



Santa Clara County Office of Education

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County Superintendent of Schools

Informational Bulletin

For Santa Clara County Districts

District Business & Advisory Services

Nimrat Johal: Director- DBAS: 408-453-6599

Cathy McKim, Manager-DBAS: 408-453-6588

Bulletin: 12-045

Date: September 12, 2011

To: District Fiscal Directors

From: Cathy McKim

Re: Third Party Sick Leave Processing

Please be reminded of the change to the Third Party Sick Leave Processing communicated in Bulletin 11-010 dated March 16, 2011. As part of this process change, districts are required to process all applicable Third Party Sick Leave payments through the payroll system.

The applicable payments would be sick leave compensation paid to your district, by a Third Party Vendor, on behalf of an employee. Your district would reimburse the employee via the payroll system. These Vendors are referred to as Employer's Agents. These Agents are not considered the employer and generally have no responsibility of paying employment taxes typically paid by the employer.

In addition, Districts are required to submit a copy of the Group Benefit Activity Report to the COE at least quarterly. (The Group Benefit Activity Report is typically produced and sent to the district by the third party vendor.)

To date, we have not received this report from any District. It is important to emphasize that all Third Party Sick Leave not processed via the payroll system cannot be adjusted manually during the calendar year end processing.

For your information, I have added the detailed process change below.

Please share this information as deemed appropriate.



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Third Party Sick Pay (*Page 67-68 of the Payroll-Retirement Manual*)

- ❖ What is Third Party Sick Pay?
 - This is any amount paid under a plan because of an employee's temporary absence from work due to injury, sickness, or disability.
- ❖ How to Report Third Party Sick Pay
 - Special rules apply to the reporting of sick pay payments to employees. How these payments are reported depends on whether the payments are made by the employer or a third party, such as an insurance company.
- ❖ There are two types of Payers of Third Party Sick Pay
 - Employer's Agent - A third party that makes sick pay payments as the employer's agent. This agent is not considered the employer and generally has no responsibility of paying employment taxes typically paid by the employer.
 - Third Party That Is Not The Employer's Agent - A third party vendor that makes sick pay payments, but not as an agent of the employer. However, this third party vendor is liable for remitting taxes
- ✚ **Special Note:**
 - **Whether an insurance company or other third party is your agent depends on the terms of their agreement with you.**
- ❖ Districts that **are not** responsible for remitting taxes on behalf of employees who are receiving Third Party Sick Leave have no responsibility for W2 changes. The Third Party vendor is responsible for ensuring that all pertinent tax reporting is completed for all such payments.
- ❖ Districts that **are** responsible for remitting taxes on behalf of their employees receiving Third Party Sick Pay are required to report all pay through the payroll system
- ❖ There are two methods of receiving payment:
 - The Third Party Sick Vendor should remit payment to the district.
 - The Third Party Sick Vendor can pay the gross amount to the employee and the employee can endorse their payment over to the District.
- ❖ Once the payment is received, the pay should be included in the employee's **month-end payroll as an additional line.**
 - **Use Paytype = SICP**
 - **Use Stat Ded Profile= TF3PSC (Fica/Medicare and Federal Taxes only)**
- ❖ The District will provide the County Office of Education with a copy of the Group Benefit Activity Report. The Group Benefit Activity Report is typically produced and sent to the district by the third party vendor.
- ❖ By processing all Third Party Sick Pay through payroll:
 - The appropriate taxes will be calculated and remitted on behalf of the employee and the district
 - The payroll history records will match the W2 records without manual entry
 - There will be a sufficient audit trail for payroll totals
 - This will ensure that no manual edits will be needed at calendar year end processing.