



| | Local | Toll-Free |
|------------|--------------|--------------|
| FMS Phone: | 410.269.1883 | 866.252.6871 |
| FMS Fax: | 410.269.0034 | 888.272.2236 |

TAX TALK: Employment and Income Tax Exemption Brief

- **EMPLOYMENT TAXES (fringe):** Employment taxes cover FICA (Medicare and Soc Sec), FUTA, SUTA, and Workers' Comp Insurance totaling 14% of total wages paid. These are legally required costs shared by the employer and the employee. *The employer's portion is paid from fringe (tax line items on the participant's budget); the employee's cost is paid from their earnings.* Please see handout titled 'Understanding Fringe and Employment Tax Exemptions' for more information.
 - **EMPLOYMENT TAX EXEMPTIONS:** Employers are exempt if their employees are exempt. Employees can only be exempt based on a qualifying familial relationship with their employer. Generally speaking, exempt employees are parents, spouses or children under the age of 21 of the employer. See [IRS Publication 926](#) for more information.
 - ✓ Exemptions are **MANDATORY** because an employee exemption impacts the employer's cost as well. When an employee is exempt, the employer does not have to pay their employment tax match for FICA and FUTA/SUTA, so they realize a savings. This is why there is a fringe credit applied to the employer's budget.
 - ✓ Exemptions and updates communicated to the FMS via the employee new hire packet [Special Tax Exemptions](#) form pages 1-2.

Fringe Breakdown

| Employer fee contributing to fringe | What does the fee cover for the employer? | What percent of fringe (14%) is made up of this fee? | Can employers be exempt? |
|-------------------------------------|---|--|------------------------------------|
| FICA | Social Security and Medicare | 7.65% | Yes, under special circumstances.* |
| FUTA/SUTA | Federal and State unemployment tax | 0.85% | Yes, under special circumstances.* |
| WC | Workers' compensation insurance coverage | 5.5% | No |

* Please note: For special circumstances, please reference new hire form titled 'Special Tax Exemptions' linked above.

** Please note: Fringe fees are charged only to taxable wage line items paid by the payroll process.

PLEASE NOTE: The Arc CCR does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only and it is not intended to provide, nor should it be relied on for tax, legal, or accounting advice.

- **INCOME TAXES:** Income taxes are taxes only applicable to the employee and are based on the employee's earnings and the way the employee completed their federal and state tax forms (W-4 and MW507) indicating allowances and withholding. *Employee income taxes are not accounted for on the employer's budget since it is not an employer cost.*
 - **INCOME TAX EXEMPTIONS:** Employees may be exempt from income taxes only if they share the same legal residence address as their employer. Wages (payable by Medicaid Waiver) are then treated as difficulty of care payments excludable from income tax. See [IRS Notice 2014-7](#) for more information.
 - ✓ Exemptions are **OPTIONAL**.
 - ✓ Exemptions are communicated to the FMS via the employee new hire packet [Special Tax Exemptions](#) form page 3. Any status updates require submission of an updated form.

- **A FINAL WORD:**
 - Federal and state taxation rules change frequently. Employees may elect to consult with a tax advisor to assess the impact of these rules on their taxes.
 - If employees discover that their tax situation has changed during the year, they may submit a revised W-4 and/or MW507 for withholding adjustments on future pay. The most current versions of these documents can be located on our [Self-Directed Services web page](#).

PLEASE NOTE: The Arc CCR does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only and it is not intended to provide, nor should it be relied on for tax, legal, or accounting advice.