

PAYROLL: STATE TAX WITHHOLDING FROM EMPLOYEES

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PAYROLL: STATE TAX WITHHOLDING FROM EMPLOYEES

"Pay the income-tax
And break your heart upon 't"

--Elizabeth Barrett Browning

I. INTRODUCTION

This chapter provides accounting and payroll procedures for administering State income tax withholding from employees. The withholding tax provisions applicable to all resident and nonresident employees are administered by the Employment Development Department (EDD); the California Employer's Guide published by EDD provides more detailed guidance. (See Accounting Manual chapter D-371-77, Disbursements: State Tax Withholding from Nonresident Nonemployees, for guidelines on State income tax withholding from payments made to individuals who are not subject to payroll withholding.)

II. WITHHOLDING FROM EMPLOYEES

Wages paid to California *residents* for services performed both within and outside the State are subject to State income tax withholding. Wages paid to *nonresidents* of California for services performed inside the State are subject to withholding for State income tax; only wages paid to nonresidents of California for services performed outside the State are exempt from withholding. California does not distinguish between U.S. citizens, U.S. residents, and nonresident aliens with respect to State income tax withholding.

A. SUBJECT EMPLOYEES

University Form UC W-4/DE 4, which provides information for determining an employee's tax filing status and the number of allowances to claim for income tax withholding, must be completed by all new employees. This form also is used to request that additional State tax be withheld each pay period or to request additional allowances for estimated deductions. Employees may modify their withholding status at any time during the year by filing a new Form UC W-4/DE 4.

B. EXEMPT EMPLOYEES

In order to claim exemption from State income tax withholding, employees must submit University Form UC W-4/DE 4 certifying that they did not have any Federal tax liability for the preceding year and that they do not anticipate any tax liability for the current taxable year.

Employees who are nonresidents of California and who are performing services outside the State of California must complete and submit University Form UC W-4/DE 4 to claim exempt status. The exempt status claim must be renewed each calendar year by February 15, or the employee's withholding status reverts to "single with no allowances". If an employee expects to have a tax liability the following year, the employee is required by law to file a new Form UC W-4/DE 4 by December 1.

C. WITHHOLDING METHODS

1. General

The Exact Calculation Method for withholding State income tax is used in the Payroll/Personnel System. It is also the most convenient method for calculating State income tax withholding manually. Tables illustrating this method of calculation are provided in the California Employer's Guide.

2. Supplemental Wage Payments

Supplemental wage payments include, but are not limited to, bonuses, special performance awards, commissions, overtime pay, back pay (including retroactive wage increases), honorariums, faculty consulting payments, faculty additional compensation, summer stipends, terminal vacation pay, dismissal pay, reimbursement for nondeductible moving expenses, military leave, and special payments.

When supplemental wages are paid at a different time from regular wages, either of two methods may be used for withholding income tax from such wages:

- (a) the tax is computed on the combined regular and supplemental wages. The computed tax minus the tax withheld from regular wages is the amount of tax to be withheld from supplemental wages; or

II. WITHHOLDING FROM EMPLOYEESC. WITHHOLDING METHODS2. Supplemental Wage Payments (Cont'd.)

(b) the tax is withheld at a flat rate without any allowance for exemptions.

D. ACCOUNTING CODE

Liability account number 115145 is used for recording State income tax withholding.

E. REMITTANCE AND REPORTING OF TAX WITHHELD1. Remittance

University locations are required to submit California income tax withholding payments to EDD by electronic funds transfer (EFT). If, at any time, a location has accumulated \$100,000 or more in Federal employment taxes and more than \$500 in California income tax, the State tax must be deposited by the next banking day. If the liability for Federal employment taxes is under the \$100,000 threshold and more than \$500 in California income tax has been accumulated, the State tax must be deposited according to the semi-weekly deposit schedule. Under this schedule, taxes withheld on payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Taxes withheld on payments made on Saturday, Sunday, Monday and/or Tuesday must be deposited by the following Friday.

