OFFICE OF THE COMPTROLLER
ONE ASHBURTON PLACE, 9TH FLOOR
BOSTON, MASSACHUSETTS 02108
(617) 727-5000
MACOMPTROLLER.ORG

Payroll Deductions and Chargebacks Policy: Unemployment Insurance, Paid Family and Medical Leave, and Medicare Tax

Effective: July 1, 2004
Last Updated: February 23, 2026

Executive Summary

This policy applies to all Commonwealth departments. As an employer, the Commonwealth is required to report and pay Medicare tax and Massachusetts contributions for Unemployment Insurance and Paid Family and Medical Leave. The Office of the Comptroller makes these payments on behalf of the Commonwealth and processes a related chargeback to departments. Departments are responsible for determining and verifying the tax status of each of their employees and entering that status correctly in the statewide payroll system. This requires confirming whether an employee has a concurrent job and ensuring that both jobs have the correct Medicare status in the statewide payroll system.

Policy

Unemployment Insurance and Paid Family Medical Leave

The Office of the Comptroller (CTR) prepares a quarterly Unemployment Insurance (UI) report and pays UI and Paid Family and Medical Leave (PFML) premiums to the Commonwealth's Executive Office of Labor and Workforce Development on behalf of Commonwealth departments and their employees, including contractors and employees living and working outside of Massachusetts.

UI coverage for Commonwealth employees is governed by M.G.L. c. 151A § 14C. The Director of the Executive Office of Labor and Workforce Development (EOLWD), in conjunction with the U.S. Department of Labor, may establish a UI rate and provide guidelines to employers.

The PFML program, governed by M.G.L. c. 175M, is administered by the Department of Family and Medical Leave (DFML). Pursuant to M.G.L. 175M § 4, the Commonwealth must provide notice at hire or rehire of the program benefits and the required employer/employee contributions for the PFML program to employees.

Unless otherwise specified in general or special laws, all wages paid, up to defined limit, to an employee for services rendered from January 1 to December 31 of any tax year are subject to UI and PFML.

To fulfill its obligation to pay UI and PFML premiums on behalf of Commonwealth employees, CTR processes a monthly chargeback to departments at the employer payroll chargeback rate, published annually by CTR (See the CTR Fiscal Year Memo page for current rate amount).

For UI, PFML, and Employer Medical Assistance Contribution (EMAC) contributions, departments are responsible for ensuring that employees are properly classified in the payroll system. For UI, the employee is either "Exempt" or "Subject"; for PFML, the employee is either "Exempt"; "Department Funded" (100% employer share); or "Subject" (approximately 50% employee and 50% employer share).

The following wages are exempt from both UI and PFML contributions:

- Wages paid to elected officials;
- Wages paid to judges of the Commonwealth;
- Wages paid to clients receiving rehabilitative services at state facilities;
- Wages paid to the National Guard;
- Wages paid to students who work and attend classes in the same school;
- Wages paid to student nurses in the employ of a hospital or school;
- Wages paid to interns and research assistants (e.g. judicial clerkships, medical residencies);
- Wages paid to service agricultural laborers;
- Wages paid to workers in a private, local college club or local chapter of a college fraternity or sorority;
- Wages paid to independent contractors.

Medicare Tax

Medicare tax is administered by the Social Security Administration (SSA) and the Internal Revenue Service (IRS). It is a mandatory deduction for Commonwealth employees hired after March 31, 1986, and is deducted every bi-weekly pay period. The term "employee" as used in this document refers to both state and contract employees. The first $2,000 of combined retirement and Medicare withholdings are pre-tax for state withholdings. Employees of the Commonwealth are not subject to Social Security tax, in accordance with a Section 218 agreement entered into by the Commonwealth and the U.S. Secretary of Health and Human Services in 1952. *See* 42 U.S.C. § 418.

