



State of North Carolina

Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

MEMORANDUM NO: PR2004-024

To: Chief Financial Officers
Payroll Officers

From: Robert L. Powell, State Controller

Subject: Military Differential Payments

The Office of the State Controller has recently learned that certain military personnel who are also employees of the State are exempted from Social Security (FICA) payments while on active duty. Internal Revenue Service tax law revised in 2001 specifies that certain military personnel who are called to active duty, and thereby qualify for differential pay, be exempted from Social Security (FICA) payments while on duty. Accordingly, the State is also exempted from the employer share of the FICA tax.

To accommodate this law, North Carolina House Bill 231, Sections 23.(a) and 23.(b) rewrote GS.127A-116 to provide leave without loss of pay, time or efficiency rating for federal military duty or special emergency management services retroactive to September 1, 2001.

These changes have the following payroll impacts:

- Central Payroll will correct payments of Social Security previously withheld this calendar year. Agency assistance will be required by September 30, 2004.
- Central Payroll will process refunds of Social Security previously withheld for calendar years 2001-2003. Agency assistance will be required by December 30, 2004.
- For 2004 calendar year, affected workers will show a FICA and Medicare wage amount of zero on Form W-2.
- Affected workers will each receive Form W-2C for years 2001-2003.
- Signed waivers will be needed from affected workers confirming that they will not attempt to obtain a refund on their own of the over-withheld FICA for prior year withholdings. Agency assistance will be required.

To better assist the agencies in administering the FICA changes, the Office of the State Controller has created a Military Differential Payment Procedure and Communication packet for your use. All questions regarding these procedures can be directed to Roger Farmer at (919) 981-5545. Thanks in advance for your help and participation.

MAILING ADDRESS
1410 Mail Service Center
Raleigh, NC 27699-1410

Telephone: (919) 981-5454
Fax Number: (919) 981-5567
State Courier: 56-50-10

Website: www.osc.state.nc.us/OSC/

LOCATION
3512 Bush Street
Raleigh, NC