

STATE OF CALIFORNIA

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Date: May 22, 2000

PAYROLL LETTER # 00-008

To: All Agencies/Campuses in the Uniform State Payroll System

From: Ralph Zentner, Chief
Personnel/Payroll Operations Bureau

Re: DOMESTIC PARTNER BENEFITS

This Payroll Letter provides information regarding Domestic Partner benefits and the tax liabilities associated with the benefits. For details of the benefits, agencies should refer to the Department of Personnel Administration's (DPA) Personnel Management Liaison (PML) memorandum 99-068. Campuses should refer to the Chancellor's Office Technical Letter HR2000-01, HR2000-01 Supplement #1 and Supplement #2. Refer to CalPERS Circular Letter 600-18 for instructions and guidelines for completing the health benefit enrollment forms.

Pursuant to decisions made by the employers, health, dental and vision benefits have been extended to domestic partners of employees. Providing health and dental benefits to a domestic partner is a taxable benefit for the employee based on the actual cost of the benefit unless the domestic partner is a tax dependent for purposes of federal and state taxes. In the near future, the DPA and the Chancellor's Office will release clarification regarding the criteria in which the domestic partner's benefits are nontaxable. Any related coding instruction changes will be covered in a supplemental Payroll Letter. The vision benefit is not a taxable benefit for the employee because the vision premium has a single composite rate and does not result in any additional cost.

In order to compute the tax liability of the domestic partner's benefits, the Controller's Office has established party rate codes A and B, applicable to health and dental benefits. Party rate code A is equivalent to party rate code 2 and represents an employee plus a domestic partner. Party rate code B is equivalent to party rate code 3 and represents an employee, a domestic partner plus one or more dependents. Party rate codes are reflected on the Payment History (HIST) Inquiry, Miscellaneous Deductions screen and on the Payroll Warrant Register.

Taxable income for these benefits is an "imputed value" based on the difference between the one and two party health and dental premiums. The taxable income for the domestic partner benefits will be reported on the employee's Form W-2 and federal and state taxes will be withheld at the flat rate, 28% federal and 6% state. Social Security and Medicare taxes will also be withheld, if applicable.

Taxes will be withheld on a one month lag beginning with the May 2000 pay period warrant. While the value of the benefits will be included in taxable gross wages retroactive from the date

they were established, federal and state taxes will only be withheld starting with the April pay period. However, Social Security and Medicare taxes, if applicable, will be withheld in May for the April pay period as well as any prior pay period liability for January through March. Thereafter applicable federal and state taxes will be withheld on a monthly basis through November of each year. Applicable Social Security and Medicare taxes will be withheld on a monthly basis.

NOTE: Federal and state taxes will not be withheld from the December pay period warrant for the November benefits since the December warrant is income for the following tax year.

Taxable income will be reported as follows:

Example - Employee has Kaiser, party rate code B and Delta Dental, party rate code A.

Kaiser, party rate code 2 premium	\$375.48
Kaiser, party rate code 1 premium	<u>- 187.74</u>
Health Benefit Taxable Income	\$187.74
Delta Dental, party rate code 2 premium	\$ 62.55
Delta Dental, party rate code 1 premium	<u>- 34.54</u>
Dental Benefit Taxable Income	\$ 28.01
Health Benefit Taxable Income	\$187.74
Dental Benefit Taxable Income	<u>+ 28.01</u>
Total Taxable Income	\$215.75

The tax liability will be computed on the total taxable income of \$215.75 as follows:

Federal Tax	$\$215.75 \times 28\%$	\$60.41
State Tax, California	$\$215.75 \times 6\%$	\$12.95
Social Security Tax, if applicable	$\$215.75 \times 6.2\%$	\$13.38
Medicare Tax, if applicable	$\$215.75 \times 1.45\%$	\$ 3.13

NOTE: The appropriate state tax (California, New York or Illinois) will be applied at their flat rates.

The tax liability will be applied to the employee's regular payroll warrant with the taxes listed on the Earnings Statement/Direct Deposit Advice in the Deductions area as ST TAX ADJ, FED TAX ADJ, SS ADJ and/or MEDICR ADJ. If the employee separates or goes on a leave of absence an account receivable will be established for the Social Security and Medicare taxes.

Revisions to the Payroll Procedures Manual are forthcoming.

If you have questions regarding this Payroll Letter, please contact Sandy Westlake at (916) 322-8109 or CALNET 492-8109. Questions regarding document processing should be directed to the Civil Service Benefits Liaison at 323-4718 or CALNET 473-4718 or the CSU Benefits Liaison at 322-8077 or CALNET 492-8077.

RZ: SW/PMAB