



25.50 Payroll Deductions and Reductions

25.50.10
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Introduction

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.

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Mandatory (standard) deductions/reductions

25.50.20.a

Mandatory Deductions from Gross Income

These must be deducted from employees' salaries and wages pursuant to federal or state law. Mandatory deductions include but are not limited to the following list:

| <i>Mandatory Deductions</i> | <i>Description and Requirements</i> |
|--|--|
| Federal Income Tax | <ul style="list-style-type: none"> Determine amount of withholding from employee signed federal W-4 form (Employee’s Withholding Allowance Certificate). Check IRS publication 15 (Circular E) for any additional rules. |
| Industrial Insurance (Medical Aid) | <ul style="list-style-type: none"> State tax for industrial insurance benefits program. Administered by the Department of Labor and Industries (L&I). Premium for full-time employees is calculated using the standard monthly average of 160 hours x L&I rate. Premium for part-time employees is calculated using actual hours. The L&I rate is based on the assigned risk classification(s). Refer to RCW 51.12.035 and L&I regarding mandatory Medical Aid coverage for volunteers of state agencies who have registered and accepted the volunteer services. Refer to L&I publications for coverage, employee/employer rates, and employer reporting requirements. |
| Old Age and Survivors Insurance (OASI) and Medicare | <ul style="list-style-type: none"> OASI is a federal employment tax for retirement, survivors, and disability benefits. Matching contributions are required from both employees and employers. The Medicare federal employment employee and employer matching tax supports federal health insurance. The Department of Retirement Systems (DRS) administers our state’s Section 218 agreement with the federal Social Security Administration. Check with DRS for coverage requirements. Refer to IRS Publication 15 (Circular E) for rates, deposit, and reporting regulations. |

25.50.20.b **Mandatory Reductions to Gross Income**

These reduce gross pay and are not subject to federal income tax. Deduct these amounts from gross income before calculating federal income tax for eligible employees.

| <i>Reductions to Gross Income</i> | <i>Descriptions and Requirements</i> |
|--|---|
| State Retirement Systems | <ul style="list-style-type: none"> This is the employee's paid share of the total retirement contribution. |
| Higher Education Retirement Plans | <ul style="list-style-type: none"> This is the employee's paid share of the Higher Education Retirement Plan. Refer to RCW 28B.10 and rules developed by specific agency governing boards. |

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Voluntary deductions/reductions

These options are permitted by law but require an employee's written request to authorize the payroll deduction or salary reduction. Generally, agency heads have the discretion to approve or deny requests for these types of deductions. The maximum deductions or reductions per employee are limited to the number that payroll systems can accommodate.

25.50.30.a **Voluntary Reductions from Gross Income**

These amounts reduce gross pay and are not subject to income tax. Deduct these amounts from gross income before calculating federal income tax. Participation in this type of reduction is at the employee's written request.

| <i>Voluntary Reductions</i> | <i>Descriptions and Requirements</i> |
|---|---|
| Deferred Compensation Plans and Tax Deferred Annuities | <ul style="list-style-type: none"> These are salary reductions allowed under RCW 28B.10.480 and 41.04.020. Either the agency head or the Department of Retirement Systems Deferred Compensation Program approves the employee's request for this type of deduction. |
| Dependent Care | <ul style="list-style-type: none"> This program allows eligible employees to exclude dependent care costs (like child care) from their gross income. Reductions are not subject to OASI and Medicare. Eligibility requirements are in WAC 182-12-116, 182-08-187, 197, and 199. For program details, refer to http://www.hca.wa.gov/pebb/Pages/dcap.aspx. |

| <i>Voluntary Reductions</i> | <i>Descriptions and Requirements</i> |
|--|--|
| Flexible Spending Plan | <ul style="list-style-type: none"> • A medical flexible spending account allows employees to set aside pretax earnings to pay eligible medical expenses. • Not available to employees enrolled in a consumer-directed health plan. • Amounts contributed must be used each plan year. • For more information, refer to http://www.hca.wa.gov/pebb/Pages/fsa.aspx. |
| Health Savings Account | <ul style="list-style-type: none"> • A health savings account (HSA) is a tax-exempt account into which employees, employers, or anyone can deposit on the employees' behalf. • In order to be eligible for an HSA, employees must be enrolled in a consumer-directed health plan. • Amounts contributed must be used to pay for IRS qualified out-of-pocket medical expenses and can accumulate from year to year. • For more information, refer to http://www.hca.wa.gov/pebb/Pages/cdhp.aspx. |
| Medical Expense Plans (Voluntary Employee Benefit Associations - VEBAs) | <ul style="list-style-type: none"> • RCW 41.04.340 allows eligible retiring employees an option to use their accrued sick leave buyout at retirement to purchase a post-retirement medical expense reimbursement plan. • Also refer to WAC 357-31-375 or CBAs for program requirements. |

