

WAGES

WHAT ARE STATE EMPLOYMENT TAXES?

State employment taxes (also known as state *payroll* taxes) are Unemployment Insurance (UI), Employment Training Tax (ETT), State Disability Insurance* (SDI), and Personal Income Tax (PIT) withholding.

Wages are subject to all employment taxes and reportable as PIT wages unless otherwise stated.

WHAT ARE WAGES?

Wages are all compensation for an employee's personal services, whether paid by check or cash, or by the reasonable cash value of noncash payments, such as meals and lodging. The method of payment, whether by private agreement, consent, or mandate, does not change the taxability of wages paid to employees. Payments are considered wages even if the employee is a casual worker, a day or contract laborer, a part-time or temporary worker, or is paid by the job, day, hour, piece rate, salary, or any other method or measurement. Supplemental payments, including bonuses, overtime pay, sales awards, commissions, and vacation pay, are also considered wages.

Note: If you pay your employee's share of Social Security, Medicare, and/or SDI without deducting the amounts from their wages, these payments may also be wages. For more information refer to *Information Sheet: Social Security/Medicare/State Disability Insurance/Federal Income Taxes Paid by an Employer*, [DE 231Q](#).

SUBJECT WAGES

Generally, wages are considered subject to all employment taxes, unless otherwise stated in the California Unemployment Insurance Code ([CUIC](#)), and are used to determine the amount of UI, SDI, and Paid Family Leave (PFL) benefits a claimant should receive. Subject wages are the full amount of wages, regardless of the UI and SDI taxable wage limits. Certain types of employment and payments are not considered subject to some or all of the employment taxes. Refer to *Information Sheet: Types of Employment*, [DE 231TE](#), and *Information Sheet: Types of Payments*, [DE 231TP](#).

*Includes Paid Family Leave (PFL).

PERSONAL INCOME TAX WAGES

Personal Income Tax (PIT) wages are cash and noncash payments subject to state income tax. Wages that must be reported on an individual's California income tax return are PIT wages. Most payments for employees' services are reportable as PIT wages. For additional information, refer to *Information Sheet: Personal Income Tax Wages Reported on the Quarterly Contribution Return and Report of Wages (Continuation) (DE 9C)*, [DE 231PIT](#).

Wages Include, but Are Not Limited to, the Following:

- Salaries, hourly pay, piece rate, or payments by the job.
- Commissions and bonuses.
- The reasonable cash value of compensation other than cash.
- Meals and lodging:
 1. An exception is that meals and lodging are not reportable as PIT wages when furnished on the employer's premises for the employer's convenience. Another exception is lodging when it is furnished as a condition of employment.
 2. Special rules apply to household employers. Refer to *Information Sheet: Household Employment*, [DE 231L](#), and *Household Employer's Guide*, [DE 8829](#).
- Cash tips and gratuities of \$20 or more in a month that are included in a written statement furnished by the employee to the employer. Refer to *Information Sheet: Tips*, [DE 231T](#).
- Banquet tips and employer-controlled tips, which are considered a regular wage and are fully taxable. The taxability of banquet tips and employer-controlled tips is not contingent upon the employee reporting them to the employer.
- Group legal services that are provided by an employer to an employee or his or her spouse.
- Employer contributions, without payroll deduction, into a qualified tuition plan account (such as a California ScholarShare Trust account) for the benefit of the employee or the employee's designated beneficiary.

