

INTER-OFFICE MEMORANDUM

Office of Accounts and Control

**TO: Chief Payroll Officers
All State Agencies**

DATE: October 20 2009

**FROM: Louise M. Anderson
Associate Controller - Operations**

**SUBJECT: Military Differential Payments
CPO 10-07**

This document supersedes all previously issued procedures for military differential payments

Please be advised that the IRS has changed the rules for reporting military differential pay as of January 1, 2009. These payments are now considered "wages" for income tax purposes and are subject to Federal and State withholding, but NOT Social Security or Medicare. Therefore, we can no longer make these payments through Accounts Payable.

Payroll officers can submit a No-Lead and Retro (A-88) noting a "Zero" FICA code to avoid charging Social Security and Medicare withholdings.

Any questions, please call Nelia Coelho at 222-5635.