2. Quarterly Returns

Wage and withholding information reportable on the Quarterly Wage Report, DE 6, is transmitted to EDD on magnetic tape. The tape contains information, listed by employee, on unemployment insurance covered wages and personal income tax withheld. The magnetic tape is sent directly to EDD by the location's data processing center.

After production of the magnetic tape, several reports summarizing the reportable wage and withholding information are prepared by the data processing centers and provided to each accounting office. The UI Wages and California State Withholding Tax report provides a listing by employee of the unemployment insurance covered

wages and personal income tax withheld, as reported on the magnetic tape. Other reports provide listings by employee of wages and taxes that could not be reported on the magnetic tape because the amounts were negative.

Adjustments to the quarterly DE 6 wage and withholding information reported to EDD are made on the DE 938, Quarterly Adjustment Form, and the Attachment to the DE 938 Form (see Exhibits A and B). The Attachment to the DE 938 Form is completed in lieu of Section III of the Form.

3. Annual Reconciliation Return

All unemployment insurance covered wages paid and personal income tax withheld during the calendar year must be reported on the DE 7, Annual Reconciliation Return (see Exhibit C). The total personal income tax withheld reported on the DE 7 must agree with the totals reported on the W-2 Forms.

4. Reporting Numbers

For reporting purposes, EDD has assigned the following employer identification number to each accounting location:

<u>Location</u>	<u>Regular Number</u>
Berkeley	935-0503-0
Davis	935-0501-4
Irvine	935-0513-9
Los Angeles	935-0510-5
Riverside	935-0511-3
San Diego	935-0505-5
San Francisco	935-0509-7
Santa Barbara	935-0512-1
Santa Cruz	935-0506-3
Lawrence Berkeley National Laboratory (LBNL)	935-0507-1
Lawrence Livermore National Laboratory (LLNL)	935-0508-9
Los Alamos National Laboratory (LANL)	935-0500-6
Associated Students of UCLA (ASUCLA)	935-0502-2
Hastings College of the Law	936-5201-4

II. WITHHOLDING FROM EMPLOYEES

E. REMITTANCE AND REPORTING OF TAX WITHHELD (Cont'd.)

5. Withholding Allowance Reporting

Normally, if an employee claims eleven or more withholding allowances, or claims to be exempt from withholding and usually earns more than \$200 a week, State reporting requirements are satisfied if a copy of the employee's Form UC W-4/DE 4 is submitted to the Internal Revenue Service (IRS). (Refer to Accounting Manual chapter [P-196-28](#), Payroll: Federal Taxation of Citizens.)

The accounting office will comply with the employee's request for eleven or more withholding allowances unless advised to the contrary by the IRS. Any instructions received from the IRS applicable to Federal withholding also are applicable to State tax withholding. The accounting office should advise the employee of the IRS action immediately by sending the employee a copy of the IRS notice.

To contest an IRS determination regarding State withholding allowances, the employee may write to the Franchise Tax Board to request a review. The accounting office will continue to withhold State income taxes in accordance with the IRS determination until notified in writing by the Franchise Tax Board of any changes to the employee's State withholding status.

If the UC W-4/DE 4 is not reportable to the IRS but the employee claims eleven or more State withholding allowances, the accounting office must submit a copy of the form to the EDD with the next quarterly tax return. The withholding allowance certificate should be treated as valid until the accounting office receives written instructions from the Franchise Tax Board.

III. RESPONSIBILITIES

<u>Responsibility</u>	<u>Action</u>
1. Campus Accounting Office	Based on the information provided by employees, establish and maintain on the data base each employee's tax filing status. Prepare quarterly and annual reports, and remit the tax withheld as prescribed.
2. Data Processing Center	Accumulate the data required regarding unemployment insurance covered wages and State income tax withheld for each employee for each calendar quarter. Provide the magnetic tape detail of covered wages and tax withheld; forward the tape to EDD as required.
3. Department/ Hiring Unit	Obtain sufficient information from each new employee to correctly identify the employee's State income tax withholding status.
4. Employee	Submit the appropriate form to the department or accounting office for any State income tax withholding status change(s).