When completing Medicare tax verifications for employees, departments must ensure that names match SSA records. Correct names and Social Security Numbers (SSN) on W-2 wage reports are the keys to successful processing of the Commonwealth's annual wage report submission. Not only can the Commonwealth be subject to penalties when employee names and SSNs do not match SSA records, but unmatched wage reports can result in earnings that are not posted to employee records. To verify the name and SSN match, departments should call the SSA toll-free number for employers at 1-800-772-6270 (see Social Security Number Verification Service (SSNVS) Handbook).

Commonwealth employees also may be subject to the Medicare tax for hospital insurance coverage. The Consolidated Omnibus Budget and Reconciliation Act (COBRA) provides that government employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the Federal Insurance Contributions Act (FICA) tax. Government employers are required to match the amount of the employee's contribution. Each department is assessed the cost of the employer paid portion of Medicare tax applicable to their employees. Certain employees or services are excluded from the Medicare tax. These exclusions pertain regardless of the date the employee was hired. The following employees or services are not subject to Medicare tax:

- Individuals hired to be relieved from unemployment;
- Patients or inmates working in hospitals, homes or other institutions;
- Services performed in a local college club, fraternity, or sorority by students enrolled and attending classes at such school;
- Services performed in a local school, college or university by students enrolled and attending classes at such school;
- Services performed as a student nurse in the employ of a hospital or a nurse's training school by an individual who is enrolled and is regularly attending classes in a nurse's training school chartered or approved pursuant to state law;
- Services performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his/her ministry;
- Temporary workers hired for fire, snow, flood, or similar emergencies; and
- Election officials or workers receiving less than $100 in a calendar year for such services.

Exemptions for Continuing Employment ("Break in Service")

If an employee is not covered by one of the Medicare exclusions listed above, departments must determine whether the exemption for continuing employment applies.

A Commonwealth employee hired before April 1, 1986, who transfers after March 31, 1986, to another Commonwealth employer, is exempt from the Medicare tax provided that there was continuous uninterrupted employment with the Commonwealth. An interruption shall include a break in service of one business day or more. (See Publication 963 at IRS Forms, instructions and publications)

The question of whether an employment relationship has been interrupted must be determined by reviewing all relevant facts and circumstances. Two examples of no interruption of an employee's employment relationship are:

- Employee transfers from a Commonwealth employer to another Commonwealth employer, both of which use the same Employer Identification Number (EIN) for the purposes of withholding, paying and reporting the federal income taxes of employees.
    - Employees with a job action of "Transfer" automatically have their Medicare tax status value carried forward from their previous Commonwealth job record.
    - If the transfer is treated as a "Hire" or "Rehire" in the statewide payroll system, the Medicare tax status information would not be carried forward from the employee's previous Commonwealth job record. The new department is responsible for determining the Medicare tax status for the new employee with the former department.
- An employee was hired before April 1, 1986, by a Commonwealth department. The employee starts a part time job after April 1, 1986, with another Commonwealth employer, who uses the same EIN for tax reporting as the original department. The employee works both jobs concurrently (primary and secondary). This type of employment is most common in higher education departments.

An employee does not qualify for the Medicare tax exemption if:

- It is the employee's first job with the Commonwealth. Employees with a job action of "Hire" or "Rehire" automatically have their Medicare tax status value default to Medicare only ("M").

- The employee transfers from any other political subdivision employer (local municipal, county, authority, federal or another state) to the employment of the Commonwealth after March 31, 1986.
- The employee transfers from a Commonwealth employer to any other political subdivision employer (local, municipal, county, authority, federal or another state) after March 31, 1986.
- The employee is rehired after retirement.

Determining Medicare Tax Status

The following chart should be used by departments to determine employees' Medicare tax status.

