



Commonwealth of Massachusetts

OFFICE OF THE COMPTROLLER

ONE ASHBURTON PLACE, 9TH FLOOR
BOSTON, MASSACHUSETTS 02108
TELEPHONE (617) 727-5000
WWW.MACOMPTROLLER.ORG

THOMAS G. SHACK III, ESQ.
COMPTROLLER

MEMORANDUM

To: Chief Fiscal Officers, MMARS Liaisons, and Payroll Directors
From: Jeffrey S. Shapiro, First Deputy Comptroller
Date: February 2, 2018
Re: Tax and Payroll Updates for 2018

Comptroller Memo FY2018-18

Executive Summary

HR/CMS must be updated to comply with a number of IRS and DOR requirements regarding employer responsibilities for tax year 2018. This memo highlights the requirements and the necessary department actions to be compliant, including recent changes in state and federal taxation.

Federal Tax Law Changes are included to the extent the IRS has published such guidance

Tax brackets and supplemental wage rate are included in this memo. As changes are published, CTR will update these items with revisions of this tax memo.

Please Note: The new 2018 tax brackets are installed and will be reflected in the paycheck of February 9th and after. Most employees will see a reduction of Federal Taxes.

26 Pay Periods in 2018

There will be 26 pay periods processed in Tax Year 2018 beginning with pay period ending 1/6/2018 and concluding with the pay period ending 12/22/2018.

- There are no system changes made to Deduction Processing, the existing deduction amounts will continue.

Federal/Medicare and MA State Withholdings

- The Federal Supplemental Rate changes to 22% (decreased from 25%), Medicare at 1.45% and Additional Medicare rate at 9% remain the same.
- The MA state tax withholding rate remains the same at 5.1%. See Annual Change Matrix for details.

Massachusetts Minimum Wage

The 2018 Massachusetts Minimum Wage is currently \$11 dollars an hour. Departments should review MPAY018 Report available on Document Direct.

Standard Mileage Rates

The 2018 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes is 54.5¢ per mile (increase). Any mileage reimbursements greater than 54.5¢ will need to be taxable.

Same Sex Marriage

For federal tax purposes, marriages of couples of the same sex are treated the same as marriages of couples of the opposite sex. The term "spouse" includes an individual married to a person of the same sex. However, individuals who have entered into a registered domestic partnership, civil union, or other similar relationship that is not considered a marriage under state law are not considered married for federal tax purposes. For more information, see IRS Publication 15 <http://www.irs.gov/pub/irs-pdf/p15.pdf>.

Social Security

(Where applicable) The social security tax rate for 2018 is unchanged at 6.2%, the wage limit is \$128,400 (increase).

State Retirement Cap

The definition of "regular wages" in M.G.L. c. 32 caps retirement deductions for new employees becoming members in the Retirement Systems to 64% of the 26 U.S.C. 401(a)(17) amount including, but not limited to, the applicable limits for any calendar year under 26 U.S.C. 401(a)(17).

The 2018 Salary Limit is \$176,000 (64% of \$275,000) for anyone that became a member on or after January 1st, 2011.

Savings Plans (Deferred Compensation)

The Standard and Catch-Up Limits for 457 and 403B plans have increased, Normal - \$18,500; 3 Year Catchup (457 only) - \$18,500; whereas the Over 50 limit remains unchanged- \$6,000.

Reminders:

- (3 year Catch-up) When an employee elects the 3 year catch-up, they will only appear on the monthly deferral report once. There will be no further reporting unless there is another change submitted through the Plan Provider. Therefore, any future years need to be created upon the initial notification.
- (Over 50) The Commonwealth will have an automatic update for employees who are 50 years old or turning 50 within the calendar year, this update will automatically insert a row "Age 50-Extend Limit (B)" into the Savings Management page.

Health Care Spending/Dependent Care and COMECC (change)

ASIFLEX is the Plan Administrator for the Group Insurance Commission HCSA/DCAP benefits. As a reminder, in 2017 this program moved its renewal period to coincide with GIC's other benefits to be on a Fiscal Year basis.

The 2018 HCSA Limit has increased, the Fee and DCAP are unchanged: DCAP - \$5,000; HCSA - \$2,650 (minimum \$250); the administrative fee (HCSAF) - \$2.50 month.

Departments should familiarize themselves with the HCSA/DCAP/IRS 2 ½ month grace period when considering 2018 goal amounts at <https://www.mass.gov/flexible-spending-account-pretax-benefits>

For more information about the HCSA/DCAP pre-tax programs, contact Application Software, Inc. (ASIFlex) at 1.800.659.3035 or visit the GIC website. All other questions on this memo should be directed to the Comptroller's Helpline at 617-973-2468.

