

CALIFORNIA FLAT TAX FOR BONUS PAYMENTS
Attachment to SR14886
February 28, 2003

OVERVIEW

California legislation (AB2065) was chaptered into law last September which increased the flat tax for bonuses and stock options from 6% to 9.3%. The effective date of this legislation was January 1, 2002, but an additional provision made the change effective in the year after the legislation was chaptered. Therefore, the new effective date is January 1, 2003.

REQUIREMENTS

1. Table Updates

In order to make this change easily updateable, it is suggested that a new value be added to the Description of Service Table (DOS) for the subject grosses. For example, in addition to the current values of:

- + add earnings to gross
- subtract earnings from gross
- S special tax treatment (current, Federal = 27%, State =6%)
- N earnings have no effect on gross

a value of "B" could be used to designate the 9.3% tax on bonus payments for the State gross. Since the Federal rate has not changed at this time, the value of "S" would continue to be used for bonus payments. However, in the event that a different flat-rated tax needs to be added on the federal side, it is suggested that the system be modified to accommodate expansion for an additional federal flat-rated tax as well.

The additional rate of 9.3% (which is subject to change) can be stored on the System Parameters Table as are the other supplemental rates and be accessed in the same manner.

2. Compute

So that the system can properly calculate the correct tax withholding amounts and for audit purposes, it is suggested that programs PPP390 and PPP400 be modified to create new buckets for federal and state grosses when the DOS subject gross contains a value of "B". The process should use the same method of calculating the special tax (9.3%) for bonus payments as for regular supplemental payments (27% & 6%) only pointing to the higher rate for the state gross only.

3. Calculation Rules

If a bonus payment is paid with regular pay, the aggregated earnings should be taxed using the employee's regular withholding allowances as is currently done.

If a bonus payment is paid separately (without regular pay), it must be taxed at the higher rate for state tax withholding.

If a bonus payment is paid together with another type of supplemental payment (no regular pay), then, they each must be taxed at their separate rates (6% and 9.3%).

These new gross buckets for bonus payments need not be maintained after the tax has been calculated. In addition the bonus payment grosses should be added to the Federal Withholding Tax Gross (FWT) or State Withholding Tax Gross (SWT) as appropriate. The same should be done for the tax deduction amounts. It is not necessary to maintain separate year-to-date balances.

4. Rush Checks

The rush check process should also be modified to calculate the new bonus tax rate the same as is done in the regular compute.

5. Types of Payment

The following types of payments are examples of bonus payments: awards such as incentive and performance; incentive payments such as recruitment, retention, and relocation; bonus payments such as signing bonuses and terminal TRIP bonus pay.

A sample DOS table may have the following attributes:

-----SUBJECT GROSSES-----

DESC	FULL DESCRIPTION	TOT	FICA	UCRS	W.C.	U.I.			
SERV			FWT	SWT	PERS				
PTT	TERMINAL TRIP BONUS PAY	+	S	+	B	N	N	+	N
IAP	INCENTIVE AWARD PROGRAM	+	S	+	B	N	N	+	+

6. Online Screens/Reports

No changes to the online screens or reports are required.