

	LOS ANGELES COMMUNITY COLLEGES HUMAN RESOURCES GUIDE	HR H-310
		MANDATORY TAXES AND RETIREMENT DEDUCTIONS
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REPLACES:	CHANGES: New	

I. POLICY

It is the policy of the District to comply with Federal and State Laws requiring the involuntary withholding of pay for taxes and deductions for retirement for certain categories of employees.

II. DEFINITIONS:

- A **Contribution** is the amount paid by the district on behalf of its employees to the federal government for Social Security and Medicare and to state agencies for the CalPERS, CalSTRS, and PARS retirement systems.
- A **Deduction** is a reduction in amount paid to an employee from the gross pay earned.
- **Employee Sub-Group(ESG)** is a SAP software term for a code used to describe a set of employees whose position assignments are characterized by common employment duration, receipt of medical benefits, payroll frequency, retirement deductions, general ledger account, and wage type.
- **Gross Pay** earned is the total of an employee's regular remuneration earned from salary, hourly wages, overtime and stipends before any deductions are made.
- **Net Pay** is the take home amount left after deductions have been taken from the gross pay earned.
- **Personnel Sub-Area (PSA)** is the SAP software term for a code used to describe a group of employee jobs that can be categorized by collective bargaining unit, hours, work year, and eligibility for overtime.
- **Tax Models** identify how a wage type should be processed based on the wage type attributes and the employee's master data. The tax model is an SAP software term that contains information used to determine which taxes should be considered in the tax calculation. This information is then passed to BSI Tax Factory, which in turn processes the tax calculation and passes the data back to SAP.
- **Taxable Wages** is the portion of gross pay subject to federal and state income taxes.
- **Withholding** is the amount of an employee's income that an employer sends directly to the federal or state tax authority.

III. REQUIREMENTS

- A. **Employee Categories:** The requirement to pay taxes and mandatory retirement deductions varies considerably depending upon employee unit, regular or temporary status, salaried or hourly pay, workers compensation leave, and retirement options selected.
- B. **Income Taxes:** All employees are subject to the withholding of income for the payment of federal and state income taxes. The precise amount withheld is determined by a formula prescribed by the federal and state governments based on the taxable wages earned during the pay period and personal allowances claimed by the employee on [Form W-4 Employee's Withholding Allowance Certificate](#). An employee may claim an exemption from all federal and state taxes if the employee certifies that they meet the criteria for exemption detailed on Form W-4. Employees on an approved Industrial Accident (IA) Leave are also exempt from income taxes for IA compensation paid. The total withheld is submitted directly to the federal and state governments.
- C. **Medicare Tax:** Certain employees specified in table H-310B below, are subject to the Medicare Hospital Insurance Tax of 1.45 percent (%) on all income withheld from pay. The tax paid by the employee is matched by the LACCD and the total of the employee tax and the district contribution is submitted directly to the Federal government.
- D. **Social Security Tax:** Certain employees, specified in table H-310B following, are subject to Social Security's Old-Age, Survivors, and Disability Insurance (OASDI/FICA) Tax of 6.2% percent (%) up to a certain amount of taxable income withheld from pay. The specific amount of taxable income subject to the tax is changed yearly based on the national average wage index and is published on the [Social Security Contribution and Benefit Base](#) page. The tax paid by the employee is matched by the LACCD and the total of the employee tax and the district contribution is submitted directly to the Federal government.
- E. **Retirement System Deduction:** Certain employees, specified in table H-310B following, are subject to retirement system deductions for one of the following systems: STRS DB, STRS CB, PERS, or PARS. Details about the retirement systems may be found in [HR Guide P-370 Retirement](#). Technically, these deductions are not considered taxes. They may be refunded to the employee if the employee ultimately requests the refund when resigning and not retiring. The deduction paid by the employee is supplemented by the LACCD (the percentages have varied historically) and the total of the employee deduction and the district contribution is submitted directly to the retirement systems by the district. Table H-310A, California Retirement Systems Deductions, below specifies the employee deductions and district contributions for each of the systems:

TABLE H-310A CALIFORNIA RETIREMENT SYSTEM DEDUCTIONS AND CONTRIBUTIONS As of July 1, 2009			
ACRONYM	NAME	EMPLOYEE DEDUCTION	DISTRICT CONTRIBUTION
STRS DB	CalSTRS - California State Teachers Retirement System - Defined Benefit Program	8.000%	8.250%
STRS CB	CalSTRS - California State Teachers Retirement System - Cash Balance Plan	3.750%	4.250%
PERS	CalPERS -California Public Employee Retirement System	7.000%	9.709% ¹
PARS	Public Agency Retirement Services	3.500%	4.000%

¹Rate changes each July 1.