New Hires

Every newly hired employee must complete Form I-9 and Form W-4. Both the employer and the employee are responsible for completing the Form I-9.

- [Form I-9](http://www.uscis.gov/i-9) can be found here <http://www.uscis.gov/i-9> (valid thru 8/31/2019)
- Form W-4* (2017) can be found here <http://www.irs.gov/pub/irs-pdf/fw4.pdf>.

*IRS is expected to release a new W-4 Form for 2018

Social Security Verification

Over the course of the year, data on/about new hires has been submitted to the Social Security Administration for verification. CTR staff contacted individual departments to resolve any discrepancies. These discrepancies must be resolved to ensure that new hires receive future benefits.

Correcting SSNs/ Duplicate Employee IDs

Requests to correct W-2s or to combine Employee balances, as a result of entering a bad SSN, go to the CTR Payroll Team. CTR Payroll may request that the Department CFO review the issue to identify and correct any Internal Control weaknesses.

W-4 Filing (Employees must file a Form W-4 Annually to Continue "Exempt" Status)

If an employee wishes to claim EXEMPT from withholding taxes, (s)he must indicate this by filing a new Form W-4 by February 15, 2018. If the employee fails to submit a new Form W-4, the employer must withhold based on the last 'nonexempt' W-4 statement on file, if none exists then withhold as "Single" with "0" (zero) allowances. See IRS Publication 15 for more details.

Reminders:

- Departments must notify exempt employees to resubmit a new W-4 Form. **Note:** Please use the 2017 W-4 form for this purpose, striking out the 7 and adding an 8 (i.e. 20178). 2018 W-4 forms are not expected to be issued by the IRS before the end of February.
- In addition, exempt employees with a valid (my system profile) email address will receive a system generated reminder to resubmit online using ePay.
- All employees can update their W-4 online using E-pay.
- Report HTAX103 identifies exempt employees who must file a new W-4. See the new Job Aid for HTAX103 on the Knowledge Center <http://www.hrcms.state.ma.us/>.
- Departments should review report HMTAX015- Employee Withholding Allowance Certificate and keep updated W-4 copies in the employee's personnel folder.
- Departments do not need to send W-4 forms claiming "Exempt" status to the IRS.

- If a paper W-4 is submitted with “Exempt” status, DO NOT use “Single” and greater than 10 allowances as the exempt set-up in HR/CMS. DO USE the “Maintain Gross” radial button with no “Additional Withholdings” on both Federal and State Tax Data panels.

New W-4 Form

The IRS plans on issuing a New Form W-4 to address the recent Tax Changes, but has yet to do so.

More information on Form W-4: <http://www.irs.gov/>.

IRS Lock-in Letter

The IRS uses information reported on Form W-2 to identify employees with withholding compliance problems. In some cases, if a serious under-withholding problem is found, the IRS may issue a lock-in letter to the employer specifying the maximum number of withholding allowances and marital status permitted. Departments must furnish the employee copy to the employee within 10 business days of receipt and begin withholding based on date specified in the notice.

New W-4 submissions are only accepted if the new Form W-4 withholds more than the IRS Notice. See Publication 15 for more details at <http://www.irs.gov/pub/irs-pdf/p15.pdf> .

Federal Tax Levy Exemption Tables

The IRS issues Publication 1494 regarding the “personal exemption” amounts to be used for calculating levies. Where applicable, HR/CMS will be updated with 2018 tables. Levies from prior years do not need to be updated unless the employee submits a new Form 668-W. Deductions will continue based on the original year’s exemption tables and rates.

Qualified Transportation and Parking Benefits (change)

Qualified Transportation Benefit Plan (QTBP) allows employees the choice to direct a portion of their salary into reimbursement accounts to pay for certain work-related parking and/or mass transit expenses on a pre-tax, salary reduction basis. The Pre-tax amounts are:

- Federal – \$260 for both Transit and Parking
- Massachusetts – \$135 for Transit and \$260 for Parking

Benefit Strategies is the vendor administering the Transportation benefits. The HR/CMS deductions QTPARK and QTTRAN are set-up as pre-tax for both Federal and Massachusetts withholdings up to the limit. If the expenses exceed the maximum, the remainder will be included in a post-tax account and appear on the employee’s paycheck as TRANST for state taxes and TRANFD for federal taxes.

Departments must ensure transit deductions are set-up correctly in HR/CMS. Transit Pass Deductions are taken during the first pay period end date one month in advance. In HR/CMS the Parking benefit is taken during the second pay period end date one month in advance.

