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MEMORANDUM

To: Chief Fiscal Officers, MMARS Liaisons, and Payroll Directors

From: Kevin McHugh, Assistant Comptroller

Date: January 19, 2021

Re: Tax and Payroll Updates for 2021

Comptroller Memo FY2021-17

Executive Summary

HR/CMS must be updated to comply with a number of IRS and DOR requirements regarding employer responsibilities for tax year 2021. 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 \$25,100 for tax year 2021, up \$300 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,550 for 2021, up \$150, and for heads of households, the standard deduction will be \$18,800 for tax year 2021, up \$150.

The personal exemption for tax year 2021 remains at \$0, as it was for 2020; this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act of 2018. For tax year 2021, the top rate is 37 percent for individual single taxpayers with incomes greater than \$523,600 (\$628,300 for married couples filing jointly). The other rates are:

- 35 percent for incomes over \$209,425 (\$418,850 for married couples filing jointly)

- 32 percent for incomes over \$164,925 (\$329,850 for married couples filing jointly)
- 24 percent for incomes over \$86,375 (\$172,750 for married couples filing jointly)
- 22 percent for incomes over \$40,525 (\$81,050 for married couples filing jointly)
- 12 percent for incomes over \$9,950 (\$19,900 for married couples filing jointly)

The lowest rate is 10 percent for incomes of single individuals with incomes less than \$9,950 (\$19,900 for married couples filing jointly). For 2021, as in 2020, there is no limitation on itemized deductions as that limitation was eliminated by the Tax Cuts and Jobs Act.

26 Pay Periods in 2021

There will be 26 pay periods processed in Tax Year 2021 beginning with pay period ending 1/2/2021 and concluding with the pay period ending 12/18/2021.

- 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 rate remains 5% pending confirmation of DOR releasing 2021 circular M.

Non Resident Aliens (NRA)

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. NRA employees must provide the required information and complete the necessary forms using GLACIER, the Commonwealth's secure Online Tax Compliance System. To gain access to the Glacier application, please contact the CTR Statewide Payroll Team at Statewidepayroll@mass.gov. For more details see the Non Resident Alien Taxation section of the [HR/CMS Knowledge Center](#).

Massachusetts Minimum Wage

The 2021 Massachusetts Minimum Wage is currently \$13.50 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: <https://www.mass.gov/orgs/department-of-family-and-medical-leave>.

Standard Mileage Rates

The 2021 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes is 56¢ per mile a decrease from 57.50¢ from the rate in 2020. Any mileage reimbursements greater than 56.00¢ 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 <https://www.irs.gov/pub/irs-pdf/p15t.pdf>.

Social Security

(Where applicable) the social security tax rate for 2021 is unchanged at 6.2%; the wage limit is \$142,800 (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 2021 Salary Limit is \$185,600 (64% of \$290,000) 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 remained the same: Normal - \$19,500; 3 Year Catchup (457) - \$19,500; the Over 50 limit - \$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 2021 HCSA Limit is unchanged, the Fee decreased: DCAP - \$5,000; HCSA - \$2,750 (minimum \$250); the administrative fee (HCSAF) - \$1.00 month.

Departments should familiarize themselves with the HCSA/DCAP/IRS 2 ½ month grace period when considering 2021 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/sites/default/files/document/forms/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 16, 2021. 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 W-4 Exempt Process
http://www.hrms.state.ma.us/KnowledgeCenter/TrainingAndSupportTools/JobAids/JobAidDownloads/PY_5.5RD_%20W4%20Exempt%20Process.docx
- If employees use the IRS form, they need to write “Exempt” in the space below Step 4(c) on the form. Departments do not need to send W-4 forms claiming “Exempt” status to the IRS.

2021 W-4 Form

2021 Form W-4, Employee’s Withholding Certificate, is the same as 2020 but is very different from 2019. 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, all employees will be required to use the 2021 Form going forward.

[https://www.irs.gov/forms-pubs/about-form-w-4.](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 the 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 <https://www.irs.gov/pub/irs-pdf/p15t.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 2021 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)

The 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 – \$145 for Transit and \$275 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

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 exclusion amount for tax year 2021 remains \$270 per month.

The Massachusetts exclusion amount for tax year 2021 has increased to \$275 per month. The code PKS will be available to handle the separate State calculation. PKF will be used for the Federal calculation. Departments will need to manage both entries.

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 \$4 to \$438 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 \$4 increase in fair market value (\$438) and no change to Federal monthly exclusion (\$270) will require updating the amounts in HR/CMS for these locations. The PKF amount for these locations is \$168 per month.
- The State monthly exclusion is now \$275; ALL departments will be required to enter the amounts over the \$275 as a PKS entry in HR/CMS. For Government Center areas this amount is \$163 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 2021. 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 \$270 and State \$275).

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.

COVID-19, Remote Work, Employer Provided Parking and Imputed Income Reporting for CY 20 and CY 21 – as a reminder, the imputed income reporting for an employer provided parking space, as determined by the IRS revolves around access to the parking space and not actual usage of the parking space. Therefore, so long as the parking space was available for a specific person’s use (Throughout the COVID pandemic the McCormack Garage has been accessible for assigned users) and there was no affirmative action to surrender the space prospectively by that person, then the actual use of the space during a period of remote work (or otherwise) would not be a factor.

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 or \$275 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” Federal and “PKS” State. 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 13, 2021 is the first pay period end date in February 2021.

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 comptroller.info@mass.gov (617) 973-2468.

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

cc: General Counsels
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