

State Disability Insurance Tax

Auditor-Controller's Office

Recommendation

- ▶ Authorize remittance by the Auditor-Controller of up to \$1.7 million to the State of California Employment Development Department (“EDD”), for State Disability insurance (SDI) tax under-withholding, including a late payment penalty and interest, for payroll tax returns filed after October 31, 2022; and
- ▶ Authorize payment of the SDI tax under-withholding without recoupment from County employees

State Disability Insurance Tax

- ▶ County of Monterey participates in the State Disability Insurance (SDI) Program which provides temporary wage replacement benefits to eligible employees within unions negotiated to participate in the program
- ▶ For those participating in the SDI program, a withholding based on the SDI tax rate at the time of wage payment is calculated and withheld from the wages subject to SDI tax
- ▶ County recently discovered that the 457(b) deferred compensation contributions and CalPERS retirement contributions were erroneously excluded from the SDI tax calculation

State Disability Insurance Tax Update

- ▶ On July 1, the Board received an update from the Auditor-Controller's Office (ACO) related to the SDI withholdings
- ▶ The error was corrected by adjusting SDI withholdings effective July 2025
- ▶ However, the County is obligated to remit payment to the State of California for under withholding during the period October 2022 through June 2025
- ▶ For this period, an estimated under-withheld tax liability is \$1.2 million, which will incur approximately \$180,000 in penalties and \$98,000 in interest

Estimated SDI Tax Liability by Tax Year/Quarter

Year	Quarter	Estimated Tax Liability	Potential 15% Penalty	Interest Rate	Potential Interest	Estimated Total
2022	Q4	\$ 59,698	8,955	3%	\$ 5,924	\$ 74,577
2023	Q1	59,717	8,958	5%	5,364	74,039
2023	Q2	51,646	7,747	5%	4,156	63,549
2023	Q3	95,632	14,345	7%	11,582	121,559
2023	Q4	82,679	12,402	7%	8,726	103,806
2024	Q1	141,725	21,259	7%	18,129	181,112
2024	Q2	122,171	18,326	7%	12,898	153,395
2024	Q3	141,884	21,283	8%	11,863	175,029
2024	Q4	141,174	21,176	8%	8,791	171,141
2025	Q1	142,334	21,350	8%	6,735	170,419
2025	Q2	139,946	20,992	8%	3,278	164,216
Total		\$ 1,178,606	\$ 176,791		\$ 97,446	\$ 1,452,843

Estimated Cost Summary

Tax Liability	\$ 1,178,606
Penalties and Interest	274,237
Employer Share of Social Security and Medicare Taxes	80,270
	<hr/>
	\$ 1,533,113
	<hr/> <hr/>

Remittance Plan

- ▶ Remit the payment to the State by October 31, 2025
- ▶ The ACO will amend affected quarterly returns within the statute of limitations, which will include 4th quarter of 2022, all four quarters of 2023, 2024, and first two quarters of 2025 (Q1 & Q2)
 - ▶ If the recommendation is approved, the County absorbs the cost of tax under-withholding on behalf of the employees without seeking recoupment from employees
 - ▶ Penalties and Interest on the outstanding taxes will be paid at the time the amended quarterly returns are remitted.

Return to your Board October 21, 2025

- ▶ The ACO will return to your Board requesting an increase in appropriations to remit payment to EDD
- ▶ The County Administrative Office has identified the funding source to be the General Fund Compensated Absences Assignment account

Active/Separated Employee Count

	# of EEs	%	Tax Liability	%
Active	4,740	74%	\$1,049,281	89%
Separated	1,629	26%	\$129,436	11%
Totals	6,369	100%	\$1,178,717	100%

Adjustment - Current Active Employees

The SDI taxes paid by the County on behalf of the employees are considered reportable wages in the year paid and subject to tax withholdings

The ACO will implement this adjustment to reportable wages for active employees for the

- ▶ Pay period ending October 17, 2025
- ▶ Pay stub for checks dated October 24, 2025
 - ▶ Will reflect “County Paid SDI” and associated tax withholdings
- ▶ The ACO will provide prior notification of the adjustment to the County employees

Adjustment - Separated Employees

- ▶ For separated employees, Reportable wages will be added to the employees' Wage & Tax Statement (IRS W-2 Form)
- ▶ To be completed as part of the 2025 calendar year end process

Recommendation

- ▶ Authorize remittance by the Auditor-Controller of up to \$1.7 million to the State of California Employment Development Department (“EDD”), for State Disability insurance (SDI) tax under-withholding, including a late payment penalty and interest, for payroll tax returns filed after October 31, 2022; and
- ▶ Authorize payment of the SDI tax under-withholding without recoupment from County employees