There are job aids for managing these deductions in HR/CMS. These job aids are available at [HR/CMS Payroll Job Aids](#) under the section “Qualified Transportation Benefits”.

Employer Provided Qualified Parking Benefits (Change)

Pursuant to the Internal Revenue Code Section 132(f), IRS Publication 15-B, and Department of Revenue Technical Information Releases (TIR) 05-16 Section IV. A., employers who provide employees with free parking valued in excess of the federal and state exclusion amounts are required to add any excess value to the employee's gross income for tax reporting and withholding purposes.

The Federal and MA exclusion amount for tax year 2018 has increased to \$260 per month.

Fair Market Value of Parking at State Facilities (Change)

This includes parking at the State House, McCormack, Hurley/Lindemann Garages and the Outside Guaranteed Reserved Spaces at the State House.

The Division of Capital Asset Management and Maintenance (DCP) conducted the annual survey of Government Center parking rates. DCP has determined that the fair market value has increased to \$421 per month for qualified parking for these locations. Public parking garages in the immediate vicinity were identified and a comparable lot was selected based on the most reasonable rates.

- The fair market value of \$421 per month exceeds the new \$260 federal and state exclusion thresholds by \$161.
- Payroll directors must apply the imputed value of \$161 per month for all assigned parking to employees in these facilities.

Other Parking Places

If your Department provides some employees with free employer-provided parking that is not listed above, you are required to determine the monthly fair market value of this non-cash parking benefit each year. IRS guidance requires that the fair market value be determined based on either:

- If the parking is available to the public, the monthly rate is the rate that the general public pays for the same parking, not the lower group or corporate rate that your Department actually pays for the spaces or:
- If the parking is not available to the public, the Department must survey the rates at local parking facilities that are both comparable and in the same vicinity as the Department's site. The Department sets a monthly value based on the monthly rate for parking at a comparable lot (not any lower amount that your Department actually pays for the spaces).

Departments that provide free parking in facilities other than the McCormack, State House, Hurley/Lindemann Building and Merrimac Street lots should re-determine the fair market value of this parking fringe benefit for tax year 2018. Please refer to IRS Publication 15B, "Employers Tax Guide To Fringe Benefits", for additional guidance on non-cash fringe benefits and use the exclusion amounts outlined in this memo (Federal/State \$260).

Periodically, the Office of the Comptroller will review the status of employee records as they relate to benefit and tax requirements as well as the department evaluations of parking values assigned.

Tax Reporting Requirements Based upon “Access”, Not Employee “Use” of Parking

With the limited exception of the few state employees who are assigned “non-personal use vehicles”, there are no exemptions from the tax reporting and withholding requirements for employer-provided parking (even if the parking is required to perform their jobs). The value of a parking fringe benefit is determined by the parking “access” not by the actual “use” of the parking space by an employee. The value of the parking benefit is the same whether an employee is assigned a reserved parking space or granted guaranteed access to unassigned spaces.

Commonwealth-Provided Parking That Does Not Require Tax Reporting

The following types of Commonwealth-provided parking have been determined not to trigger the state and federal tax reporting requirements:

- Employee parking assignments at the Boston Merrimac Street parking lot (fair market value is \$220 which is less than the limit);
- Employees provided with passes for non-guaranteed or non-reserved on street or off street parking(e.g., “L Pass” spaces);

Employees provided with limited access parking so long as the total daily space value for parking access for that employee does not exceed the \$260 (federal and state) threshold per month for days granted access. The employee must **not** be able to park on any other days.

Examples include:

- Restricted night time access between 5 p.m. and 7 a.m.
- Parking space shared by multiple employees, each with restricted access with a monthly value which does not exceed federal or state thresholds;
- Visitor parking access.

Entering a Recurring Parking Non-Cash Benefit in HR/CMS

The HR/CMS earnings code for imputed parking benefits is PKF. Departments should follow the Job Aid regarding the parking non-cash benefit in the [HR/CMS Knowledge Center](#) under the heading “General Deductions”. This benefit is processed one month in arrears. In HR/CMS, the January benefit is not processed until the February payroll.

- February 3, 2018 is the first pay period end date in February 2018.

See Attachment A-[Employee Non-Cash Parking Benefit](#) for a copy of the employee non-cash parking benefits HR/CMS Selection form.

If you have any questions, please contact the Comptroller’s Payroll Office or Tax Clearinghouse at (617) 727-5000.

Enc: [Attachment A-Employee Non-Cash Parking Benefit](#)
[Annual Changes Matrix](#)

cc: General Counsels
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