

## CHAPTER 3K

### STATE DISABILITY INSURANCE TAX

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#### HIGHLIGHTS

- Purpose Funds payments for employees who are unable to work due to their own pregnancy or non-occupational injury or illness. Funds payments for employees who need to take time off work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child on or after July 1, 2004.
  
- Tax Base In 2003, first \$56,916 of each employee's annual wages.  
In 2004, first \$68,829 of each employee's annual wages.  
In 2005, first \$79,418 of each employee's annual wages.
  
- Tax Rate The annually adjusted rate decreased from 1.18% in 2004 to 1.08% for 2005, which includes 0.08% for Paid Family Leave.
  
- Revenue

2001-02	\$3.09 billion*
2002-03	\$3.16 billion*
2003-04	\$4.04 billion*
  
- Disbursements

2001-02	\$3.37 billion*
2002-03	\$3.07 billion*
2003-04	\$3.37 billion*
  
- Administration Employment Development Department (EDD)

\*Source: EDD

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#### 1. TAX OVERVIEW

The **disability insurance tax** is imposed on employees and funds both the state disability insurance (SDI) and the Paid Family Leave (PFL) programs administered by California's EDD. The tax is levied on employees of establishments that employ one or more persons and have paid more than \$100 in wages in one calendar quarter. Tax collection is

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performed through mandatory payroll deductions. Revenues are deposited in the Unemployment Compensation Disability Fund. There is no comparable federal tax.

Disability insurance provides partial compensation for wages lost due to pregnancy and non-occupational illnesses and injuries. The PFL insurance extends disability compensation to cover individuals who take time off of work to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child. The programs cover approximately 13 million California workers.

## **2. TAX RATE**

The SDI tax rate is adjusted annually, based on the balance in the Disability Insurance Fund. The taxable wage limit is set by statute and changes when the maximum weekly benefit changes. For 2002, the tax was 0.9% on the first \$46,327 of wages earned by each employee. Recent changes in the tax rate and taxable wage limit are as follows:

- For 2003, the maximum wage limit was \$56,916, and the tax rate 0.9%.
- For 2004, the maximum wage limit is \$68,829, and the tax rate 1.18%.
- For 2005, the maximum wage limit is \$79,418, and the tax rate 1.08%.

## **3. EXEMPTIONS**

Certain groups of employees are exempt from paying (and therefore receiving) disability insurance coverage, including PFL insurance, as follows:

- Public agency employees;
- Public school employees;
- State of California employees (including state-funded institutions of higher education);
- Federal government employees;
- Self-employed individuals or employers;
- Employees of churches and certain other religious organizations;
- Individuals in certain types of family employment (e.g., children employed by their parents, spouses employed by their spouse, son, or daughter);

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- Individuals who file religious exemption certificates stating that they rely upon prayer in the practice of religious healing; and
- Certain domestic workers who receive less than \$750 in cash wages during a calendar quarter.

Although exempt from the requirement to pay SDI taxes, public school and public agency employees may elect coverage as an entire entity, by bargaining unit, or for management and confidential employees. Individuals in family employment may also elect coverage. The tax rate for these employees is the same as for non-exempt employees.

Self-employed individuals may also elect coverage, but the tax rate imposed on self-employed individuals may be different than on non-exempt employees. The self-employed tax rate is based on the net profit of the business that elects the coverage during the year prior to election.

**4. BENEFITS**

Disability insurance, and PFL insurance, benefits vary depending on the employee's wages. Disability benefits for 2003 range from \$50 to \$602 per week. The maximum benefit increases to \$728 in 2004, and \$840 in 2005. The total SDI benefits paid to each employee equal 52 times that employee's weekly benefit; however, a claimant's benefits cannot exceed 100% of the wages paid to that claimant during his or her qualifying disability base period. The total PFL insurance benefits paid to each employee cannot exceed six times that employees weekly amount within a 12-month period. The "base period" consists of the first four of the last five completed calendar quarters, depending upon the month in which the claim is filed. Effective January 1, 2003, the following base periods apply:

**MONTH CLAIM IS FILED**

January, February, or March  
April, May, or June  
July, August, or September  
October, November, or December

**BASE PERIOD**

October 1 through September 30  
January 1 through December 31  
April 1 through March 31  
July 1 through June 30

**5. REVENUE**

Revenues from the state disability insurance tax are held in the Unemployment Compensation Disability Fund, a special fund in the State Treasury. Revenues are maintained separately from the unemployment insurance tax revenues collected from employers. The Fund collected \$3.09 billion in fiscal year (FY) 2001-02, \$3.16 billion in FY 2002-03, and \$4.04 billion in FY 2003-04.

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Disability benefit payments totaled \$3.37 billion in FY 2001-02, \$3.07 billion in FY 2002-03, and \$3.37 billion in 2003-04.

**6. REFUNDS**

An employee who works for multiple employers during a given year and cumulatively earns wages in excess of the taxable wage limit may file for a refund of the excess tax paid when filing his or her California personal income tax return.

**7. VOLUNTARY PLANS**

An employer, with majority consent of his or her employees, may substitute a voluntary plan for the state disability insurance plan. The plan must provide equal or greater benefits than the state plan, including both SDI and PFL insurance benefits, and be approved by EDD.

Disability insurance contributions withheld by a voluntary plan (which are optional on the part of the employer and cannot exceed the state plan rate) are not remitted to EDD. Instead, in the voluntary plan, the employer retains these moneys in trust to pay benefits and administrative costs of the plan. Currently, there are approximately 650 voluntary plans covering almost 590,000 workers (out of a total of approximately 17.7 million workers in California). All voluntary plans are self-insured.

**8. ADMINISTRATION**

Any employer who pays in excess of \$100 in total wages during any calendar quarter is required to register with EDD. Employers are required to file quarterly returns with EDD in which they remit the wages they withhold from their employees, as well as annual returns in which they reconcile the amounts withheld during the year with amounts actually due. Generally, SDI withholding must be remitted by employers to EDD at the same time as other required employee withholding, such as state personal income taxes.

**9. CODE**

Unemployment Insurance Code Sections 2601-3306