IV. REFERENCES

State of California, California Employer's Guide, published by the Employment Development Department.

Commerce Clearing House, Inc., Payroll Management Guide, Volume 2.

Accounting Manual chapter:

P-196-28 Payroll: Federal Taxation of Citizens.

Historical note: Accounting Manual chapter first published 4/1/70. Revisions: 1/3/72, 6/1/72, 2/1/73, 10/1/74, 11/1/79, 11/1/80, 6/15/81, 7/1/83, 4/30/87, 4/15/91, 6/30/96, and 6/30/04; analyst-Kathy Henmi.

Instructions For Completion of DE 938, Quarterly Adjustment Form

<p>You need to complete this adjustment form if:</p> <ol style="list-style-type: none"> 1. You are adjusting wages and/or Personal Income Tax (PIT) withholdings by individual. <u>or</u> 2. You are reporting additional wages and/or PIT. <u>or</u> 3. You are filing a claim for refund. <u>or</u> 4. You have reported contributions incorrectly and need to adjust them. 	<p>You do not need to complete this adjustment form if:</p> <ol style="list-style-type: none"> 1. You have made an overpayment and can internally adjust the contribution on a subsequent Report of Contribution (DE 88). For example, an overpayment of Personal Income Tax (PIT) is considered as a prepayment of the PIT for the subsequent DE 88. The amount reported and paid on the subsequent DE 88 should be the actual amount of PIT withheld for the period minus the overpayment in PIT. <u>or</u> 2. You have reported contributions incorrectly and can internally adjust the individual contributions on your subsequent DE 88s. 	<p>You should contact your local Employment Tax Customer Service Office (ETCSO) listed in the white pages under California, State of, Employment Development Department, if:</p> <ol style="list-style-type: none"> 1. You are not sure if you should complete this adjustment form. <u>or</u> 2. You need assistance in completing this Quarterly Adjustment Form. <u>or</u> 3. You are reporting back-pay awards.
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I. ADJUSTMENTS TO WAGES AND CONTRIBUTIONS

Lines A through G:

- Column 1 - Enter the amounts previously reported on your return; report or your most recent adjustment form. Complete for affected fields only.
- Column 2 - Enter the amounts that you should have reported on the above return, report or adjustment form.
- Column 3 - Enter the difference between Column 1 and Column 2.

Line I: Penalty: Penalty of ten percent (10%) of Line (H) is due if you are paying additional taxes with this adjustment form.

Line J: Interest: Interest is computed on the total of Line H and Line I. Since the interest rate changes periodically, please contact your nearest Tax Customer Service Office for assistance.

Line K: Erroneous SDI Deductions Not Refunded: Since SDI deductions are employee contribution, EDD cannot refund these contributions to you unless the erroneous deductions have been first refunded to the employees.

Line L: Total: Add Subtotal (Line H), plus Penalty (Line I) and Interest (Line J). Subtract Erroneous SDI Deductions Not Refunded (Line K). If a balance is due, please pay this amount. If a credit is shown, you can either wait for the refund or you can apply the credit to your account. If you want to apply the credit to your account, please indicate in Section II or on a separate statement the amount and the specific fund(s) to which you want us to apply the credit. In order to reduce costs, credits under \$10 will not be refunded unless requested in writing.

Personal Income Tax Overpayments

After you have issued a Form W-2 to an employee, you cannot adjust the amount reported as income tax withheld when you have over-withheld from an employee's wages. EDD cannot allow a credit or refund of any overpayment of income tax withheld from an employee's wages that are reported on Form W-2. The employee will receive credit for any overwithholding when filing their California Resident Income Tax return (Form 540) with the Franchise Tax Board. You should not refund the overwithholding to the employee, change the California PIT withholding amount shown on the Form W-2, or file a claim for refund with EDD.

