

Chapter 25 - Payroll

25.50 Payroll Deductions and Reductions

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25.50

Payroll Deductions and Reductions

25.50.10 Payroll Deduction Administration

Payroll deductions or reductions are amounts withheld from an employee's wages. Reductions affect gross income, deductions do not. Deductions are classified as mandatory or voluntary. All deductions must be authorized by statute or other legal authority.

25.50.20 Mandatory Deductions

Mandatory payroll deductions are mandated by statute and can either be pre or post tax deductions. Mandatory deductions include federal and state taxes, retirement contributions, and wage garnishments.

25.50.30 Voluntary Deductions

Voluntary payroll deductions are for programs that are legislatively authorized pursuant to Title 5 as a program in which the State of Maine's fiduciary responsibility is limited solely to ensuring that the employee's requested deduction is disbursed to the designated authorized vendor. Voluntary deductions are payroll deductions that an employee can authorize to be taken from their net pay and have it paid directly to an authorized vendor. All voluntary deductions must be approved by the Controller's Office. The Controller's Office must be notified at least six months in advance of any anticipated new voluntary deduction.

25.50.40 Deduction Descriptions

Federal Tax - mandatory deduction for federal tax based on employee's Form W-4.

Medicare Tax – mandatory deduction for Medicare tax for employees hired on or after 4/1/86.

State Tax – mandatory deduction for state tax based on employee's Form W-4ME.

MSRS Regular Retirement – mandatory pre-tax deduction for employee share of regular retirement contribution.

Wage Garnishments – mandatory post-tax deduction to satisfy a bankruptcy order, a child support order, IRS tax levy, State tax levy, and court ordered garnishments.

MSRS Payback Retirement – upon approval of the Retirement System, a voluntary deduction for an employee who wants to buy back months/years of eligible retirement benefit after having had a break in their state service.

Health Insurance – voluntary pre-tax deduction for health insurance premiums.

Dental Insurance – voluntary pre-tax deduction for dental insurance premiums.

Basic Life Insurance – voluntary post-tax deduction for life insurance premiums.

Long Term Care Insurance – voluntary post-tax deduction to purchase long-term care insurance.

Union Dues –post-tax deductions for union dues for employees who belong to a bargaining unit.

Union Income Protection Deductions – voluntary post-tax deduction for union sponsored income protection.

Medical and Dependent Care Reimbursement Program – voluntary pre-tax deduction for dependent and medical care assistance program. Subject to an annual limit.

Deferred Compensation – voluntary pre-tax deduction to a deferred retirement savings plan. Subject to an annual limit.

Savings Bonds – voluntary post-tax deduction to purchase savings bonds.

MSECCA – voluntary post-tax deduction for a contribution to the Maine State Employees Combined Charitable Appeal (MSECCA)

25.50.50 Payroll Deduction Responsibilities

Employee Responsibilities

The employee is solely responsible for:

- Providing his/her payroll Department with the necessary authorization when starting or changing a payroll deduction.
- Providing his/her payroll Department with the necessary discontinuation form when ending a payroll deduction.
- Knowing what type of policy/account they have, who their authorized vendor is, what their policy/account contains, and the amount they have authorized to be deducted through the payroll system.

Payroll Department Responsibilities

The payroll Department is solely responsible for:

- Verifying, entering or discontinuing an employee's voluntary payroll deduction based on authorization provided to them by the employee.
- Making changes or canceling an employee's voluntary deduction only with written authorization from the employee, or the Office of the State Controller.
- Rectifying immediately, upon discovery, any data entry error made by the payroll Department and reporting such error to the Office of the State Controller for guidance on how to recapture any misdirected payments on behalf of the employee.
- The payroll Department is not responsible for knowing what type of policy/account an employee has or what their policy/account contains.

Authorized Vendor Responsibilities

The authorized vendor is responsible for:

- Correctly applying payments received from the payroll system of the State of Maine on behalf of its employee(s).
- Providing employees with information, policy or otherwise regarding their authorized plan.

Office of the State Controller Responsibilities

The Office of the State Controller is responsible for:

- Reviewing and approving/disapproving all payroll deduction requests from Departments/Vendors in accordance legal authority.
- Providing a system that will accurately process deductions on behalf of employees.
- Establishing clear guidelines, communicating changes in policy and providing payroll systems that can accurately and completely remit authorized deductions to authorized vendors.

25.50.60 Federal Income Tax

The Internal Revenue Service (IRS) requires employers to withhold federal income tax from wages paid to their current and former employees based on the withholding exemptions claimed on the employee's Form W-4 (Employee's Withholding Allowance Certificate).

