

# PAYROLL TAXES

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Prepared by JFO and LC – April 4, 2017

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# Federal Payroll Taxes

FICA (Federal Insurance Contributions Act)

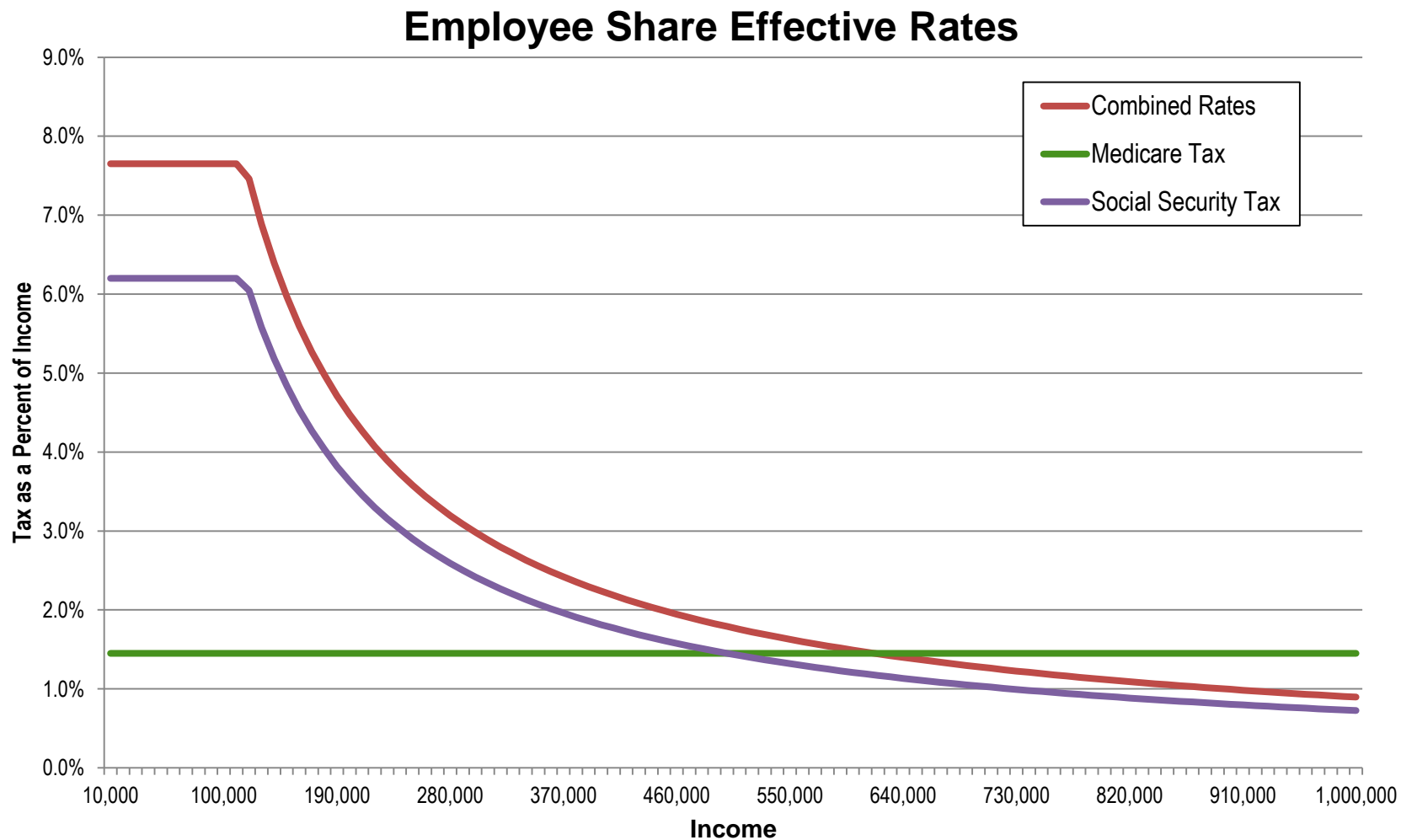
**Social Security** (OASI: Old Age, Survivors & Disability Insurance)

