

PAYROLL: ACCOUNTING FOR AND TAX REPORTING OF MANDATORY  
DEDUCTIONS AND INSURANCE BENEFIT CONTRIBUTIONS

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DEDUCTIONS AND INSURANCE BENEFIT CONTRIBUTIONS

I. INTRODUCTION

All payroll payments made to employees, including student employees, by the University are subject to consideration for various types of mandatory deductions and/or insurance benefit contributions. Federal and State taxing agencies require reporting of these payments and related tax withholding, if any, on designated forms. This chapter identifies typical payments made to employees, and, for each payment, indicates the appropriate tax code (where applicable), whether such payment is subject to deductions for taxes, deductions for retirement purposes, contributions by the University to insurance carriers and to self-insurance reserves for insurance benefits, whether tax identification is required, and the specific form(s) to be used for tax reporting to the Federal and State tax agencies.

II. PROCEDURES

Separate tables are utilized for wage payments (payroll items) and deceased employee payments. The tables are organized in columns in which, for each payment, an appropriate entry has been made to indicate whether the payment is subject to tax coding; subject to deductions for Federal and State taxes, for the University of California Retirement Plan (UCRP), the Public Employees' Retirement System (PERS), and Old Age, Survivor's, and Disability Insurance (OASDI) and Medicare; subject to contributions by the University for Workers' Compensation Insurance and Unemployment Insurance; whether a tax identification number (social security number) is required; and the appropriate Federal and State tax reporting form(s).

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A. WAGE PAYMENTS (PAYROLL ITEMS)

DESCRIPTION OF PAYMENT	TAX CODE	SUBJECT TO DEDUCTIONS FOR					WORK COMP INSUR	UNEMP INSUR (3)	TAX ID # REQD	REPORTED ON	
		FED TAX	STATE TAX	UCRP (1)	PERS (1)	OASDI /MED (2) (4)				FED FORM	STATE FORM
Basic Wages - Regular Time	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Basic Wages - Regular Time Nonresident Aliens	-	(5) Yes	Yes	Yes	Yes	(4) Yes	Yes	Yes	Yes	(6)	W-2
Basic Wages - 1 1/3 Times Regular Pay Over Eight Hours	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Overtime - Straight Pay	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Overtime - Premium Time	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Shift Differential (7)	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Nurse Specialty Certification Differential	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Charge Nurse Differential	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Holiday Premium Pay	-	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Vacation, Sick Leave, Holiday Pay	-	Yes	Yes	Yes	Yes	(8) Yes	Yes	Yes	Yes	W-2	W-2
Terminal Vacation	-	Yes	Yes	No	No	Yes	Yes	No	Yes	W-2	W-2
Sabbatical Leave Pay	-	Yes	Yes	Yes	Yes	Yes	(9) Yes	Yes	Yes	W-2	W-2
On-Call Time	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Consecutive Day Premium	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Perquisite - Mandatory By Addition (10)	-	No	No	Yes	Yes	No	Yes	Yes	Yes	-	-
Perquisite - Mandatory By Deduction (10)(11)	-	No	No	Yes	Yes	No	Yes	Yes	Yes	-	-
President/Chancellor Housing Perquisite (12)	-	No	No	No	No	No	No	No	No	-	-
* President/Chancellor Housing Payment (12)	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Relocation Incentive Payment	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Salary Differential Housing Allowance	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Administrative Stipend	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Administrative Stipend - Summer Differential	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
By Agreement Payment with Retirement Benefits	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
By Agreement Payment without Retirement Benefits	-	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Damage Payment for Services Prior to Signing Loyalty Oath	(Refer to Accounting Manual chapter <a href="#">D-371-12.1</a> , Disbursements: Accounting for and Tax Reporting of Payments made Through the Vendor System)										

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II. PROCEDURES (Cont.)

