



# Commonwealth of Massachusetts

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To: Chief Fiscal Officers  
From: Thomas G. Shack III, Comptroller  
Date: February 22, 2017  
Subject: FY2018 Proposed Fringe Benefit and Payroll Tax Rates

Comptroller Memo FY#2018-01

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### Executive Summary

Under [M.G.L. c. 29, s. 5D](#) and [M.G.L. c. 29, s. 6B](#) the Comptroller is required to recover fringe benefits for non-budgetary funds. In addition, the Comptroller is also required to recover employer payroll taxes for Unemployment Insurance, Universal Health Insurance and Medicare Tax. The rates for indirect costs and fringe benefits are set by the Secretary of Administration and Finance. Pursuant to [Administrative Bulletin No. 5](#) (A&F5), entitled "[Fringe Benefits, Payroll Taxes and Indirect Costs](#)" the Secretary has designated the negotiation and setting of these rates to the Comptroller. The purpose of this memo is to advise departments of the **proposed** fringe benefit and payroll tax rates for FY2018.

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#### Fringe Benefit Rate:

The FY2018 fringe benefit rate proposal has been calculated at 34.88% for general employees and 40.68% for uniformed employees of regular compensation (salaries expended under object codes A01, A07, A09 and AA1).

The methodology used to calculate the fringe benefit rate is based on the actual cost to the Commonwealth of providing health insurance and pension benefits, as well as sick leave and vacation buyback (terminal leave), and is designed to recover those costs from all federal grants and other non-budgetary accounts.

#### Employer Payroll Tax Rate

Additionally, the FY2018 employer payroll tax rate has been calculated at 1.45% of gross compensation for regular and contractual employees (salaries expended under AA and CC object codes), based upon the employer share of Unemployment insurance, Universal Health and Medicare tax insurance rates.

#### Rate Approval and Effective Date

These fringe and payroll tax rate proposals have been submitted to the U.S. Department of Health and Human Services (U.S. HHS) for approval. Although there is no guarantee that the Federal review agency will approve the rates as proposed, the calculation of these rates is consistent with the federally approved methodology used in prior years, and deferral of recoveries is allowable under federal procedures.

The fringe benefit rate will be assessed on all federal grant and other non-budgetary accounts. The payroll tax rate will assess Unemployment, Universal Health and the employer's share of the Medicare insurance to all

budgetary and non-budgetary accounts incurring AA and CC salaries. Both rates will take effect beginning with Period 01, BFY2018 (July, 2017). These proposed rates have been considered as part of the House 2 submission.

We will notify you of any adjustments due to legislative activity and once final approval is received from the Federal government.

Questions regarding this memo may be directed to Michael Rodino at (617) 973-2304.

*Attachment*

cc: MMARS Liaisons  
Payroll Directors  
General Counsels  
Internal Distribution