



Changes to State's Employment Tax Withholding

November 14, 2018—The Colorado Office of the State Auditor conducted an investigation concerning how the state manages the use of employer provided vehicles. They discovered that the state's policies and rules did not align with IRS regulations for determining how commuters should be taxed.

The IRS initiated an examination of the State of Colorado's employment taxes for 2015, 2016, and 2017. The IRS determined that the State was not in compliance with IRS regulations regarding commuting, uniform/clothing allowances, Medicare qualified government employees, and settlements.

The Office of the State Controller has been working with the IRS on a plan to move forward, ensuring employees are being properly taxed.

What does this mean for employees?

The State will pay Medicare and federal back taxes due for employees affected, so they will not have to refile previous years' taxes. However, beginning December 1, 2018, employees may notice a slight decrease in their net pay, due to adjustments in their tax withholdings.

Who does this affect?

- Employees who have an assigned vehicle and use the vehicle for commuting.
- Employees who receive a clothing or uniform allowance.

Who is exempt?

- Employees who do not use an assigned vehicle for commuting.
- Employees in departments that have an accountable plan for clothing/uniform allowances.
- Employees hired before April 1, 1986, without a break in service.
- Employees who do not receive supplemental wages.

How do I know if the state owned vehicle I use is taxable or tax exempt?

Consult with your payroll department. The Office of the State Controller will be issuing technical guidance to assist state agencies in making this determination.

When will I see the effect in my paystub and for how long?

There will be a one-time adjustment in December 2018 to reflect the true-up for Medicare and federal taxes from January to November 2018. Going forward, Medicare and federal taxes will be withheld in each pay period to comply with IRS regulations.

How much more should I expect to be taxed?

Commuter: This depends on your individual situation. Consult with your payroll department for more information.

Uniform/Clothing allowances: In December, these employees will have a deduction of up to 1.45% multiplied by the uniform/clothing allowance for your department for all of calendar year 2018. Going forward, an additional 1.45% for the employee's share of Medicare tax will be withheld for employees in departments with clothing and uniform allowances. Federal taxes will also be withheld each month and the amount will depend on the federal withholding percentage for each employee.

Who do I go to if I have questions?

For additional information, please visit colorado.gov/osc/tax-changes or contact the Office of the State Controller's Central Payroll Unit state_centralpayroll@state.co.us.