You may claim a credit or refund of California PIT overwithheld from an employee's wages when the excess amount is credited or refunded to the employee during the same calendar year and the excess amount is not shown on the Form W-2 issued to the employee. If you paid EDD more than the amounts withheld from an employee's wages, and you want a refund, you can adjust the amount reported on this form. Otherwise, you can consider this overpayment of PIT as a prepayment of the PIT for the subsequent deposit. You do not need to complete this adjustment form. The amount indicated on the subsequent payment should be the actual amounts due in the PIT minus the overpayment in PIT. The payment submitted should always equal the stated amounts on deposit. **Do not show a credit on the DE 88.**

If you issued a Form W-2 showing the wrong amount, you must issue a W-2C to the employee and make the necessary changes in Section III on the front of this form or submit the appropriate Quarterly Wage Report (DE 6), with this adjustment form.

II. REASON FOR ADJUSTMENT. This item is used to explain the reason for the adjustment in the above section.

III. EMPLOYEE WAGES / PIT WITHHOLDINGS ADJUSTMENT. Attach additional Quarterly Wage Report (DE 6), if you need additional space. Complete as described in the following examples:

- A. Incorrect wages and/or PIT withholdings reported. Enter Social Security Account (SSA) number, name, and **correct** amount of wages and PIT withholdings.
- B. Wrong SSA number originally reported. This correction requires two entries. First enter the incorrect SSA number, name, **zero (0)** wages, and **zero (0)** PIT withholdings; then enter the **correct** SSA number, name, **correct** amount of wages and PIT withholdings.

IV. SIGNATURE. Please include your phone number so we can contact you if we need additional information. Thank you.

FOR DEPARTMENT USE ONLY				
Examiner	Date	Reviewer	Date	Originating Unit
Examiner	Date	Approval	Date	MIC/ETDO
CD	BN	SN	PMT	OP

*EXHIBIT C



ANNUAL RECONCILIATION STATEMENT



PLEASE TYPE THIS FORM - DO NOT ALTER PREPRINTED INFORMATION

00070104

YEAR ENDED _____ DUE _____ DELINQUENT IF NOT POSTMARKED OR RECEIVED BY _____ YEAR []

EMPLOYER ACCOUNT NO. []

DO NOT ALTER THIS AREA DEPT. USE ONLY P1 P2 C P U S A T EFFECTIVE DATE Mo. Day Yr. [] [] []

FEIN []

ADDITIONAL FEINS [] []

CHECK BOX IF: A. NO WAGES PAID THIS YEAR [] B. OUT OF BUSINESS [] Date

C. TOTAL SUBJECT WAGES PAID THIS CALENDAR YEAR []

D. UNEMPLOYMENT INSURANCE (UI) (Total Employee Wages up to _____ per employee per calendar year) (D1) UI % [] TIMES (D2) UI TAXABLE WAGES [] (D3) UI CONTRIBUTIONS [] 0:00

E. EMPLOYMENT TRAINING TAX (ETT) (E1) ETT % [] TIMES UI Taxable Wages (D2) (E2) ETT CONTRIBUTIONS [] 0:00

F. STATE DISABILITY INSURANCE (SDI) (Total Employee Wages up to \$ _____ per employee per calendar year) (F1) SDI % [] TIMES (F2) SDI TAXABLE WAGES [] (F3) SDI EMPLOYEE CONTRIBUTIONS WITHHELD [] 0:00

G. CALIFORNIA PERSONAL INCOME TAX (PIT) WITHHELD [] PIT WITHHELD PER FORMS W-2 AND/OR 1099R

H. SUBTOTAL (Add Items D3, E2, F3, and G) [] 0:00

I. LESS: CONTRIBUTIONS AND WITHHOLDINGS PAID FOR THE YEAR (DO NOT INCLUDE PENALTY AND INTEREST PAYMENTS) []

J. TOTAL TAXES DUE OR OVERPAID (Item H minus Item I) [] 0:00

If amount due, prepare a Payroll Tax Deposit, DE 88, and mail to P.O. Box 826276, Sacramento, CA 94230-6276. Mailing payments with DE 7 delays payment processing and may result in an erroneous penalty and interest charges. Mandatory EFT filers must remit all SDI/PIT deposits by EFT to avoid Non-Compliance Penalty.