- 6.2% Employer share
- 6.2% Employee share
- Capped at \$127,200 (2017) Maximum contribution from each \$7,886

**Medicare**

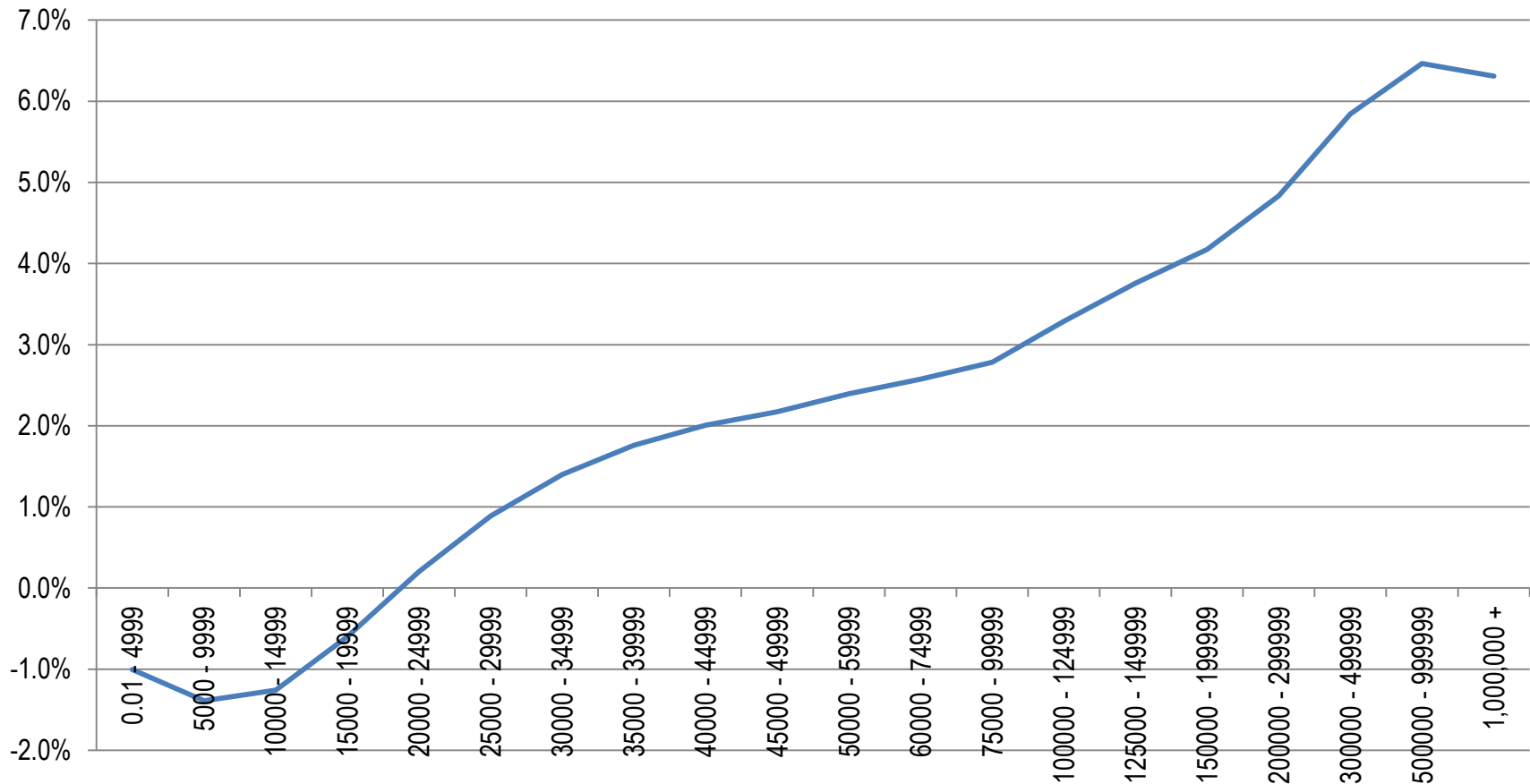
- 1.45% Employer share
  - 1.45% Employee share
  - All wages
- 
- Total = 15.3%