#	# Scenario	Has Break in Service Occurred ?	Explanation	Employee's Medicare Tax Status Setup in the Statewide Payroll System
	First Time Hires			
1	Employee was hired before April 1, 1986, into a Commonwealth department and has worked continuously for that department since that time.	No	Employee was hired before April 1, 1986, which qualifies them as exempt from Medicare tax withholding.	Exempt (E)
2	Employee is hired on or after April 1, 1986, into a Commonwealth department.	N/A	Employee was hired on or after April 1, 1986, which requires them to pay Medicare tax.	Medicare only (M)
	Transfers			
3	Employee was hired before April 1, 1986, into a Commonwealth department. Employee transfers after April 1, 1986, from one Commonwealth employer to another Commonwealth employer (both of which use the same EIN for tax reporting). The employee begins working for the new Commonwealth employer on the next business day after leaving their last Commonwealth employer.	No	If employee begins work with the new Commonwealth employer on the next business day after leaving their old Commonwealth employer, no break in service has occurred.	Exempt (E)

#	# Scenario	Has Break in Service Occurred ?	Explanation	Employee's Medicare Tax Status Setup in the Statewide Payroll System
	Concurrent Jobs			
4	Employee was hired before April 1, 1986, into a Commonwealth department. Employee transfers after April 1, 1986 from one Commonwealth employer to another Commonwealth employer (both of which use the same EIN for tax reporting). The employee begins working for the new Commonwealth employer after taking a week off between jobs.	Yes	If employee takes time off before going to work for their new Commonwealth employer, it is considered a break in service.	Medicare only (M)
5	Employee was hired before April 1, 1986, by an authority or a local, municipal, federal, county or other state government. Employee was hired after April 1, 1986, to a Commonwealth employer, who does not use the same EIN for tax reporting.	Yes	Employee is going to work for a Commonwealth employer, who does not report under the same EIN as the local, municipal, authorities, federal, county or another state, therefore it is a new employee relationship.	Medicare only (M)
6	Employee was hired before April 1, 1986, into a Commonwealth Department. Employee starts a part time job after April 1, 1986, with another Commonwealth employer, who uses the same EIN for tax reporting as the original department. The employee works both jobs concurrently (primary and secondary).	No	Employee is exempt from Medicare tax on their primary job due to their hire date (before April 1, 1986). No break in service has occurred; therefore, the employee remains exempt from Medicare tax in their secondary job.	Exempt (E) (for both jobs)

#	# Scenario	Has Break in Service Occurred ?	Explanation	Employee's Medicare Tax Status Setup in the Statewide Payroll System
7	Employee was hired before April 1, 1986, into a Commonwealth department. Employee starts a part time job after April 1, 1986, with another Commonwealth employer, who uses the same Employer ID number as the original Department. The employee works both jobs concurrently. The employee is terminated from the original department but remains at the second job.	No	Employee is exempt from Medicare tax due to their hire date (before April 1, 1986). No break in service has occurred because the employee was continuously employed by the Commonwealth. Therefore, the employee remains exempt from Medicare tax in their secondary job.	Exempt (E)
	Special Circumstances			
8	Students working in a local school, college, university, local college club, fraternity or sorority and are enrolled and attending classes at that school	N/A	Students who are enrolled and attending classes on at least a half-time basis (for at least 6 credit hours) and who work at the same institution, are exempt from Medicare tax regardless of date of hire	Exempt (E)
9	Students working for a local school, college, university, local college club, fraternity or sorority and are enrolled and attending classes at a different school, college, or university.	N/A	For the student to be exempt from Medicare, that student must be working at the same school they attend.	Medicare only (M) in the record(s) at the school he/she does not attend.
10	Students who work (as an intern or otherwise) at a Commonwealth department	N/A	In this case, the student is not exempt from Medicare	Medicare only (M) in the record(s) at the Commonwealth Department

#	# Scenario	Has Break in Service Occurred ?	Explanation	Employee's Medicare Tax Status Setup in the Statewide Payroll System
11	Students working during a school break in a local school, college, university, local college club, fraternity or sorority and are enrolled and attending classes at that school during the school year	N/A	If the school break is less than five weeks, the student is exempt. If it is more than 5 weeks (e.g., summer), students are subject to Medicare unless enrolled in summer school classes for at least 3 credits (non-credit courses will not qualify students for Medicare exemption).	Exempt (E) if break is less than 5 weeks or (if summer) student is enrolled in summer school classes for at least 3 credits. Medicare only (M) if break is more than 5 weeks and student is not enrolled in summer classes for at least 3 credits.
12	Student nurses who are working in a hospital or a nurse's training school (which is chartered or approved by state law) and are enrolled and attending classes at that school	N/A	Students who are enrolled and attending classes at the same school at which they are working are exempt from Medicare tax regardless of the date of hire	Exempt (E)
	Higher Ed Faculty			
13	Adjunct faculty who are hired before April 1, 1986, and whose regular schedule does not include working during the summer or a specific semester, and is always active in the statewide payroll system	N/A	Employee who works for 9 months during the year but who has an active record in the statewide payroll system is still employed with the Commonwealth	Exempt (E). There is no break in service