F. **Tax Models:** Table H-310B below delineates the different kinds of tax models and when they are used.

TABLE H-310B TAX MODELS, APPLICABLE TAXES AND RETIREMENT DEDUCTIONS ¹						
CODE	SYSTEM LABEL	INCOME ²	FICA ²	MEDICARE ²	RETIREMENT SYSTEM ³	APPLICABLE TO
T1	Ret & Med	Yes	No	Yes	STRS DB STRS DB STRS CB STRS CB PARS STRS DB PARS	Regular Academic hired post 3/31/86 Regular Academic pre 4/1/86 electing Medicare Adjunct hired post 3/31/86 Adjunct hired pre 4/1/86 electing Medicare (Adjuncts may also be FICA, STRS DB or PARS) Unclassified not Student Workers Classified continuing STRS Temporary or less 20 hours/week Classified
T2	Ret & No Med	Yes	No	No	STRS DB STRS CB PERS	Regular Academic pre 4/1/86 not electing Medicare Adjunct pre 4/1/86 not electing Medicare (Adjuncts may also choose FICA, STRS DB or PARS) Classified in PERS in '59 Survivor Benefit Program
T3	Ret & FICA	Yes	Yes	Yes	No PERS PERS PERS	Adjunct electing FICA Academic continuing PERS Regular Classified 20 hours or more/week not T2 Temporary Classified and Unclassified working over 1,000 hours/year
T4	No Ret & Med	Yes	No	Yes	No	Returning Retirees
T5	No Ret/FICA	Yes	No	No	No	Student Workers
T6	Ret & FICA	No	Yes	Yes	PERS	Workers Comp/PERS
T7	Ret & Med	No	No	Yes	No	Workers Comp/STRS
T8	Ret Only	No	No	No	PERS STRS	Workers Comp/PERS in '59 Survivor Benefit Prg. Workers Comp/STRS pre 3/31/86
¹ Abbreviations: CB = Cash Balance Program DB = Defined Benefit Program FICA = Federal Insurance Contribution Act also called OASDI =Old Age, Survivors and Disability Insurance PARS = Public Agency Retirement System PERS = California Public Employee's Retirement System (CalPERS) Ret = Retirement STRS = California State Teacher's Retirement System (CalSTRS)						
² Data maintained and updated by Payroll Services, District Office.						
³ Data maintained and updated by Retirement Services, District Office.						

G. **Employee Election of Tax Model and Retirement System:** Certain employees historically have had the option of selecting a tax model/retirement system. Other employees currently have tax model/retirement system options. Table H-310C Employee Tax Model/Retirement System Options below details the various tax model categories involved and the options:

DEFAULT TAX MODEL	WHEN	CHOICE	ELECTION DATE
T1/STRS DB	Hired pre 7/1/86	T2/STRS DB	7/1/86
T3/PERS	Hired pre 7/1/83	T2/PERS	7/1/83
T1/STRS CB	Current Hire	T3/FICA or T1/STRS DB or T1/PARS	Within 60 days of hire
T1/STRS DB ¹	Current Hire	T3/PERS	Within 60 days of hire
T3/PERS ²	Current Hire	T1/STRS DB	Within 60 days of hire
¹ If previously a member of PERS, may select T3/PERS. ² If previously a member of STRS DB, may select T1/STRS DB.			

IV. ADDITIONAL SOURCES

FEDERAL LAW

[Income Tax: Sixteenth Amendment to the U.S. Constitution](#)
[Social Security Act](#), as amended
[Social Security Act: Medicare](#)

CALIFORNIA RETIREMENT SYSTEMS

[CalSTRS, California State Teachers Retirement System](#)
[CalPERS, California Public Employees Retirement System](#)
[PARS, Public Agency Retirement Services](#)

EMPLOYEE TIP SHEET

[LACCD Pay Stub](#)