K. Be sure to sign this declaration: I declare that the information herein is true and correct to the best of my knowledge and belief.

Signature _____ Title _____ Phone (____) _____ Date _____ (Owner, Accountant, Preparer, etc.)

SIGN AND MAIL TO: State of California / Employment Development Department / P.O. Box 826286 / Sacramento CA 94230-6286



*EXHIBIT C (Cont'd.)

INSTRUCTIONS AND INFORMATION FOR COMPLETING ANNUAL RECONCILIATION STATEMENT
FOR ASSISTANCE IN COMPLETING THIS FORM, obtaining additional forms or any information, contact
our Employment Tax Customer Service Representative at 1-888-745-3886. For TTY (non verbal) access, call 1-800-547-9565
PLEASE TYPE ALL INFORMATION.

<u>INSTRUCTIONS</u>	<u>THIRD PARTY SICK PAY</u>								
<p>You must file this return even though you had no payroll. If you had no payroll, check the box for item A and complete item K.</p> <p>Verify /enter your Federal Employer Identification Number (FEIN): The number should be the same as your federal account number. If the number is not correct, line it out and enter correct number. If you have more than one FEIN relating to the state number, enter the additional FEINs in spaces indicated.</p> <p>LINE A. No Wages Paid This Year - Check this box if you did not pay subject wages during the calendar year.</p> <p>LINE B. Out of Business (Date) - Check this box if you quit business and this is your final statement. Show the out of business date.</p> <p>NOTE: IF YOU QUIT BUSINESS, YOU MUST FILE THIS FINAL STATEMENT AND THE QUARTERLY WAGE AND WITHHOLDING REPORT AND PAY ANY AMOUNTS DUE WITHIN 10 DAYS OF QUITTING BUSINESS TO AVOID PENALTY AND INTEREST.</p> <p>LINE C. Total Subject Wages - Enter the total subject wages paid to each employee during the year. Generally, most wages are considered "subject" wages.</p> <p>LINE D. Unemployment Insurance (UI) D1. UI Rate - Note: <i>If you had a rate change which was not effective for the entire year, you will need to file a separate Annual Reconciliation Statement for the period of time covered by each rate. For tax rate or benefit charge information, call (916) 653-7795.</i> D2. UI Taxable Wages - Enter total UI taxable wages for the year. DO NOT INCLUDE EXEMPT WAGES. D3. Employer's UI taxes - Multiply D1 by the amount entered in D2 and enter this calculated amount in D3.</p> <p>LINE E. Employment Training Tax (ETT) E1. ETT rate E2. Employment Training Tax - Multiply E1 by the amount entered in D2 and enter this calculated amount in E2.</p> <p>LINE F. State Disability Insurance (SDI) F1. SDI Rate (Includes Paid Family Leave amount) F2. SDI Taxable Wages - Enter the total SDI taxable wages for the year. DO NOT INCLUDE EXEMPT WAGES. F3. Multiply F1 by the amount entered in F2 and enter this calculated amount in F3.</p> <p>LINE G. California Personal Income Tax (PIT) Withheld Enter total California Personal Income Tax withheld, as reported on Forms W-2, and/or 1099-R. NOTE: DO NOT SEND W-2s TO EDD. CAUTION: TO AVOID A POTENTIAL ASSESSMENT, DO NOT ENTER TOTAL WAGES, FEDERAL WITHHOLDING, OR TOTAL PAYMENTS MADE FOR THE YEAR. All magnetic media of 1099-R must be submitted to: Franchise Tax Board ATTN: Magnetic Media Coordination, #599 P.O. Box 942840 Sacramento, CA 94240-6090</p> <p>LINE H. Subtotal - Add items D3, E2, F3, and G, enter in the SUBTOTAL box.</p> <p>LINE I. Taxes and Withholdings paid for the year - Total of all payments of UI, ETT, SDI and PIT paid for this calendar year. NOTE: Do not include any payments made during the year for any prior years, or payments for penalty and interest.</p> <p>LINE J. Total Taxes Due or Overpaid - Item H minus Item I (this should be zero if all payments have been properly paid). If amount is due, prepare a Payroll Tax Deposit coupon (DE 88). The payroll date, payment type, and payment quarter must be completed in order to process your payment coupon correctly. Failure to complete these items may result in your payment being posted to the wrong quarter/year and interest and penalty may be assessed. If taxes are overpaid, a refund will be generated.