#	# Scenario	Has Break in Service Occurred ?	Explanation	Employee's Medicare Tax Status Setup in the Statewide Payroll System
14	Employee was hired before April 1, 1986, with the Commonwealth. Some time after April 1, 1986, the employee is hired as a contract employee to teach evening classes in one of the state universities, colleges, or community colleges who use the same EIN as the Commonwealth for tax reporting purposes	N/A	Employee was hired before April 1, 1986, in the their primary job which qualifies them as exempt from Medicare tax withholding	Exempt (E).
	Ministers			
15	Commissioned or licensed church ministers who are performing services in the exercise of their ministry	N/A	Church ministers performing services as part of their ministry are exempt from Medicare tax regardless of date of hire	Exempt (E)
	Temporary Emergency Workers			
16	Temporary workers hired for fire, snow, flood, or similar emergencies	N/A	Temporary workers hired for fire, snow, flood, or similar emergencies are exempt from Medicare tax regardless of date of hire	Exempt (E)
	Election Officials			
17	Election officials or workers receiving less than $100 in a calendar year for such services	N/A	Election officials or workers receiving less than $100 in a calendar year for such services are exempt from Medicare tax regardless of date of hire	Exempt (E)
18	Employee who is hired by a Commonwealth employer to relieve unemployment	N/A	Employees hired to relieve unemployment, regardless of date of hire, are exempt from Medicare tax.	Exempt (E)
	Patients or Inmates			
19	Patients or inmates working in hospitals, homes, or other institutions	N/A	Patients or inmates are exempt from Medicare tax regardless of date of hire	Exempt (E)

Refunding Medicare Tax

If a department determines that an employee is owed a current or prior year Medicare tax refund, the department must submit a completed Medicare Tax Refund Request Form, with the appropriate

attachments, to the CTR for each tax year affected. Medicare tax refunds can only be processed for the current tax year, and/or the three consecutive prior tax years.

For a current year Medicare tax refund, the Department must submit:

- A completed and signed Medicare Tax Refund Request form; and Tax Administration: Tax Refunds Page 2 of 2
- A screen print of the employee's Medicare tax year-to-date balance.

For a prior year Medicare tax refund, the Department must submit:

- A completed and signed Medicare Tax Refund Request form
- The employee's Form W-2;
- A completed Form W-2 C; and
- A completed Form W-3 C.

After the appropriate paperwork has been submitted by the Department, the CTR will:

- Review and process the refund based on IRS regulations and guidelines;
- Request the refund payment from the Office of the State Treasurer;
- Mail refunds to the employee's home address;
- Correct the employee's W-2 file prior to the end of the year (current year); or
- File a corrected tax reporting form with the appropriate government entities (prior year).

Chargebacks

CTR processes a monthly chargeback for each state department at a rate published each year by CTR (See the CTR Fiscal Year Memo page for current rate amount). The allocation of money received by this chargeback is then transferred to the Treasurer's Medicare Tax account. The Treasurer's office then uses this account to pay the employer's portion of the Medicare tax contributions due on behalf of all employees to the SSA.

Internal Controls

Department heads are required to annually complete CTR's Internal Control Certification (ICC). As part of that process, departments are required to certify compliance with this policy. CTR may also conduct periodic interviews and desk reviews to verify compliance with this policy. Departments are responsible for complying with this policy, and making any corrections necessary to bring their actions into compliance if a department finds it has taken an action contrary to CTR's instructions.

Contacts

- **CTR Solution Desk**