Commonwealth of Massachusetts

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# Tax Administration: Taxable Pay Period Adjustments

## Executive Summary

Employees who receive regular wages equal to or greater than 4 weeks during one pay period may be eligible to have their taxable pay periods adjusted in order to accurately withhold the taxes for that pay period. This may happen if an employee was erroneously not paid for the prior pay period or, in the case of higher education adjunct faculty, the pay is scheduled for more than one pay period.

## Considerations

This policy applies to all Commonwealth Branches and Departments.

## Policy

### Clarification of Wages that May Be Eligible for Taxable Pay Period Adjustment

Wages that are eligible for adjustment are those which are taxed at an annualized rate and only for instances where the employee is receiving ordinary wages for more than one pay period. For example, if you are posting 4 weeks of regular pay to an employee in one pay period, (i.e. the employee was not paid through the system for the prior pay period), the number of taxable pay periods may changed from the default of 1 to 2. The tax would then be calculated based on 2 pay periods, which equals 4 weeks.

### Earnings Codes Not Eligible for Taxable Pay Period Adjustment

When employees receive payments that are not part of their ordinary wages, there is a special rule that is applied to withhold federal income tax from those payments. Such payments are known as “supplemental wages” and may be paid at the same time as regular wages are paid.

Some examples that are subject to supplemental tax are:

- Overtime
- Bonuses, prizes and awards
- Back pay awards
- Retroactive pay
- Payments for unused annual leave (i.e. sick and vacation payouts)
- Settlements/Judgments
- Area differential premium
- Cruise Stipend
- Detail pay overtime
- Education percent OTP
- Parole officer supplemental pay
- Recall pay premium
- Snow and ice OTP

Earnings codes that represent these types of wages will always be taxed at a supplemental rate. If your intent is to pay ordinary wages for more than a biweekly pay period (2 weeks), you must post to an earnings code that is not supplementally taxed in order to be eligible for a taxable pay period adjustment. Refer to Comptroller Memo FY2002-15.

According to the IRS-Circular E, Publication 15/Rev.1/00, under the subtitle “Supplemental Wages”, “supplemental wages are compensation paid in addition to the employee's regular wages. They include, but are not limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay and retroactive pay increases for current employees, and payments for nondeductible moving expense; as well as taxable fringe benefits.” Please refer to the IRS Circular E for more detailed information.

**Additional Withholding Tax Considerations**

Employees who are requesting a taxable pay period adjustment and have federal or state additional withholding taxes in HR/CMS need to be aware that the HR/CMS system applies the additional withholding amounts against the number of pay periods entered. This means that if you adjust the number of taxable pay periods to 4, the system will apply any additional tax withholding amount 4 times, which can result in a large tax deduction. The workaround for this issue is to temporarily stop the additional withholding amount from processing for the same pay period the taxable pay period adjustment is being done in, and then reinstating the tax for the next pay period.

**Taxable Pay Period Adjustments:**

- Are administered by the Department;
- Are available to employees who receive wages equal to or greater than 4 weeks in one pay period; and
- Are not available for earnings that are taxed supplementally.

Departments are responsible for ensuring that the gross pay of the employee(s) meets the requirement of being more than their regular biweekly pay by the number of pay periods requested. For example, if the employee's gross pay (less any supplemental wages) is 6 times their regular biweekly pay, they would be eligible for a taxable pay period adjustment of 6.

Departments should also segregate the duties associated with applying taxable pay period adjustments in HR/CMS. One person should be assigned to review and approve the request and another person should be assigned to data enter the adjustment. Security to the taxable pay period adjustment panel will be available upon request to the departmental Payroll Director or payroll personnel authorized by the Payroll Director.

## Internal Controls

### Information Sources

- Related Procedure – None
- Legal Authority
    - IRS Publication 15, "Circular E Employer's Tax Guide"
    - Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8
- Attachments - None
- Links - None
- Contacts – CTR Help Desk

- **November 1, 2006** – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.