

THIRD-PARTY SICK PAY

Section 931.5 of the Section 931.5 of the [California Unemployment Insurance Code \(CUIC\)](#) (leginfo.ca.gov/faces/codes.xhtml) provides that third-party sick payments are “wages” for the purpose of reporting Unemployment Insurance (UI) and Employment Training Tax (ETT). These payments are also reportable as Personal Income Tax (PIT) wages, which are wages subject to California PIT. Even though PIT withholding on these wages is not mandatory, the wages are considered taxable income to the recipient and must be reported on the recipient’s California income tax return. Without exception, payments for third-party sick pay are not subject to State Disability Insurance* (SDI).

WHAT IS THIRD-PARTY SICK PAY?

Third-party payers, such as insurance companies or trusts, who pay sick pay in place of wages. These payments are made to employees under a plan established for a participating employer during any period when an employee is absent from work due to illness or injury. These payments are sometimes known as short-term disability payments.

WHAT IS NOT CONSIDERED THIRD-PARTY SICK PAY?

- Payments made by a third party when the employee has paid the premiums.
- Sick pay which is made after the first six calendar months following the last calendar month in which the employee performed services for the employer.
- Payments received under a workers’ compensation law and SDI payments.

WHO IS A THIRD-PARTY PAYER?

A third party who makes sick payments to an employee as an agent of the employer is not considered a third-party payer. The determining factor as to whether a third party is an agent of the employer is whether the third party bears any insurance risk. If the third party bears no insurance risk and is reimbursed on a cost-plus-fee basis, the third party is an agent of the employer. Sick payments made by an agent of an employer are defined

as “wages” paid by the employer. The employer is responsible for reporting any UI, ETT, SDI, and PIT withholdings that are due. The payments are reportable as both total subject wages and PIT wages.

WHO IS RESPONSIBLE TO REPORT PAYMENTS?

The third-party payer must notify the last employer, who is a member of the plan and for whom the services were performed, within 15 days of payment. The last employer must be provided with the following:

- The name and Social Security number (SSN) of the recipient of the sick pay.
- The amount of gross wages (sick pay) paid pursuant to the plan.

When the third-party payer meets the above conditions, the last employer is required to pay any UI and ETT due on the sick pay and report both subject wages and PIT wages.

If the sick payments are made under a contract of insurance to a multiple employer plan, the third-party payer must notify the plan within 15 days. The plan then has six business days after the receipt of the notification to notify the last employer. If the plan does not meet the notification requirement, the plan then becomes the employer and must report the sick pay as subject wages and PIT wages and pay any applicable taxes.

IMPORTANT: If the third-party payer does not notify either the last employer or the plan within 15 days of payment, the third-party payer is considered the employer. The third party would then be required to report the wages and pay UI and ETT contributions. The third-party payer would also be responsible for issuing the recipient’s federal [Wage and Tax Statement \(Form W-2\)](#) (irs.gov), which would include his or her third-party sick pay, voluntary PIT withholding, and PIT wages.

PROCEDURES

Employer

- Wages are considered paid when the employer receives the notice from the third-party payer or the plan that third-party sick pay has been paid.

*Includes Paid Family Leave (PFL).

- Submit a *Quarterly Contribution Return and Report of Wages (Continuation)* (DE 9C) electronically to report wages and withholdings for all employees, including wages from third-party sick pay. Use the Wage Plan Code “R” for Third-Party Sick Pay. You can file online with [e-Services for Business](http://edd.ca.gov/e-Services_for_Business) (edd.ca.gov/e-Services_for_Business).

Note: If you have an approved e-file and e-pay mandate waiver to file the DE 9C by paper, submit one DE 9C listing all regular wages paid by you as an employer and send a separate DE 9C listing all sick pay paid by a third-party payer as total subject wages and PIT wages. Include the SSN and the name of each recipient. Note “Third-Party Sick Pay” at the top of the form. Enter your employer payroll tax account number, business name, and address in the appropriate blocks.

- Submit a *Quarterly Contribution Return and Report of Wages* (DE 9) electronically.
 - Include all sick payments for **Total Subject Wages Paid This Quarter**.
 - Include third-party sick pay when determining the amount entered for **Unemployment Insurance (UI) Wages**.
 - **Do not** include third-party sick pay when determining the amount entered for **State Disability Insurance (SDI) Wages**.
 - **Do not** include PIT withheld and reported by a third-party payer for **California Personal Income Tax (PIT) Withheld**.
- You may prepare two Forms W-2 for each of your employees (one for third-party sick pay and withholding and one for all other wages and withholding) or include the sick pay and withholding with the other wages and withholding on one Form W-2.

Third-Party Sick Payers

The procedures below apply to third-party payers who notify the last employer within 15 days of each payment of sick pay:

- The sick pay recipient may voluntarily request that PIT be withheld. The recipient must submit a written request to the payer including his/her SSN

and the amount to be withheld, or a [Request for State Income Tax Withholding From Sick Pay \(DE 4S\) \(PDF\)](http://edd.ca.gov/pdf_pub_ctr/de4s) (edd.ca.gov/pdf_pub_ctr/de4s) or a [Request for Federal Income Tax Withholding from Sick Pay \(Form W-4S\)](http://irs.gov) (irs.gov).

- Submit a DE 9C electronically to report the recipient’s voluntary PIT withholding.
- Submit a DE 9 electronically.
 - Do not include third-party sick pay when determining the amounts for **Total Subject Wages Paid this Quarter, Unemployment Insurance (UI) Wages, and State Disability Insurance (SDI) Wages**.
 - Include PIT withheld amount for **Personal Income Tax (PIT) Withheld**.

A separate employer payroll tax account number is not necessary. You may report PIT withholding using your current employer payroll tax account number.

On or before January 15 of each year, you must furnish a written statement to the last employer showing the following:

- The name and SSN of each sick pay recipient during the prior calendar year.
- The total amount of third-party sick pay paid to each recipient during the prior calendar year.
- The total amount of PIT withheld and deposited with the Employment Development Department (EDD) for each sick pay recipient.

ADDITIONAL INFORMATION

For further assistance, please contact the Taxpayer Assistance Center at 1-888-745-3886 or visit the nearest [Employment Tax Office](http://edd.ca.gov/Office_Locator) (edd.ca.gov/Office_Locator) listed in the [California Employer’s Guide \(DE 44\)](http://edd.ca.gov/pdf_pub_ctr/de44) (PDF) (edd.ca.gov/pdf_pub_ctr/de44) or visit the [EDD](http://edd.ca.gov) (edd.ca.gov).

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 1-888-745-3886 (voice) or TTY 1-800-547-9565.

This information sheet is provided as a public service and is intended to provide nontechnical assistance. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and administrative and court decisions. Any information that is inconsistent with the law, regulations, and administrative and court decisions is not binding on either the Employment Development Department or the taxpayer. Any information provided is not intended to be legal, accounting, tax, investment, or other professional advice.