

Third Party Sick Pay

- Reference IRS Publication 15-A (Section 6 – Sick Pay Reporting)
<https://www.irs.gov/pub/irs-pdf/p15a.pdf>

Third Party Sick Pay - Taxable VS. Non Taxable

- Benefits from a sick pay plan are TAXABLE when:
 - The premiums are paid by the employer.
 - The premiums are paid by the employee through 125-C pretax dollars.
 - Use HCM earning code **WTP**, Taxable Third Party Sick Pay. Review Taxation with your Plan Administrator. Box 13 -Third Party Sick Pay is marked.
- Benefits from a sick pay plan are NON TAXABLE when:
 - The premiums are paid by the employee with post tax dollars.
 - Use HCM earning code **WTJ**, Non-Taxable Third Party Sick Pay Code J (W-2 Box 12J). Review Taxation with your Plan Administrator. Box 13 - Third Party Sick Pay is marked.

Third Party Sick Pay - Reporting Responsibilities

- Liability Transferred – the school district is responsible for W-2 and employer's share of related taxes.
- Liability Not Transferred – the school district has contracted with the third party payer to file the W-2 and deposit all related taxes (both EE and ER).
- Only the first SIX months of taxable benefits are subject to Social Security and Medicare taxes. After that use HCM earning code **WT6**, FIT/SIT taxable. Box 13 -Third Party Sick Pay is marked.
- The employer must report the benefits on the employee's W-2 when the Third Party Administrator notifies you by January 15th
 - (includes notices postmarked by this date).
 - Since SDCOE has a W-2 Reportable Item deadline of December 7th, 2021, all benefits received after the SDCOE deadline will require that the District complete a corrected W-2.

The tax reporting of Third Party Sick Pay continues to be unique to administer due to the shared employer and third party administrator's responsibility. Insurance companies are required to withhold the employee's share of Social Security and Medicare taxes for each payment made within six months after the end of the last month the employee worked for the employer.

NOTE: It is important that the statement of benefits provided by the Third Party Payer be verified by the district for accuracy.

Liability Transferred - The **employer** is liable for the "employer" portion of employment taxes when the third party has made timely notification as to the amount of the payments, any income tax and the employee Social Security and Medicare taxes withheld and deposited. *In this situation, the employer and third party are jointly responsible for W-2 and tax reporting.* As of 2003, Box 13 -Third Party Sick Pay must be checked.

Liability Not Transferred - The **third party** is responsible for depositing the employment taxes, which includes the employer share of Social Security and Medicare tax and any withheld income tax. The third party will make tax deposits using its own EIN, not the employer's. *In this situation, the third party is responsible for filing the W-2, not the employer.*

The Social Security and/or Medicare tax is only applied to the first six months of benefits attributable to district-paid premiums (first six months following last month worked). All the benefits from "district-paid" premiums and "Employee-paid" premiums from 125-c plans (Flexible Benefit Tax Deferred) are reportable as "Other Compensation" in Box 1 and 16 on the W-2. Benefits received from employee paid premiums, "not tax deferred", are reportable in Box 12 Code J on the W-2 (not included as income).