

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: December 30, 2008

PAYROLL LETTER #08-018

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

FROM: Don Scheppmann, Chief
Personnel/Payroll Services DivisionRE: **MILITARY LEAVE PAYMENTS**

In 2008, changes were made for military leave payments, Payment Type 7, issued by the State Controller's Office (SCO). Specifically, due to Internal Revenue Service (IRS) Revenue Ruling 69-13, all military leave payments issued in 2008 were not subject to Federal, State, Social Security, Medicare and State Disability Insurance (SDI) taxes. The ruling indicated that military leave payments are not classified as wages and as such, these payments are not subject to payroll taxes. Please see Payroll Letter #07-020, Military Leave Payments, for further information.

CHANGES EFFECTIVE JANUARY 1, 2009

On June 17, 2008, H.R. 6081, the *Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act)* was signed by the President. The Act became Public Law No: 110-245 which amended IRS Ruling 69-13. Specifically, the amendments indicate that military leave payments are now considered wages and as such, these payments will now be subject to Federal, State, Social Security, Medicare and SDI effective with the 2009 tax year.

PRE-TAX DEDUCTIONS

For the tax year 2008, voluntary pre-tax deductions such as 401(k), 457, 403(b), and retirement buy-back deductions were automatically not withheld from military leave payments by the SCO. If the employee chooses to resume these deductions on or after January 1, 2009, he/she must complete a new Military Worksheet.

Further, pre-tax benefit deductions (i.e., health, dental and vision care) were withheld as after tax benefit deductions. Effective January 1, 2009, the SCO will change these deductions to pre-tax benefit deduction codes.

EMPLOYEE NOTIFICATION

Departments and campuses will be responsible for notifying employees currently on military leave about the changes that will go into effect January 1, 2009.

MILITARY LEAVE WORKSHEET/PAYMENTS

The Department of Personnel Administration (DPA) will release a revised Military Leave Work Sheet along with completion instructions. The revised Military Leave Worksheet is to be used beginning January 1, 2009.

The SCO will automatically compute the new adjusted net salary beginning with military leave payments issued on or after January 1, 2009. Employees currently on military leave do not need to submit a new work sheet unless they wish to change their voluntary deduction elections. Revisions to the PPM are forthcoming.

Questions regarding the above tax withholding changes can be directed to Lisa Callaghan at (916) 327-3923. Other military leave questions can be addressed to the appropriate parties listed below.

Contact Information:

DPA	Civil Service Military Leave Policy	PSB@dpa.ca.gov	(916) 323-3343
CSU Chancellor's	CSU Military Leave Policy	Pamela Chapin	(562) 951-4414
SCO Payroll Liaison	Requesting Payments	Dana Lyles	(916) 323-3081

DS:LC:PMAB