</p> <p>LINE K. Signature of preparer or responsible individual, including title, phone number, and date.</p>	<p>Third Party Payers of Sick Pay: Include withholdings for Third Party Sick Pay in Item G. Attach a copy of the third party sick pay statement provided to the employer.</p> <p>Employers: Include third party sick pay in lines C, D, and E. DO NOT include third party sick pay withholdings in lines G or H. Attach a copy of third party sick pay statement provided by the payer.</p> <p style="text-align: center;"><u>INFORMATION</u></p> <p>FILING THIS STATEMENT - This statement must report all UI/SDI subject California wages paid and California Personal Income Tax withheld during the calendar year as shown on the Forms W-2 and/or 1099-R. NOTE: DO NOT SEND W-2s TO EDD.</p> <p>PENALTY of \$1,000.00 or five percent (5%) of the taxes required to be reconciled will be imposed for failure to file this statement within 30 days of notice to the employer because of his/her failure to file. Interest accrues from the delinquent date of January 31st of the following year.</p> <p>QUARTERLY PAYMENTS: UI, ETT, and SDI and PIT withholdings are required to be paid at least quarterly throughout the year (SDI and PIT may be paid more often—see below). If you desire to remit these taxes more often you may do so by sending your payment with a Payroll Tax Deposit coupon (DE 88).</p> <p>NEXT BANKING DAY/SEMI-WEEKLY/MONTHLY DEPOSITS: Deposits of withheld employee SDI taxes and PIT may be required throughout the year, depending upon the amount of PIT withheld and federal deposit requirements. Penalty and interest will be charged on late deposits.</p> <p>If business was discontinued or if a change in ownership occurred during the period covered by this Annual Reconciliation Statement, each ownership must file a separate statement covering only that part of the year during which the particular ownership operated.</p> <p>TAXABLE WAGE LIMITS AND EXEMPT WAGES—Individual employee wages are taxable to specific limits per calendar year (UI/ETT is \$7,000 and SDI see box). Wages for each employee in excess of \$7,000 are exempt from the UI tax and ETT.</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">SDI Maximum Wage Limit</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2003</td> <td style="text-align: center;">\$56,916.00</td> </tr> <tr> <td style="text-align: center;">2004</td> <td style="text-align: center;">\$68,829.00</td> </tr> <tr> <td style="text-align: center;">2005</td> <td style="text-align: center;">\$79,418.00</td> </tr> </tbody> </table> <p>If an active business was taken over and continued, wages paid by the former ownership shall be counted toward the UI, ETT, and SDI taxable limits by the new ownership. Otherwise, wages paid by other employers are not to be counted toward the taxable limits.</p> <p>If an employer paid wages to the same employee for work in another state and reported the wages to the other state for UI purposes, the out-of-state wages shall also be counted toward the UI taxable limits. These wages are NOT used in computing the taxable limit for SDI.</p> <p>Employers who would like to participate in Electronic Funds Transfer (EFT) filing, contact EDD's EFT Unit at (916) 654-9130.</p> <p>FOR MORE INFORMATION ABOUT COMPLETING THIS FORM, PLEASE REFER TO THE CALIFORNIA EMPLOYER'S GUIDE (DE 44) OR CONTACT AN EMPLOYMENT TAX CUSTOMER SERVICE REPRESENTATIVE AT THE NUMBER ABOVE.</p>	SDI Maximum Wage Limit		2003	\$56,916.00	2004	\$68,829.00	2005	\$79,418.00
SDI Maximum Wage Limit									
2003	\$56,916.00								
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