE 9C or DE 3BHW and included as wages on the employee's Form W-2.

Example 2 All Other Employers

Salary paid to your employee in the first quarter of 2017 is \$1,000. To calculate **total subject wages** (wages subject to UI, ETT, and SDI) and **PIT wages**, use the "FICA & SDI" rate (.0855 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000 \div (1 - .0855) = \$1,093.49$$

Total subject wages of \$1,093.49 must be reported on the DE 9C. The PIT wages of \$1,093.49 are subject to PIT withholding, must be reported on the DE 9C, and should be included as wages on the employee's Form 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 2017 is \$1,000. 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.

To calculate **PIT wages**, use the factor rate of 1.0765** to complete the calculation:

$$\$1,000 \times 1.0765 = \$1,076.50$$

**The factor is the result of $1 + ([\text{total subject wages} \div \text{actual wages paid}] \times \text{FICA Only rate})$. For the year 2017, the basis of the factor is:

$$1 + ([\$1,000 \div \$1,000] \times .0765) = 1.0765$$

Total subject wages of \$1,000 must be reported on the DE 9C or the DE 3BHW. The PIT wages of \$1,076.50 must be reported on the DE 9C or DE 3BHW and included as wages on the employee's Form W-2.

Example 4 All Other Employers

Salary paid to your employee in the first quarter of 2017 is \$1,000. To calculate **total subject wages and PIT wages**, use the "FICA ONLY" rate (.0765 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000 \div (1 - .0765) = \$1,082.84$$

Total subject wages of \$1,082.84 must be reported on the DE 9C. The PIT wages of \$1,082.84 are subject to PIT withholding, must be reported on the DE 9C, and should be included as wages on the employee's Form 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 2017 is \$1,000. To calculate **total subject wages and PIT wages**, use the "SDI ONLY" rate (.0090 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000 \div (1 - .0090) = \$1,009.08^{***}$$

Total subject wages of \$1,009.08 must be reported on the DE 9C or DE 3BHW. The PIT wages of \$1,009.08 must be reported on the DE 9C or DE 3BHW and included as wages on the employee's Form W-2.

***For all employers except household and agricultural employers, PIT wages of \$1,009.08 are subject to PIT withholding.

FEDERAL INCOME TAX PAID BY AN EMPLOYER

As a result of the changes made to Section 17141.3 of the [Revenue and Taxation Code](#), effective October 1, 2013, Section 13009(q) of the [California Unemployment Insurance Code \(CUIC\)](#) also excludes from gross income, for PIT purposes only, any amounts received by an employee from an employer to compensate for additional federal income taxes the employee incurs on employer-provided benefits because, for federal income tax purposes, the registered domestic partner of the employee is not considered a spouse under Section 105(a) or Section 106(a) of the [Internal Revenue Code](#). This exclusion is effective until January 1, 2019.

However, no changes were made to Division 1, Part 1, of the CUIC. Therefore, the additional federal income taxes paid by the employer on behalf of the employee are considered subject wages for UI, ETT, and SDI purposes.

Example:

Chris and Kelly are registered domestic partners. Chris' employer pays for the cost of health insurance for Kelly. The cost of Kelly's insurance is \$5,000 for the year 2017. Kelly is not Chris' dependent; therefore, the \$5,000 cost of insurance for Kelly is included in Chris' wages and subject to federal income tax, UI, ETT, and SDI. Chris' employer pays **all** federal income tax incurred by Chris for the cost of health insurance for Kelly.

To calculate the **total subject wages** with regards to the employer provided health insurance, assume that the taxpayer is in the 35 percent federal tax bracket and complete the calculation:

$$\$5,000 \div (1 - .3500) = \$7,692.31$$

Total subject wages must include the \$7,692.31 when reported on the DE 9C and included as wages on the employee's Form W-2. The total PIT wages should **not** include the \$7,692.31 as the entire amount is excluded from gross wages for PIT purposes.

Note: For California income tax purposes, a registered domestic partner is considered a spouse and the employer-provided benefits are excluded from gross wages for PIT purposes.

REFERENCES

The 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 13009, 13009.5, and 13020 of the CUIC govern PIT withholding and reportable PIT wages.

ADDITIONAL INFORMATION

For further assistance, please contact the Taxpayer Assistance Center at 888-745-3886 or visit the nearest Employment Tax Office listed in the *California Employer's Guide*, [DE 44](#), and on the Employment Development Department (EDD) website at www.edd.ca.gov/Office_Locator/.

The 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 888-745-3886 (voice) or TTY 800-547-9565.

This information sheet is provided as a public service and is intended to provide nontechnical assistance. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and administrative and court decisions. Any information that is inconsistent with the law, regulations, and administrative and court decisions is not binding on either the Employment Development Department or the taxpayer. Any information provided is not intended to be legal, accounting, tax, investment, or other professional advice.