

## What is changing?

### ● Tax Withholding

Because of IRS regulations, the State of SD must withhold FIT, Social Security and Medicare from some types of employee reimbursements at the time of payment. Currently the amount subject to FIT is reported on your W2 as taxable wages, however there are no taxes withheld at the time of payment.

### ● Payments through Payroll

In order to withhold taxes, these payments will need to be made from the payroll system.

### ● Meal Rate Increase

To help offset having to pay the Social Security and Medicare from certain meals, and having to pay the FIT at the time of reimbursement on those meals, the state Board of Finance is increasing the reimbursement rate by \$3 per day.

**The meal rate increase will be in effect for all meals, not just those that are taxable.**

## Why is it changing?

Certain types of employee payments are counted as part of taxable gross income by the IRS. These payments are considered “supplemental wages” under IRS regulations, and as such are subject to Medicare, Social Security and FIT withholding.

*(IRS Circular E, Publication 15, page 12)*

We have always reported the taxable payments on your W2 at the end of the year, and you have been paying income tax on them, however neither the employee nor the state has been paying Medicare or Social Security.

## How does this affect you?

### ● Tax Withholding

Some meals are required to be taxed. You will be contributing to Social Security now from your taxable reimbursements, and your employer will be matching those contributions.

### ● Payments through Payroll

Your reimbursement payments will still be issued approximately twice per week. If you have already specified a different direct deposit method for your reimbursements it will continue. Otherwise, your reimbursements will be direct deposited in the account where the net amount of your paycheck is deposited.

### ● Meal Rate Increase

Your meal allowance reimbursement rate (for both taxable AND non-taxable meals) will go up to offset these taxes.

## Taxable Reimbursements

Only some employee reimbursements are taxable. Those which have always been reported to the IRS on your W2, and you have been paying the FIT at year end. You have not been paying the Social Security and Medicare (7.65%).

Taxable Reimbursements are:

- **Meals with no overnight stay**
- **Clothing and tool allowances**
- **Certain moving expenses**
- **Some educational assistance**

**Other employee reimbursements  
(like overnight travel)  
are NOT taxable.**

## Travel Advances

Travel advances should not generally be given for taxable reimbursements. Any excess advance travel payment is due back to the state at the time the travel expenses are reported.

Previously the employee had to write a check back to the state. Now, because we will be paying the travel advance right from payroll, any amount due will be deducted from the next regular payroll run (once the travel voucher has been processed). However, this is not the case for “continuous advances”.

- **You should not over-estimate the amount of a travel advance.**
- **You need to plan ahead. It will be now impossible to issue travel advances on short notice.**

## Payment Schedule

Employee reimbursements will be issued with regular paychecks (generally the 1<sup>st</sup> and 16<sup>th</sup> of each month), and also through additional payroll runs designed specifically to pay reimbursements.

These reimbursement payrolls will run one to two times per week, depending on whether or not a regular payroll is being processed. There will still be 8 or 9 opportunities to receive your reimbursements throughout each month.

► Having your agency process your travel vouchers and having them approved by the State Auditor’s office will still be the main determining factor in when you receive your payments.

## Examples

	Currently	Jan 1
Lunch	\$7.00	\$9.00
less:		
SS and Medicare	-	\$0.69
FIT	-	\$2.25
<b>Amount in-hand</b>	<b>\$7.00</b>	<b>\$6.06</b>
Reported to IRS	\$7.00	\$9.00
less:		
FIT paid at year end	\$1.75	-
<b>Employee Net</b>	<b>\$5.25</b>	<b>\$6.06</b>

Under the new scenario, the employee actually nets \$0.81 more for the lunch reimbursement.

Remember that it is only “meals-not-overnight” which are required by the IRS to be taxed.

The value of these meals has always been being reported on your W2 and you have been paying the FIT at the end of the year.

Direct Deposit Payment Methods	
Current Method	New Method
- Payroll direct deposited into account <b>X</b>	Nothing will change.
- Reimbursements direct deposited into account <b>X</b>	
- Payroll direct deposited into account <b>X</b>	Nothing will change.
- Reimbursements direct deposited into account <b>Y</b>	
- Payroll direct deposited into account <b>X</b>	The reimbursements will be direct deposited into the same account as payroll.
- Reimbursements received on a paper check	

## IMPORTANT

Because of these changes, there are some things that employees should review.

### ✓ Review your W4

You may do this online at the Employee Self Service site (<http://www.state.sd.us/ess>), or with a paper W4 form submitted to your personnel office. Employees who have a significant amount of taxable reimbursements may be in the practice of having additional withholding taken out of their pay checks to avoid having to pay in unexpectedly at the end of the year. Since FIT will now be withheld at the time of payment, the additional withholding may no longer be needed.

### ✓ Consider your Direct Deposit method

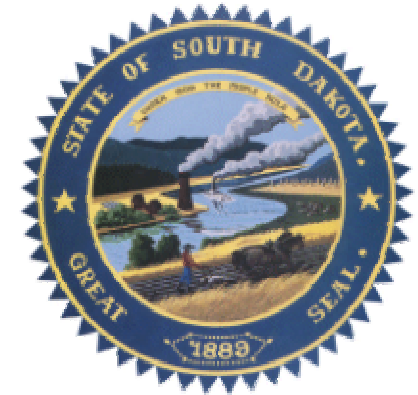
Because these payments will now be made from payroll, your reimbursements will now arrive in the same method as your pay check UNLESS you have specified a different direct deposit already. (If you have your reimbursements already being direct deposited or placed onto the state’s payroll card, they will continue to go to the same place.)

Direct deposit is required for payroll, and reimbursements will now be paid through the payroll system.

← (See examples to the left)

If you absolutely require a separate account for your reimbursements, and you do not wish to open another bank account, look into the state’s Payroll Card option. This card can also be used just for reimbursement payments. (For more information on the payroll card, visit <http://www.state.sd.us/bfm/paycard/>.)

## State of South Dakota



## Employee Reimbursement Changes

[www.state.sd.us/bfm/reimbursement](http://www.state.sd.us/bfm/reimbursement)