# Effective Rate of Federal Payroll Taxes



# 2015 Vermont Resident Income Tax

Effective Rate (Tax/AGI)



# Employment Exemptions

- temporary foreign agricultural workers
- child under age 18 working for his/her parents
- on a foreign ship/aircraft outside the US by non-US citizens for a non-US employer
- students who are enrolled for the school if not “career employees” (excludes Medical Residents)
- work for a foreign government or an international organization
- student nurses
- resident Aliens or Nonresident Aliens under F,J,M or Q visa
- small fishing boat crews (<10) that receive a share of the catch and less than \$100 cash compensation
- domestic service by someone under age 18 if not principal occupation

# Self Employed

## Schedule SE – Self Employment Tax

- 15.3% multiplier is applied to 92.35% of the business's net earnings from self-employment. (The difference – 7.65% - is half of the 15.3% and makes the calculation fair in comparison to that of regular employees.)

# Other State-Level Payroll Taxes

- Oregon Transit District Tax
- State Disability Insurance Law Contributions
  - California
  - New Jersey
  - New York
  - Rhode Island

# Oregon Transit District Tax: Overview

- ORS 267.385 authorizes a “mass transit district” to impose a payroll tax on employers and self-employed individuals.
- Amount of tax is limited:
  - For Employers: .08% of wages paid.
  - For Individuals: .08% of the individual’s net earnings from self-employment.
- The Tri-County Metropolitan Transportation District (TriMet) and the Lane County Mass Transit District (LTD) are the two districts that currently impose the tax, which is administered by the Oregon Department of Revenue.



## Oregon Transit District Tax: Definitions

- The payroll tax is imposed on any “employer” for wages paid to any “individual”, and on any “individual” with net earnings from self-employment.
- Definitions of “employer” and “individual” do not reference residency.
- Definition of “wages”, however, does not include remuneration paid to *individuals performing services outside the district*.

## Oregon Transit District Tax: Cross-Border Application

Payroll tax imposed on employers for all individuals earning wages within the mass transit district:

- In-state employers must pay taxes on wages for resident and non-resident employees for services performed within the district.
- Out-of-state employers must pay taxes on wages earned by individuals within the district.

# State Disability Insurance Laws: Overview

- Six states have statutorily required employers to provide disability benefits coverage to employees for an off-the job injury or illness.
  - CA, HI, NJ, NY, Puerto Rico, and RI
- Benefits are temporary and are meant to provide cash benefits to replace, in part, wages lost due to injuries or illnesses that do not arise out of or in the course of employment.
- In CA, NJ, NY (effective 1/1/18), and RI paid family leave is administered through the SDI program.

# State Disability Insurance Laws: Contributions

The four border states (CA, NJ, NY and RI) with disability insurance laws fund these programs through a combination of employer and employee payroll contributions:

- California:
  - Employer Share: Non-mandated
  - Employee Share: .9% of wages on the first \$110,902 in wages paid per calendar year (maximum contribution=\$998.12)
- New Jersey:
  - Employer Share for TDI: Varies from 0.10% to .75% (maximum contribution between \$33.50 and \$251.25 on the first \$33,500)
  - Employee Share for TDI: .24% on the first \$33,500 in covered wages (maximum contribution =\$80.40)
  - Employer Share for Family Leave: Non-mandated
  - Employee Share for Family Leave: .1% on the first \$33,500 in covered wages (maximum contribution =\$33.50)
- New York:
  - Employer Share: Balance of cost over amount of employee contribution (Non-mandated)
  - Employee Share: .5% of weekly wages (maximum contribution = \$.60 per week)
- Rhode Island:
  - Employer Share: Non-mandated
  - Employee Share: 1.2% of first \$68,000 earned

## State Disability Insurance Laws: Cross-border Application

- Cross-border application of disability insurance law is the same in all four states:
  - An individual is covered if engaged in “employment” within the state.
  - Definition of “employment” for disability insurance laws is based on definition used in unemployment compensation laws.
- These tests are already used in Vermont in the unemployment compensation context (See 21 V.S.A. 1301(6))

## State Disability Insurance Laws: Cross-border Application

Test for “employment” of out-of-state residents: An individual is covered:

- if the individual’s service is localized in the state, meaning:
  - the service is performed entirely within the state; or
  - the service is performed both within and outside the state, but the service performed outside the state is incidental to the individual's service within the state.