A. WAGE PAYMENTS (PAYROLL ITEMS) (Cont.)

DESCRIPTION OF PAYMENT	TAX CODE	SUBJECT TO DEDUCTIONS FOR					WORK COMP INSUR	UNEMP INSUR (3)	TAX ID # REQD	REPORTED ON	
		FED TAX	STATE TAX	UCRP (1)	PERS (1)	OASDI /MED (2)				FED FORM	STATE FORM
Temporary Salary Supplement With Management Title	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Additional Compensation - Consulting	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Additional Compensation - Honorarium, Lecture Stipend	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Additional Compensation - Research	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Additional Compensation - Teaching	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Additional Compensation - Other (UNEX)	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Military Leave - Special Payment	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Incentive Pay, Bonus, Special Performance Award	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Tip Income	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Overseas Premium Pay	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Subsistence Reimbursement for Indefinite Travel Assignments of More Than One Year (13)	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Senior Management Severance Pay Plan	-	Yes	Yes	No	No	Yes	Yes	No	Yes	W-2	W-2
Extended Sick Leave	-	Yes	Yes	Yes	Yes	(8) Yes	Yes	Yes	Yes	W-2	W-2
Maritime Service - Sea Pay	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Reappointment of UCRS Annuitant	-	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	W-2	W-2
Nonqualified Deferred Income Plan Payment (NDIP)	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Senior Management Monthly Automobile Cash Allowance	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Value of Personal Use of a Club Membership	-	Yes	Yes	No	No	Yes	Yes	Yes	Yes	W-2	W-2
Value of Personal Use of University-Leased or Loaned Vehicle	-	No	No	No	No	Yes	No	Yes	Yes	W-2	W-2
Scholarships and Fellowships, Tuition Remission, and other Educational Assistance	Refer to Accounting Manual chapter <a href="#">T-182-77</a> , Taxes: Taxation of Scholarship and Fellowship Grants and Educational Assistance										
Settlement or Severance Payments	Refer to Accounting Manual chapter <a href="#">P-196-76</a> , Payroll: Settlement Payments.										
For Other Disbursements Payments	Refer to Accounting Manual chapter <a href="#">D-371-12.1</a> , Disbursements: Accounting for and Tax Reporting of Payments Made Through the Vendor System.										

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FOOTNOTES, TABLE A., WAGE PAYMENTS (PAYROLL ITEMS)

- (1) Deductions for retirement apply only to those employees who are contributing members of a retirement system.
- (2) Deductions for OASDI and/or Medicare apply only to those employees who meet the eligibility requirements for OASDI and/or Medicare (see Accounting Manual chapter [P-196-30](#), Payroll: OASDI and Medicare Contributions).
- (3) Unemployment insurance benefits are applicable only to those employees covered (see Accounting Manual chapter [P-196-77.5](#), Payroll: Unemployment Insurance).
- (4) Services performed by a nonimmigrant alien on either an F-1, J-1, or M-1 visa are excluded from OASDI and Medicare coverage by Social Security Administration regulations, provided that the services are performed to carry out the purpose for which the alien was admitted to the United States. Earnings paid to an alien employee that are subject to taxes or contributions under the social security system of a foreign country with which the U.S. has a totalization agreement are exempt from OASDI and Medicare taxes, when the exemption is properly substantiated (see Accounting Manual chapter [P-196-30](#), Payroll: OASDI and Medicare Contributions).
- (5) Unless a tax treaty exemption is applicable (see IRS [Publications 519](#) and [901](#)).
- (6) Wages subject to withholding at source are reportable to the IRS on Form W-2. Wages not subject to withholding at source because of a tax treaty exemption are reportable to the IRS on Form 1042S.
- (7) For payments other than regular time, refer to the type of payment for the applicability of deductions and benefits.
- (8) After an employee has been ill for six continuous months, vacation and sick leave payments to such employee are excluded from OASDI and Medicare contributions.
- (9) One-third of pay for sabbatical leave in residence is subject to workers' compensation insurance and is added manually to annual work sheet summaries prepared by the campus accounting offices (see Accounting Manual chapter [P-196-86](#), Payroll: Workers' Compensation Insurance).

II. PROCEDURES (Cont.)

FOOTNOTES, TABLE A., WAGE PAYMENTS (Cont.)

- (10) Mandatory perquisites are meals and/or housing provided to employees when such perquisites are required as a condition of employment and for the convenience of the University. They are not subject to Federal or State income tax deductions or to OASDI/Medicare. However, they are included as covered compensation for retirement purposes, workers' compensation insurance, and unemployment insurance. Mandatory perquisites are treated as "by deduction" if they have already been included in the gross salary range or rate. Mandatory perquisites are treated as "by addition" if they have not been included in the gross salary range or rate.
- (11) The value of a perquisite which is mandatory by deduction reduces gross salary subject to withholding for Federal income tax, State income tax, and OASDI and Medicare taxes; however, it does not reduce covered compensation for retirement purposes, workers' compensation insurance, or unemployment insurance.
- (12) The Regents amended the policy on University-provided housing at their December 10, 1992 meeting to allow for provision of a house or housing allowance for the President and Chancellors. A housing allowance should be provided only when a suitable University house is not available. The amended policy provides for the house value and housing allowance to be phased out as covered compensation for retirement system purposes during 1993 and discontinued as covered compensation for retirement system purposes effective January 1, 1994.
- (13) Subsistence reimbursements made to employees whose indefinite travel assignment requires them to change their residence in order to undertake the assignment, who plan to return at the end of the assignment, and who expect to remain in a single location for *more than one* year, must be treated as taxable income. This rule is effective as of the first day of the employee's assignment.

