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MEMORANDUM

To: Chief Fiscal Officers, MMARS Liaisons, and Payroll Directors
From: Andrew W. Maylor, Comptroller
Date: January 23, 2020
Re: Tax and Payroll Updates for 2020

Comptroller Memo FY2020-16

Executive Summary

HR/CMS must be updated to comply with a number of IRS and DOR requirements regarding employer responsibilities for tax year 2020. This memo highlights the requirements and the necessary department actions to be compliant, including recent changes in state and federal taxation.

Federal Tax Law Changes are included to the extent the IRS has published such guidance

Tax brackets and supplemental wage rate are included in this memo. As changes are published, CTR will update these items with revisions of this tax memo.

The standard deduction for married filing jointly rises to \$24,800 for tax year 2020, up \$400 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,400 for 20, up \$200, and for heads of households, the standard deduction will be \$18,650 for tax year 2020, up \$300.

The personal exemption for tax year 2020 remains at \$0, as it was for 2019; this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act of 2018.

For tax year 2020, the top rate is 37 percent for individual single taxpayers with incomes greater than \$522,200 (\$633,950 for married couples filing jointly). The other rates are:

- 35 percent for incomes over \$211,150 (\$426,600 for married couples filing jointly)
- 32 percent for incomes over \$167,100 (\$338,500 for married couples filing jointly)
- 24 percent for incomes over \$89,325 (\$182,950 for married couples filing jointly)
- 22 percent for incomes over \$43,925 (\$92,150 for married couples filing jointly)
- 12 percent for incomes over \$13,675 (\$31,650 for married couples filing jointly)
- 10 percent for incomes over \$3,800 (\$11,900 for married couples filing jointly)

The lowest rate is 0 percent for incomes of single individuals with incomes less than \$3,800 (\$11,900 for married couples filing jointly).

For 2020, as in 2019 there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act.

26 Pay Periods in 2020

There will be 26 pay periods processed in Tax Year 2020 beginning with pay period ending 1/4/2020 and concluding with the pay period ending 12/19/2020.

- There are no system changes made to Deduction Processing; the existing deduction amounts will continue.

Federal/Medicare and MA State Withholdings

- The Federal Supplemental Rate is 22%; Medicare at 1.45% and Additional Medicare rate at 0.9% for wages over \$200,000 remain the same.
- The MA state tax withholding rate was reduced from 5.05% to 5.00%. See [Annual Change Matrix](#) for details.

Non Resident Aliens

To ensure proper Non Resident Alien Tax Withholdings employing departments must ensure the citizenship credentials, visa and other required documentation have been received. Documents vary depending on Visa type. Contact the CTR Statewide Payroll Team, the employee will receive credentials to the Glacier application to complete the W4 Process. For more details see the Non Resident Alien Taxation section of the [HR/CMS Knowledge Center](#).

Massachusetts Minimum Wage

The 2020 Massachusetts Minimum Wage is currently \$12.75 dollars an hour. Departments should review MPAY018 Report available on Mobius View.

Massachusetts Paid Family and Medical Leave

The combined contribution remains at .0075 of eligible wages; .0062 for Medical and .0013 for Family. Departments must manage both MLI and FLI Status on the State Tax Data Page, see the Maintain Tax Data Job Aid. The available options are unchanged: Subject, Paid By Department or Exempt. For more information go to the Department of Family and Medical Leave on Mass.Gov.

Standard Mileage Rates

The 2020 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes is 57.5¢ per mile a decrease from 58¢. Any mileage reimbursements greater than 57.5¢ will need to be taxable.

Same Sex Marriage

For federal tax purposes, marriages of couples of the same sex are treated the same as marriages of couples of the opposite sex. The term “spouse” includes an individual married to a person of the same sex. However, individuals who have entered into a registered domestic partnership, civil union, or other similar relationship that is not considered a marriage under state law are not considered married for federal tax purposes. For more information, see IRS Publication 15 <http://www.irs.gov/pub/irs-pdf/p15.pdf>.

Social Security

(Where applicable) The social security tax rate for 2020 is unchanged at 6.2%; the wage limit is \$137,700 (increase).

State Retirement Cap

The definition of “regular wages” in M.G.L. c. 32 caps retirement deductions for new employees becoming members in the Retirement Systems to 64% of the 26 U.S.C. 401(a)(17) amount including, but not limited to, the applicable limits for any calendar year under 26 U.S.C. 401(a)(17).

The 2020 Salary Limit is \$182,400 (64% of \$285,000) for anyone that became a member on or after January 1st, 2011.

Savings Plans (Deferred Compensation)

The Standard and Catch-Up Limits for 457 and 403B plans have increased: Normal - \$19,500; 3 Year Catchup (457) - \$19,500; the Over 50 limit has increased - \$6,500.