OR

- if the service is not localized in any state but the individual’s base of operations is in the state.
- if no base of operations, then if the place from which service is directed to or controlled is in the state.

OR

- if the individual's base of operations or place from which such service is directed or controlled is not in any state in which some part of the service is performed, then if the individual is a state resident.

# Vermont Payroll Data

## Quarterly Census of Employment and Wages

Vermont Department of Labor (DOL)

Data for “covered employers” only – e.g. businesses subject to Vermont’s Unemployment Compensation Law

### **Includes:**

- Private for-profit businesses with 1 or more employees
- Federal, state and local government employees
- Non-profit, religious, charitable or educational firms with at least 4 employees
- Farms employing 10 or more workers
- Private homes employing domestics
- Exempt firms who voluntarily elect coverage

# QCEW Definition continued

## **Excludes:**

- Self-employed
- Most farms (fewer than 10 employees)
- Some non-profits (less than 4 employees)
- Churches
- Railroads (covered by the railroad UI system)
- Elected officials
- Officers and family members of sole props & partnerships
- Student workers in work-study or academic program



# CY 2016 Vermont Payroll Data

Total Payroll = \$13.2 billion

Represents approximately 367,000 unique SSNs

Self Employment – **estimates only 2012**

SE income = \$916.4 million

# of self employed in VT = 44,325

= \$13.2 billion base

Compare to \$18.9 billion resident VT AGI in TY 2015

# Distribution of Vermont Payroll

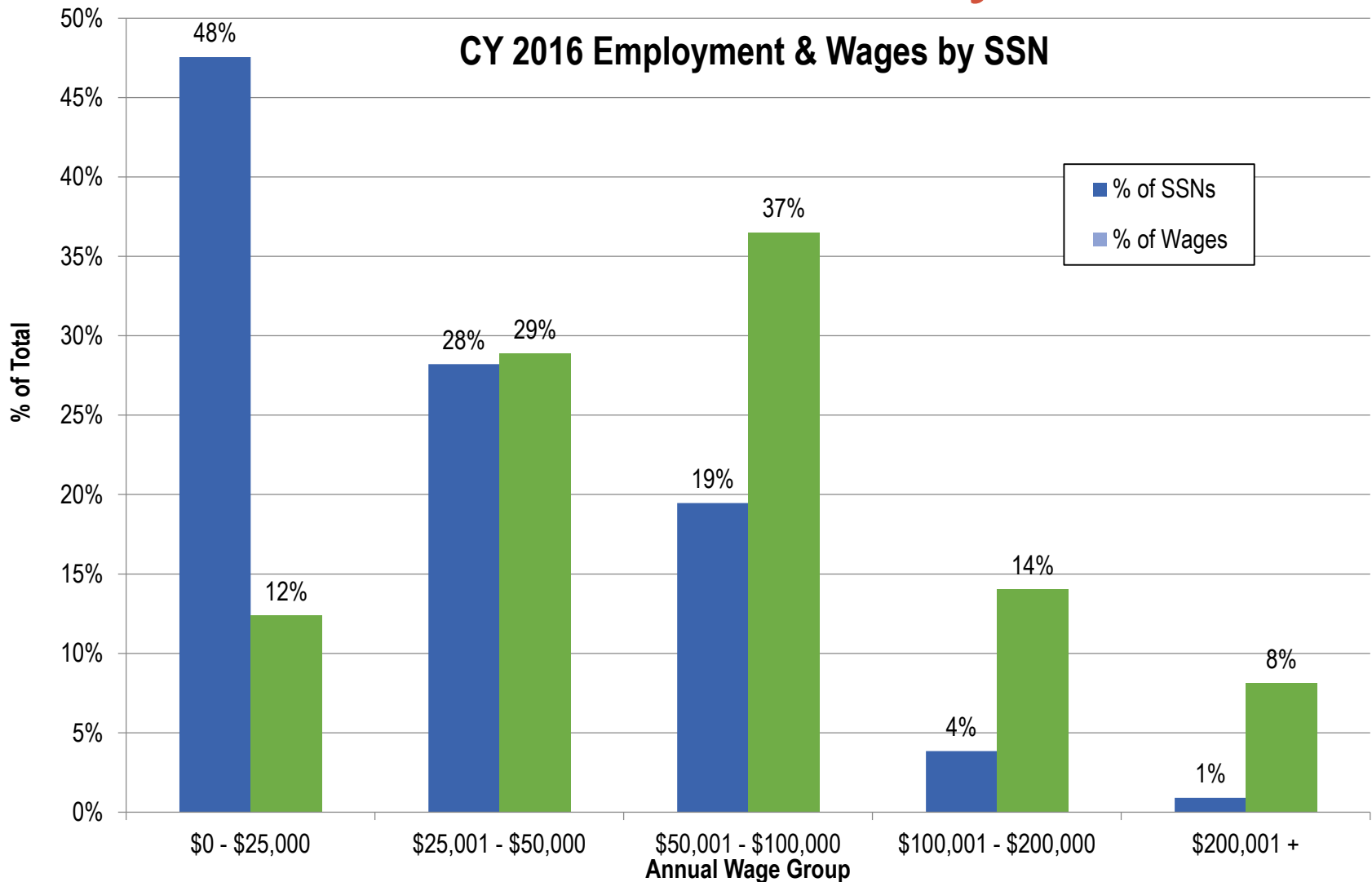