- Amounts in lieu of cash wages that are offset by the employer against a debt due from the employee or applied to a debt owed to a third party by the employee.
- Sickness and accident disability payments, except those made under a workers' compensation law or paid from an employee-funded plan.
- Fringe benefits provided or paid for by the employer on behalf of employees and their dependents unless specifically excluded from income. Refer to *Information Sheet: Taxability of Employee Benefits, DE 231EB*.
- Pension and retirement contributions made by employers unless the contributions are to a qualified plan, such as those defined in Sections 401(k), 408(k), 408(p), 403(a), 403(b), and 3121(v)(3) of the Internal Revenue Code (IRC).
- Employer contributions under a qualified cash or deferred compensation plan (such as Section 401(k) of the IRC) that represent elective employee contributions. Not subject to PIT withholding and not reportable as PIT wages if the payments are excludable from gross income for state income tax purposes.
- Employer contributions to certain nonqualified deferred compensation plans are taxable when services are performed or when there is no substantial risk of forfeiture, whichever is later.
- Employer payment, without payroll deduction, of taxes due from the employee for SDI and/or Social Security/Medicare. (Exception: employee Social Security/Medicare taxes paid by the employer without payroll deduction for household employment or agricultural labor are not wages for UI, ETT, and SDI purposes, but they are reportable as PIT wages.) Refer to the DE 231Q.
- Health insurance premiums or health care expenses paid by the employer on behalf of the employee's domestic partner. NOTE: Payments are excluded for PIT withholding and reporting purposes.
- domestic partner (as defined in Section 297 of the [Family Code](#)). Payments are reportable as PIT wages. Refer to *Information Sheet: Family Employment, DE 231FAM*.
- Repayment of required or necessary business expenses incurred by the employee while performing services for the employer (e.g., travel expenses).
- Sickness or accident disability payments made more than six calendar months following the last month in which the employee worked (subject to PIT withholding and reportable as PIT wages).
- Severance payments if the purpose is to supplement Unemployment Insurance benefits (reportable as PIT wages).
- Vacation or holiday pay earned but not paid prior to the termination of employment (reportable as PIT wages).
- Health insurance premiums or health care expenses paid by the employer on behalf of the employee or the employee's dependents who have not reached 27 years of age by the end of the taxable year. Refer to Section 938.4 of the CUIIC.
- Sickness or accident disability payments under a workers' compensation law.
- Moving expenses, if it is reasonable to believe the expenses are an allowable deduction to the employee under Sections 217 and 132 of the IRC.
- Employee achievement awards, if it is reasonable to believe the amount is excludable from gross income under Section 74(c) of the IRC.
- Scholarship payments or fellowship grants, if it is reasonable to believe the amount is excludable from gross income under Section 117 of the IRC.
- Dependent care assistance programs, if it is reasonable to believe the amount is excludable from gross income under Section 129 of the IRC.
- Payments from a qualified plan to an employee for retirement (subject to PIT withholding for California residents unless the recipient elects exemption from withholding).
- Employer contributions to a trust under Section 401(a) of the IRC or to an annuity plan under Section 403(b) of the IRC. Employer contributions to certain qualified retirement or deferred compensation plans, such as those defined in Sections 401(k), 408(k), 408(p), and 403(b) of the IRC, are also not subject to employment taxes, unless the contributions result from a salary reduction agreement. Refer to the DE 231TP for the status of employee contributions to retirement plans.

Wages Do Not Include the Following Types of Payments:

These types of payments are not subject to state employment taxes or reportable as PIT wages unless otherwise stated.

- Payments to a child under the age 18 years who is employed by his or her father or mother (or by a partnership consisting only of father and mother), or service performed by an individual who is employed by his or her son, daughter, spouse, or registered

- Employee payroll deductions made under a cafeteria plan that follows the provisions of Section 125 of the IRC made for the following purposes:
 - Medical insurance
 - Dental insurance
 - Vision insurance
 - Life insurance
 - Dependent care assistance
 - Reimbursement of medical or hospital expenses
- Fees paid to a director of a corporation for performing services in the capacity of a director as defined in Section 622(b) of the CUIIC. These services are subject to PIT withholding and reportable as PIT wages if the director is a common law employee. Refer to *Information Sheet: Employment*, DE 231. Payments to directors for services not defined in Section 622(b) of the CUIIC may be considered wages for all employment tax purposes.
- Back pay awarded to an employee because the employer failed to comply with the Worker Adjustment and Retraining Notification (WARN) Act (subject to PIT withholding and reportable as PIT wages).

ADDITIONAL INFORMATION

Additional information regarding the taxability of wages can be found on the DE 231TP. For further assistance, please contact the Taxpayer Assistance Center at 888-745-3886, or visit the nearest Employment Tax Office listed in the *California Employer's Guide*, DE 44, or on the Employment Development Department (EDD) website at www.edd.ca.gov/Office_Locator/. Additional information is also available through the EDD no-cost payroll tax seminars and online courses. View the in-person and online course offerings on the EDD website at www.edd.ca.gov/Payroll_Tax_Seminars/.

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 888-745-3886 (voice) or TTY 800-547-9565.

SHOULD WAGES BE REPORTED WHEN PAID OR EARNED?

For reporting purposes, wages are taxable when paid, when constructively paid, or when an employee receives remuneration other than cash. Wages are **constructively paid** when credited to the employee's account or set apart for the employee so they may be drawn at any time, although not actually in his or her possession. The weekly amount paid to UI and SDI claimants is based on the amount of wages paid during the quarter in which the claimant's wages were the highest within the designated base period. For this reason, it is important to report wages during the quarter when they were actually or constructively paid.

If still unpaid at the time the *Quarterly Contribution Return and Report of Wages (Continuation)*, DE 9C, is due, wages due to an employee that were not paid within the time required by law should be reported on a separate DE 9C under the caption written "**Wages Legally Due But Unpaid.**" This will ensure that a claimant receives proper wage credit for the quarter when the wages should have been paid. However, the employment taxes due on these wages should be paid when the wages are actually or constructively paid to the employee.

This information sheet is provided as a public service and is intended to provide nontechnical assistance. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and administrative and court decisions. Any information that is inconsistent with the law, regulations, and administrative and court decisions is not binding on either the Employment Development Department or the taxpayer. Any information provided is not intended to be legal, accounting, tax, investment, or other professional advice.