Reminders:

- (3-year Catch-up) When an employee elects the 3 year catch-up, they will only appear on the monthly deferral report once. There will be no further reporting unless there is another change submitted through the Plan Provider. Therefore, any future years need to be created upon the initial notification.
- (Over 50) The Commonwealth will have an automatic update for employees who are 50 years old or turning 50 within the calendar year; this update will automatically insert a row "Age 50-Extend Limit (B)" into the Savings Management page.

Health Care Spending/Dependent Care (change)

Benefit Strategies is the Plan Administrator for the Group Insurance Commission HCSA/DCAP benefits as of June 30, 2019.

The 2020 HCSA Limit has increased, the Fee and DCAP are unchanged: DCAP - \$5,000; HCSA - \$2,750 (minimum \$250); the administrative fee (HCSAF) - \$2.50 month.

Departments should familiarize themselves with the HCSA/DCAP/IRS 2 ½ month grace period when considering 2020 goal amounts at <https://www.mass.gov/non-medical-gic-benefits>.

For more information about the HCSA/DCAP pre-tax programs, contact Benefit Strategies at 1.877.353.9442 or visit the GIC website.

New Hires

Every newly hired employee must complete Form I-9 and Form W-4. Both the employer and the employee are responsible for completing the Form I-9.

- Form I-9 can be found here: https://www.uscis.gov/system/files_force/files/form/i-9-paper-version.pdf
- Form W-4 can be found here: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>

Social Security Verification

Over the course of the year, data on/about new hires is submitted to the Social Security Administration for verification. CTR staff contact individual departments to resolve any discrepancies. These discrepancies must be resolved to ensure that new hires receive future benefits.

Correcting SSNs/ Duplicate Employee IDs

Requests to correct W-2s or to combine Employee balances, as a result of entering an incorrect SSN, go to the CTR Payroll Team. CTR Payroll may request that the Department CFO review the issue to identify and correct any Internal Control weaknesses.

W-4 Filing (Employees must file a Form W-4 Annually to Continue “Exempt” Status)

If an employee wishes to claim EXEMPT from withholding taxes, (s)he must file a new Form W-4 by February 18, 2020. If the employee fails to submit a new Form W-4, the employer must withhold based on the last ‘nonexempt’ W-4 statement on file; if none exists then withhold as “Single” with “0” (zero) Deductions. See IRS Publication 15 for more details.

Reminders:

- Departments must notify exempt employees to resubmit a new W-4 Form.
- In addition, exempt employees with a valid (my system profile) email address will receive a system generated reminder to resubmit online using Self-Service.
- All employees can update their W-4 online using Self-Service.
- Report HTAX103 identifies exempt employees who must file a new W-4. See the new Job Aid for HTAX103 <http://www.hrcms.state.ma.us/KnowledgeCenter/index.htm>
- If employees use the IRS form, they need to write “Exempt” the space below Step 4(c) on the form. Departments do not need to send W-4 forms claiming “Exempt” status to the IRS.

New 2020 W-4 Form

The 2020 Form W-4, Employee’s Withholding Certificate, is very different from previous versions. This is due to the federal tax law changes that took place in 2018. The Internal Revenue Service (IRS) is not requiring all employees to complete the revised form and has designed the withholding tables so that they will work with both the new and prior year forms. However, certain employees will be required to use the new form: those hired in 2020 and anyone who makes withholding changes during 2020.

<https://www.irs.gov/forms-pubs/about-form-w-4>.

The IRS recommends a Paycheck Checkup to withhold the right amount.

<https://www.irs.gov/paycheck-checkup>

IRS Lock-in Letter

The IRS uses information reported on Form W-2 to identify employees with withholding compliance problems. In some cases, if a serious under-withholding problem is found, the IRS may issue a lock-in letter to the employer specifying the maximum number of withholding allowances and marital status permitted. Departments must furnish the employee copy to the employee within 10 business days of receipt and begin withholding based on date specified in the notice.

New W-4 submissions are only accepted if the new Form W-4 withholds more than the IRS Notice. See Publication 15 for more details at <http://www.irs.gov/pub/irs-pdf/p15.pdf> .

Federal Tax Levy Exemption Tables

The IRS issues Publication 1494 regarding the “personal exemption” amounts to be used for calculating levies. Where applicable, HR/CMS will be updated with 2020 tables. Levies from prior years do not need to be updated unless the employee submits a new Form 668-W. Deductions will continue based on the original year’s exemption tables and rates.

Qualified Transportation and Parking Benefits (change)

Qualified Transportation Benefit Plan (QTBP) allows employees the choice to direct a portion of their salary into reimbursement accounts to pay for certain work-related parking and/or mass transit expenses on a pre-tax, salary reduction basis. The Pre-tax amounts are:

- Federal – \$270 for both Transit and Parking
- Massachusetts – \$140 for Transit and \$270 for Parking

Benefit Strategies is the vendor administering the Transportation benefits. The HR/CMS deductions QTPARK and QTTRAN are set-up as pre-tax for both Federal and Massachusetts withholdings up to the limit. If the expenses exceed the maximum, the remainder will be included in a post-tax account and appear on the employee’s paycheck as TRANST for state taxes and TRANFD for federal taxes.

