



## FAQ – Third Party Sick Pay (3PS)

### WHAT IS IT?

Third Party Sick Pay is a payment that is made to an employee who is out of work on a disability claim. The insurance company issues payments directly to the employee.

During the first 6 months, the payments are classified as Short-Term Disability and are taxable for Federal, State, Social Security and Medicare (FICA) taxes. The insurance company will withhold these taxes from the check and remit payment on the client's behalf. The wages are posted into payroll as a Third Party type check. The employer then pays their share of FICA. [ Most employees opt to block federal and state withholding taxes].

If the employee has been on disability for longer than 6 months, the payments are reclassified as LongTerm Disability. FICA would no longer be withheld, but the payments would continue to be reported as federal and state taxable wages.

### WHERE DO I GET THE INFORMATION?

You will receive payment vouchers from the insurance company showing how much the employee was paid. Most insurance companies will also send quarterly and year end statements. Be careful when reviewing the quarterly \ year end statements! You don't want to post the same earnings twice.

### WHAT DOES PAYDATA NEED FROM ME- AND WHEN DO THEY NEED IT?

If you are an Evolution or Evolution Payroll user, you can use the insurance payment vouchers to enter the information into payroll. The check type will also be a manual check, using the Third Party type check.

Always recalculate the check and verify that the FICA taxes agree to the payment voucher. If the FICA taxes don't compute to 7.65% of the Gross, STOP and contact your CSR. Part of the payment may have been classified as Long Term Disability, or Non-Taxable Short Term Disability.

If PayData keys your payroll for you, please create a case in PayData's Client support portal and attach any payment vouchers and or quarter/year end statements that you received. We will take it from there!

If you don't have a login to the secure portal, you can go to our website and request a login. Go to <https://www.paydata.com/clientsupportportal/>, and request a login at the bottom of the page. Please keep in mind that only the Primary Contact of a company will be provided with a login

All 2021 earnings, including 3PS postings need to be entered into the system no later than **January 5<sup>th</sup>, 2022.**

## ANYTHING ELSE I SHOULD BE CONCERNED ABOUT?

Insurance companies will typically ask you if you want them to issue a W2 to the employee for the 3PS payments made. **Please decline this offer.**

As you need to report the payments to us in order for the employer FICA to be calculated, these payments will already be on the W2 from PayData. If the employee files the W2 issued by the insurance company the employee's earnings will be overstated and costly corrections will have to be made.