## CY 2016 Vermont SSN Payroll Data

Annual Wage Category	# of SSN	Total Wage	Average Wage	Median Wage
\$0 - \$25,000	174,435	\$1,628,203,400	\$9,334	\$7,471
\$25,001 - \$50,000	103,458	\$3,801,346,467	\$36,743	\$36,388
\$50,001 - \$100,000	71,368	\$4,802,365,656	\$67,290	\$64,370
\$100,001 - \$200,000	14,114	\$1,845,923,831	\$130,787	\$123,462
\$200,001 +	3,318	\$1,070,290,355	\$322,571	\$267,403
<b>Grand Total</b>	<b>366,795</b>	<b>\$13,154,379,718</b>	<b>\$35,863</b>	<b>\$26,964</b>

	Percent of Total		Relative to Total	
\$0 - \$25,000	48%	12%	0.3	0.3
\$25,001 - \$50,000	28%	29%	1.0	1.3
\$50,001 - \$100,000	19%	37%	1.9	2.4
\$100,001 - \$200,000	4%	14%	3.6	4.6
\$200,001 +	1%	8%	9.0	9.9
Grand Total	100%	100%	1.0	1.0

Source: Vermont Department of Labor, Economic and Labor Market Information,  
Unemployment Insurance Wage Records - April 3, 2017

# Distribution of Vermont Payroll



# Incidence of Payroll Taxes

- “While payroll taxes are levied equally between employers and employees, the broad consensus among economists is that payroll taxes unduly burden the worker. That the distribution of tax incidence does not correspond with the actual levying of taxes is generally accepted.” NBER, March 2002
- Most analysts conclude that both the employee’s and employer’s share of the payroll tax is borne by the employee” JCT, March 2001
- This shows a direct and complete trade off between the basic wage rate and the tax per worker, or a 100 percent shifting of the tax burden at the expense of labor’s basic wage . . . The presence of a payroll tax on employers tends to reduce the wage in dollar by roughly the amount of tax.” The Incidence of Social Security Payroll Taxes: The American Economic Review, March 1971 John Brittan