Departments must ensure transit deductions are set-up correctly in HR/CMS. Transit Pass Deductions are taken during the first pay period end date one month in advance. In HR/CMS the Parking benefit is taken during the second pay period end date one month in advance.

There are job aids for managing these deductions in HR/CMS. These job aids are available at [HR/CMS Payroll Job Aids](#) under the section “Qualified Transportation Benefits”.

Employer Provided Qualified Parking Benefits (Change)

Pursuant to the Internal Revenue Code Section 132(f), IRS Publication 15-B, and Department of Revenue Technical Information Releases (TIR) 05-16 Section IV. A., employers who provide employees with free parking valued in excess of the federal and state exclusion amounts are required to add any excess value to the employee’s gross income for tax reporting and withholding purposes.

The Federal and MA exclusion amount for tax year 2020 has increased \$5 to \$270 per month.

Fair Market Value of Parking at State Facilities (Change)

This includes parking at the State House, McCormack, Hurley/Lindemann Garages and the Outside Guaranteed Reserved Spaces at the State House.

The Division of Capital Asset Management and Maintenance (DCP) conducted the annual survey of Government Center parking rates. DCP has determined that the fair market value has increased \$8 to \$434 per month for qualified parking for these locations. Public parking garages in the immediate vicinity were identified, and a comparable lot was selected based on the most reasonable rates.

- The \$8 increase in fair market value and \$5 increase in monthly exclusion monthly will require updating the amounts in HRCMS by \$3 per monthly entry.
- Payroll directors should confirm the HRCMS amounts for these locations is \$164 per month.

Other Parking Places

If your Department provides some employees with free employer-provided parking that is not listed above, you are required to determine the monthly fair market value of this non-cash parking benefit each year. IRS guidance requires that the fair market value be determined based on either:

- If the parking is available to the public, the monthly rate is the rate that the general public pays for the same parking, not the lower group or corporate rate that your Department actually pays for the spaces.
- If the parking is not available to the public, the Department must survey the rates at local parking facilities that are both comparable and in the same vicinity as the Department's site. The Department sets a monthly value based on the monthly rate for parking at a comparable lot (not any lower amount that your Department actually pays for the spaces).

Departments that provide free parking in facilities other than the McCormack, State House, Hurley/Lindemann Building and Merrimac Street lots should re-determine the fair market value of this parking fringe benefit for tax year 2020. Please refer to IRS Publication 15B, "Employers Tax Guide To Fringe Benefits", for additional guidance on non-cash fringe benefits and use the exclusion amounts outlined in this memo (Federal/State \$270).

Periodically, the Office of the Comptroller will review the status of employee records as they relate to benefit and tax requirements as well as the department evaluations of parking values assigned.

Tax Reporting Requirements Based upon "Access", Not Employee "Use" of Parking

With the limited exception of the few state employees who are assigned "non-personal use vehicles", there are no exemptions from the tax reporting and withholding requirements for employer-provided parking (even if the parking is required to perform their jobs). The value of a parking fringe benefit is determined by the parking "access" not by the actual "use" of the parking space by an employee. The value of the parking benefit is the same whether an employee is assigned a reserved parking space or granted guaranteed access to unassigned spaces.

Commonwealth-Provided Parking That Does Not Require Tax Reporting

The following types of Commonwealth-provided parking have been determined not to trigger the state and federal tax reporting requirements:

- Employee parking assignments at the Boston Merrimac Street parking lot (fair market value is \$240 which is less than the limit).
- Employees provided with passes for non-guaranteed or non-reserved on street or off street parking (e.g., “L Pass” spaces).
- Employees provided with limited access parking so long as the total daily space value for parking access for that employee does not exceed the \$270 (federal and state) threshold per month for days granted access. The employee must **not** be able to park on any other days.

Examples include:

- Restricted night time access between 5 p.m. and 7 a.m.
- Parking space shared by multiple employees, each with restricted access with a monthly value which does not exceed federal or state thresholds
- Visitor parking access

Entering a Recurring Parking Non-Cash Benefit in HR/CMS

The HR/CMS earnings code for imputed parking benefits is “PKF”. Departments should follow the Job Aid regarding the parking non-cash benefit in the [HR/CMS Knowledge Center](#) under the heading “General Deductions”. This benefit is processed one month in arrears. In HR/CMS, the January benefit is not processed until the February payroll.

- February 1, 2020 is the first pay period end date in February 2020.

See Attachment A-Employee Non-Cash Parking Benefit for a copy of the employee non-cash parking benefits HR/CMS Selection form.

If you have any questions, please contact the Comptroller’s Payroll Office or Tax Clearinghouse at StatewidePayroll@mass.gov or the Solutions Desk at (617) 973-2468.

Enc: [Attachment A-Employee Non-Cash Parking Benefit](#)
[Annual Changes Matrix](#)

cc: General Counsels
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