



Social Security Coverage and Reporting Branch ...leading the way

FICA Taxation of Mandatory Employee Retirement Contributions

To: All State and Local Government Employers

Under a Memorandum of Agreement between the Commonwealth of Kentucky and the Internal Revenue Service, effective on January 1, 2017, both the taxable FICA wages and taxable Medicare wages will be calculated on the employees' gross wages rather than allowing a deduction of the employee's pension contribution. This settlement affects all State and Local Governmental employers within the Commonwealth of Kentucky.

Beginning next year, each governmental employer and their respective employees will each have to pay the increased amount of FICA and/or Medicare taxes. But, the additional contributions in the FICA taxes will result in increased Social Security benefits upon retirement. For CY 2017, the current FICA tax rate is 6.2% up to \$127,200 and the current Medicare tax rate is 1.45%

Thus, effective January 1, 2017 all Kentucky State and Local Governmental employers must calculate the FICA taxes and/or Medicare taxes on their employee's gross salary rather than reducing the gross salary by the employee's pension contribution.

The deduction was originally allowed based upon the term "*picked up by the employer pursuant to a salary reduction agreement*" in Sec.218 of the Internal Revenue Code. The federal courts have redefined that this sentence means that the employer themselves must pay the amount of the pension contribution for the employee rather than deducting it from gross salary when they forward the withholdings to the pension system for it to be recognized as "*picked up*".

It should be noted that the income tax withholding calculation for the State and Local Governmental employees will not change. Their pension contribution deduction will continue to be allowed for the calculation of their federal and state income tax withholding.

Please contact J. W. Bryan, State Social Security Administrator at jw.bryan@ky.gov or at (502) 564-6879 if you have any questions.

New Due Date for Filing Wage Reports with the IRS

Public Law 114-113, Division Q, section 201, requires Form 1099-MISC to be filed on or before **January 31, 2017**, when you are reporting non-employee compensation payments in box 7. Otherwise, file by February 28, 2017, if you file on paper, or by March 31, 2017, if you file electronically. The due dates for furnishing payee statements remain the same. For more information regarding general instructions for 1099 and other forms, go to <https://www.irs.gov/pub/irs-pdf/i1099gi.pdf>.

New Due Date for Filing Wage Reports with SSA

The new due date for filing 2016 Forms W-2, W-2AS, W-2CM, W-2GU, W-2VI, W-3 and W-3SS with the Social Security Administration is now on or before **January 31, 2017**, whether filing electronically or using paper forms. For more information regarding general instructions for Forms W-2 and W-3, go to <https://www.irs.gov/instructions/iw2w3/>.

The Federal filing deadlines are as follows:

- January 31st mail 1099 and W2 forms to recipients.
- January 31st electronic and/or paper W-2, W-2AS, W-2CM, W-2GU, W-2VI, W-3 and W-3SS file due to SSA.
- January 31st electronic and/or paper 1099-MISC due to IRS (See above for exceptions).
- August 1 Correction File electronically to IRS.

Office of the Controller
Division of Local Government Services
Social Security Coverage and Reporting Branch
PO Box 639
Frankfort KY 40602-0639
Phone: 502/564-3952 Fax: 502/564-2124

[Website](#)

[J.W Bryan](#)
Director

[David Whittaker](#)
Assistant Director

[Tammy Taylor](#)
Social Security Program Manager

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