25.50.30.b

Voluntary Miscellaneous Deductions

These deductions reduce net pay, but do not affect gross income. Participation in these types of deductions is at the employee's written request. These deductions may also require a minimum level of participation. The most common of these deductions follow:

| <i>Type of Deduction</i> | <i>Description and Explanation</i> | <i>25/100 Rule *</i> | <i>Agency Override on 25/100 Rule</i> | <i>Agency approval required</i> |
|--|--|----------------------|---------------------------------------|---------------------------------|
| Banks, Savings Banks, or Saving and Loan Associations | <ul style="list-style-type: none"> • These institutions must be authorized to do business in this state. | X | X | If < 25 in the agency X |
| Credit Unions | | X | X | If < 25 in the agency X |
| Parking Fees and Transit Benefits | <ul style="list-style-type: none"> • Payments for parking furnished by the agency or by the Department of Enterprise Services. Deductions shall be pretax, to the extent possible, for qualified parking and transit benefits as allowed under the federal internal revenue code. | | | |
| US Savings Bonds | <ul style="list-style-type: none"> • Deductions at certain institutions of higher education for participation in the US Savings Bond program. | | | |
| Board, Lodging, Uniform Deductions | <ul style="list-style-type: none"> • Deductions for board, lodging, or uniforms furnished by the state. | | | |
| Tuition, Fees, or Scholarship Contributions | <ul style="list-style-type: none"> • Deductions for academic tuition, fees, or scholarship contributions payable to the employing institutions. | | | |

| <i>Type of Deduction</i> | <i>Description and Explanation</i> | <i>25/100 Rule *</i> | <i>Agency Override on 25/100 Rule</i> | <i>Agency approval required</i> |
|---|--|----------------------|---------------------------------------|---------------------------------|
| Dues and Other Fees | <ul style="list-style-type: none"> Membership dues for professional organizations formed primarily for public employees or college and university professors. | X | | |
| Labor or Employee Organization Dues | <ul style="list-style-type: none"> Per RCW 41.04.230, dues (including representation and other mandatory fees) authorized under a collective bargaining agreement if not already provided under the provisions of Chapters 41.76 or 41.80 RCW or other statutory authority. Organizations of 500 or more may have payroll deduction for employee benefit programs. | X | | |
| Funds, Committees, or Subsidiary Organizations Maintained by Labor or Employee Organizations | <ul style="list-style-type: none"> Per RCW 41.04.230 (6), employees may voluntarily contribute. Effective January 1, 2007. | | | |
| Health Care Authority Premiums | <ul style="list-style-type: none"> Premiums for contracts authorized by the Washington State Health Care Authority (HCA) (Chapters 41.04 and 41.05 RCW). Enrollment or assignment by the HCA to participate in a health care benefit plan, as required by RCW 41.05.065(8), shall authorize a payroll deduction of premium contributions without a written consent under the terms and conditions established by the public employees' benefits board. If an employee is overpaid due to an error related to payroll deduction of premium contributions, refer to salary overpayment recoveries in Section 25.80. Premiums are treated as pretax unless the employee elects to have the premium taxed. This election must be made during open enrollment. | | | |
| Charitable Contributions | <ul style="list-style-type: none"> Contributions to the state employee combined fund drive (RCW 41.04.036). | | | |
| Other Deductions | <p>Per RCW 41.04.230:</p> <ul style="list-style-type: none"> Other deductions may be authorized by the director of OFM for purposes clearly related to state employment or goals and objectives of the agency and for plans authorized by the state health care authority. <p>Per RCW 41.04.030:</p> <ul style="list-style-type: none"> Other Health, Accident, Disability, and Life Insurance - Deductions for employee chosen insurance carriers. | X | | X |

*This means minimum participation of 25 or more employees in one agency or 100 employees statewide.