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B. EMPLOYEE DEATH PAYMENTS

DESCRIPTION OF PAYMENT	TAX CODE	SUBJECT TO DEDUCTIONS FOR					WORK COMP INSUR	UNEMP INSUR (3)	TAX ID # REQD	REPORTED ON	
		FED TAX	STATE TAX	UCRP (1)	PERS (1)	OASDI /MED (2)				FED FORM	STATE FORM
Wages - Available But Not Cashed	-	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	W-2	W-2
Wages - Earned But Not Available	2	No	No	(8) Yes	(8) Yes	(4) Yes	Yes	(4) Yes	(7) Yes	(4)(6) 1099 MISC	(4)(6) 1099 MISC
One Month's Salary Equivalent To Deceased's Spouse, Dependent(s), or Beneficiary	D	No	No	No	No	No	No	No	(7) Yes	1099R	1099R

FOOTNOTES, TABLE B., EMPLOYEE DEATH PAYMENTS

- (1) Deductions for retirement apply only to those employees who are contributing members of a retirement system.
- (2) Deductions for OASDI and/or Medicare apply only to those employees who meet the eligibility requirements for OASDI and/or Medicare (see Accounting Manual chapter [P-196-30](#), Payroll: OASDI and Medicare Contribution).
- (3) Unemployment insurance benefits are applicable only to those employees covered (see Accounting Manual chapter [P-196-77.5](#), Payroll: Unemployment Insurance).
- (4) (a) Payment made to the heir, beneficiary, or estate after the calendar year in which the employee died is not subject to OASDI, Medicare, or unemployment insurance.  
 (b) However, when the payment is made to the heir, beneficiary, or estate before the end of the calendar year in which the employee died, the wages are subject to OASDI/Medicare contributions and unemployment insurance. Thus, the wages are reported as social security wages on the deceased's final Form W-2, even though they are not reported on the W-2 as wages for income tax purposes. The amount reported on the 1099-MISC is not reduced by any OASDI/Medicare withholding, or other required deductions [exception--see footnote (6)], even though only the net amount is actually paid to the heir, beneficiary, or estate.
- (5) For payments other than regular time, refer to the type of payment for the applicability of deductions and benefits.

II. PROCEDURES (Cont.)

FOOTNOTES, TABLE B., EMPLOYEE DEATH PAYMENTS (Cont.)

- (6) The required member contribution to UCRP, PERS, or OCERS (Orange County Employees' Retirement System) is not reported on Form 1099-MISC; it is reported to the retirement system as tax-deferred. The contribution to all other retirement systems is reported on Form 1099-MISC.
- (7) The recipient's social security number (not the deceased's) is required. Exception: When earned-but-not-available wages are paid to the deceased's executor or other person for the benefit of the deceased's estate, the estate's social security number is required; this is often the deceased's social security number.
- (8) Final vacation and overtime compensation are not considered covered compensation for retirement purposes.

III. RESPONSIBILITIES

It is the responsibility of the campus accounting officers to code various payments so that they will be responded to appropriately by all concerned parties, and to advise the Office of the President--Financial Management Office of new types of payments that should be added to this chapter.

IV. REFERENCES

Accounting Manual chapters:

<a href="#">A-115-2</a>	Accounting Codes
<a href="#">D-371-12.1</a>	Disbursements: Accounting for and Tax Reporting of Payments Made Through the Vendor System
<a href="#">E-821</a>	Senior Management Automobile Policy and Procedures
<a href="#">P-196-25</a>	Payroll: Employee Death Payments
<a href="#">P-196-28</a>	Payroll: Federal Taxation of Citizens
<a href="#">P-196-30</a>	Payroll: OASDI and Medicare Contributions
<a href="#">P-196-77</a>	Payroll: State Tax Withholding from Employees
<a href="#">P-196-77.5</a>	Payroll: Unemployment Insurance
<a href="#">P-196-86</a>	Payroll: Workers' Compensation Insurance
<a href="#">T-182-27</a>	Taxes: Federal Taxation of Aliens
<a href="#">U-167-78</a>	UCRS: Tax Withholding from Annuity Payments

Business and Finance [Bulletin G-28](#), Policy and Regulations Governing Travel.

IRS Publication:

<a href="#">519</a>	U.S. Tax Guide For Aliens
<a href="#">901</a>	U.S. Tax Treaties

University of California Academic Personnel Manual

UC Personnel Policies for Staff Members

Historical note: Most the materials in this chapter were formerly published in Business and Finance Bulletin A-1, which has been rescinded and superseded by the publication of several Accounting Manual chapters, including this chapter. Original Accounting Manual chapter first published 5/1/79. Revisions: 3/1/80, 11/1/80, 6/15/81, 6/1/82, 9/1/83, 6/15/85, 4/15/86, 3/15/87, 7/15/88, 8/15/89, 8/17/90, 4/15/91, 12/1/92, 12/30/93, 3/31/94, 6/30/96, 12/30/96, 12/30/97, 6/30/98, 9/30/98, 6/30/99, 3/31/03, 12/31/03, and 3/31/07; analyst--John Barrett.