Employee's Withholding Allowance Certificates (Forms W-4)

Employers are required to provide Forms W-4 to their employees and the employees are required to submit to their employer, upon hire, a completed Form W-4 "Employee's Withholding Allowance Certificate". This certificate provides the basis for determining the proper amount of tax to withhold from an employee's wages. If an employee does not submit a completed Form W-4, federal income tax will be withheld at the single status rate, with no withholding allowances. If an employee claims more than 10 withholding allowances and his or her wages are more than \$200.00 per week, the Controller's Office is required to submit copies of the employee's W-4 to the IRS at the end of the quarter the W-4 was received.

Employees who wish to have a fixed dollar amount of wages withheld should review the federal withholding tables and request the desired amount of withholding based on the options available on the form W-4 (e.g., marital status, allowances, and additional amounts. It should be noted that when an employee's tax record reflects a fixed dollar amount, that fixed amount would be withheld from all checks issued to an employee. (e.g. employee receives a check for regular pay and a check for a longevity bonus, the fixed amount will be withheld from both payments.)

Every State of Maine Payroll Department is required to keep Form W-4's on file for their current employees for at least three years after the date the tax was due.

Form W-4 withholdings must be put into effect by the employee's payroll Department for the first payroll period ending after the Form W-4 is submitted. A Form W-4 remains in effect until the employee submits a new one.

If employees wish to make changes to their withholding allowances, they must submit a new Form W-4 to their payroll Department. This Form W-4 must be put into effect by the payroll Department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the Payroll Department.

The State of Maine is required to provide each employee with a yearly Form W-2 statement detailing the total amount of federal tax deducted from their wages.

Form W-4's can be downloaded from the IRS Forms and Instructions website:

http://www.irs.gov/forms_pubs/forms.html

Claiming Exempt on Form W-4

Employees (including Non Resident Aliens) who claim an exemption from tax withholding on their Form W-4 must submit a new Form W-4 annually, attesting to their exempt status. Claims of exemption can be in effect for a maximum of one calendar year at which time the employee must re-file to claim Exempt status. If the employee does not submit a new Form W-4 for the new calendar year by February 15th of that year, they will have their tax status reset to the single status rate, with no withholding allowances.

25.50.70 Medicare Tax

MEDICARE

Departments are responsible for determining and/or verifying the Medicare tax status of each of their employees. This requires confirming whether an employee has a concurrent job and ensuring that both jobs have the same/correct Medicare status in MFASIS/HR.

Employees of the State of Maine may be subject to the Medicare tax for hospital insurance coverage. The Consolidated Omnibus Budget and Reconciliation Act (COBRA), which became law in April 1986, provides that governmental employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the FICA tax. The governmental employer is, in turn, required to match the amount of the employee's contribution. Each Department is assessed the cost of the employer paid portion of Medicare tax applicable to their employees. Certain services are excluded from the Medicare tax. These exclusions pertain regardless of the date the employee was hired. Any questions regarding employees not subject to Medicare tax should be directed to the Office of the State Controller/ Payroll Division.

Refunding of Medicare Tax

If a Department determines that an employee is owed a current or prior year Medicare tax refund, the Department is required to submit a completed "Medicare Tax Refund Request" form, with the appropriate attachments, to the Office of the State Controller for each tax year affected. Medicare tax refunds can only be processed for the current tax year, and the three consecutive prior tax years.

The "Medicare Tax Refund Request" form can be found on the Office of the State Controller website.

25.50.80 State Tax Withholding**STATE WITHHOLDING TAX**

Maine Revenue Services requires employers to withhold state income tax from wages paid to their employees based on the withholding exemptions claimed on the employee's withholding allowance certificates (Forms W-4ME)

Employees are required to submit, upon hire, a completed Form W-4ME "Employee's Withholding Allowance Certificate" to their Department. This certificate provides the basis for determining the proper amount of tax to withhold from an employee's wages.

If an employee does not submit a completed Form W-4ME state income tax will be withheld at the single status rate, with no withholding exemptions.

If employees make changes to their withholding allowances, they must submit a new Form W-4ME to their Payroll Department.

The State of Maine is required to provide each employee with a yearly W-2 statement detailing the total amount of state withholding tax deducted from their wages.

Form W-4ME's can be downloaded from Revenue Services website.

25.50.90 Tax Refunds

The Payroll Unit at the Office of the State Controller manages requests for payroll tax refunds for all state Departments. Payroll taxes include federal withholding, state withholding and Medicare tax.

Departments can request payroll tax refunds from the Office of the State Controller when an error has been made on an employee's tax withholding. Only those employees who have had tax withheld in error are eligible to receive a refund.

25.50.90.a

Federal Tax Refunds

The Office of the State Controller can refund both Federal and State Taxes for the current W2 year only.

25.50.90.b

Medicare Tax Refunds

The Office of the State Controller can refund Medicare Tax for the current and prior three W2 years.