

SECTION 322: FICA TAX

1. General Comments.

- (a) The Federal Insurance Contributions Act (FICA) of the Internal Revenue Code provides that a tax be imposed on the income of every individual, equal to a certain percentage of wages. This provision, however, does not apply to all employees of the State of Hawaii, as their eligibility for FICA coverage is governed by rules and regulations of the State government, in compliance with the State's Agreement with the Secretary of the United States Department of Health and Human Services.
- (b) Employing departments and agencies requiring information concerning the eligibility status of specific hires should contact the Employees' Retirement System (ERS) of the State of Hawaii. In general, employees of the State become eligible for FICA coverage only if they qualify for membership in the ERS.
- (c) The amount of FICA tax deducted from wages is based on FICA tax rates established by federal law. Such prescribed rates are reflected in the payroll system upon confirmation from the ERS as to the particular tax rate and related tax ceiling in effect for a specific calendar year.

2. Legal Provisions. Section 3102 of the Internal Revenue Code provides the legal basis for the deduction of FICA taxes from wages, and Section 88-216 of the Hawaii Revised Statutes provides the authority for the State to deduct the taxes from employees who are determined to be employees covered under the Act. Section 3101 of the Code provides the tax rates with respect to wages paid to employees, and Section 3121 defines the remuneration for employment that is subject to FICA taxes.

3. Form. The Payroll Change Schedule is used to indicate whether an employee's wages are subject to FICA tax deductions when the individual is initially hired. The Payroll Change Schedule may also be used to record changes to an employee's FICA status. Refer to the Appendix for the above form and related instructions.

4. Procedures.

- (a) The General Statutory Deduction Procedures as presented in SECTION 320: STATUTORY DEDUCTIONS are followed in processing FICA tax transactions. Exceptions to the General Statutory Deduction Procedures are described in the remainder of this paragraph.

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(b) Departments.

- (1) Departmental personnel responsible for processing Payroll Change Schedules must indicate, in the spaces provided thereon, the employee's FICA status by using the alphabetic codes listed in SECTION 327: RETIREMENT CONTRIBUTIONS, Page 327.04, 5. (b) (1) FICA Class Codes.

- (2) When all signatures and approvals required within the employing department or agency have been obtained, the Payroll Change Schedule is forwarded to Central Payroll by 4:00 p.m. of the second work day of the current pay period if it is to be reflected in the current pay period. If Payroll Change Schedules are not forwarded to Central Payroll by 4:00 p.m. of the second work day of the current pay period, changes, if any, will be made in the following pay period.