Instructions for Reporting Wages and Contributions for Employers Who Have Elected Unemployment and State Disability Insurance Coverage Under Section 708(a) of the California Unemployment Insurance Code (CUIC)

The purpose of Section 708(a) of the CUIC is to extend both Unemployment Insurance (UI) and State Disability Insurance (SDI) coverage to an individual who is an employer. To obtain coverage, the employer must file a written election for coverage, which cannot become effective until approved by the Employment Development Department (EDD). The employer must be regularly performing services for the business (Section 708[a] of the CUIC). Coverage will not be approved if the business is operated on a seasonal basis (Section 704 of the CUIC).

Section 708(a) of the CUIC specifies that, for UI purposes only and regardless of actual earnings, wages for the individual will be reported at the highest amount of wages required to be entitled to the maximum benefit amount provided in Section 1280 of the CUIC. Please refer to the Unemployment Insurance Benefit Table found in A Guide to Benefits and Employment Services (DE 1275A). Currently, the maximum wages are $11,674.

REPORTABLE COMPENSATION “WAGES” FOR UI

The EDD determines maximum UI benefits based on reportable “wages.” Since employers do not receive “wages,” the Legislature has provided an arbitrary basis for collecting wage information and contributions, and for paying benefits under elective coverage. Compensation is reported based upon services performed.

If you performed services during the calendar quarter, all income, or “wages,” earned are required to be reported. For UI wages only, if the individual (employer) performed no services in all or part of a quarter, wages should be reported as follows:

1. If no services were performed in the quarter, no wages or contributions are reportable.
2. If services were performed in only one month of the quarter, only one-third of the quarterly statutory wages should be reported.
3. If services were performed on less than one-half the number or normal working days in the month, only one-half the statutory monthly wages should be reported.
4. If services were performed on one-half or more of the normal working days in the month, the full statutory monthly wages should be reported.
5. If services were performed during a calendar quarter on one-half or more of the number of normal working days in each month, the full quarterly statutory wages should be reported.
6. The UI contributions will be paid at the employer’s regular contribution rate. No benefits will be paid based on wages reported under the election unless all contributions due under the election have been paid.

TAXABLE “WAGES” FOR UI

The UI contributions are due on the first $7,000 in “wages” reported for each covered individual and are reported on your Payroll Tax Deposit (DE 88) and paid at your regular employment contribution rate.

PREPARING THE QUARTERLY CONTRIBUTION RETURN AND REPORT OF WAGES (CONTINUATION) (DE 9C) AND PAYROLL TAX DEPOSIT (DE 88)

If filing using paper DE 9C forms, use two separate DE 9C forms and report wages as follows:

1. Use the first DE 9C to report the total “subject wages” for each worker that is subject to both UI taxes and SDI contributions. DO NOT report your elective coverage wages on this DE 9C.
2. Use the second DE 9C to report the total “reportable wages” for each individual covered under your UI election, whether or not all of these “wages” are taxable. On top of the DE 9C, enter the phrase “UI only Section 708(a)” to properly identify these wages as subject to UI taxes only.

If filing the DE 9C using e-Services for Business, Federal/State Employment Tax (FSET) program, or Magnetic Media, report wages as follows:

1. Report all wages on a single DE 9C.
2. Report the total “subject wages” for each worker that is subject to both UI taxes and SDI contributions with an “S” wage plan code.
3. Report the total “reportable wages” for each individual covered under your UI election, whether or not all of these “wages” are taxable with an “R” wage plan code.
Complete the DE 88 as follows:

1. Complete Items 4A through 4G on your DE 88 in accordance with the DE 88 instructions.
2. To calculate the UI contributions (Item 4A), use the sum of the “subject wages” and “reportable wages” reported on the DE 9C.
3. To calculate the SDI contribution (Item 4C), use only the wages reported as “subject wages” on the DE 9C.

To manage your account online, 24 hours a day, seven days a week, enroll in e-Services for Business at https://eddservices.edd.ca.gov. e-Services for Business provides a fast, easy, and convenient way to file returns, make deposits and adjustments, and view account information.

Note: UI is payable to covered employees who are unemployed through no fault of their own, able to work, available for work, and actively seeking employment, and who have met all of the eligibility requirements of the law. (Section 1251 of the CUIC.)

REPORTABLE COMPENSATION FOR SDI

The premiums for 2015, which include Paid Family Leave (PFL) contributions, will be based on 2013 net profit as reported to the Internal Revenue Service (IRS) on Schedule SE by April 15, 2014.

Refer to the Disability Insurance Elective Coverage (DIEC) Rate Notice and Instructions for Computing Annual Premiums (DE 3DI-I) form for an explanation of the computation of amounts due for 2014 and future years.

Any adjustment of the reportable income credits and premiums due to disability must be noted on the Quarterly Premium Notice Disability Insurance Elective Coverage (DE 3DI) quarterly report. If you have any questions regarding computing or adjusting the premium base and premiums, contact the Elective Coverage Unit at 916-654-6288.

BENEFIT ELIGIBILITY

Eligibility for UI and SDI benefits under this elective coverage agreement does not begin with the commencement date of coverage. Generally, seven months must elapse from the commencement date of coverage before a valid claim may be filed.

TERMINATION OF ELECTIVE COVERAGE

An elective agreement under Section 708(a) of the CUIC must remain in effect for not less than two complete calendar years or until you are no longer engaged in your business. The elective agreement may be terminated effective January 1 of any calendar year following the required two-year period if notice of termination is filed in writing with the EDD during January of that year.

Under the provisions of Section 704.1 of the CUIC, the EDD may terminate your elective coverage agreement if it is found that any of the following conditions exist:

1. The employing unit or self-employed individual is not normally and continuously engaged in a regular trade, business, or occupation.
2. The employing unit or self-employed individual has discontinued the regular trade, business, or occupation.
3. The regular trade, business, or occupation of the employing unit or self-employed individual is seasonal in its operations.
4. The major portion of the self-employed individual’s remuneration is not derived from his or her trade, business, or occupation.
5. The self-employed individual reports a net profit of less than $4,600 on his or her IRS Schedule SE for a third consecutive year.
6. The employing unit or self-employed individual has failed to make a return or to pay contributions within the time required by this division and there is an unpaid amount of contributions owed (except when the elective coverage agreement has been in effect for less than two complete calendar years).
7. The employing unit, self-employed individual, or any officer or agent of a person having charge of the affairs of the employing unit is convicted on any violation pursuant to Chapter 10 (commencing with Section 2101 of the CUIC).

For the purposes of this paragraph, a plea or verdict of guilty or a conviction following a plea of nolo contendere is deemed to be a conviction, irrespective of:

- Whether an order granting probation or other order is made suspending the imposition of the sentence, or
- Whether the sentence is imposed but execution thereof is suspended.

You will be notified in writing of any cancellation and will have 30 days to file a Petition for Review of the termination of elective coverage. The termination shall not affect the liability of the employing unit for any contributions due, owing, or unpaid to the EDD.

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 888-745-3886 (voice) or TTY 800-547-9565.