

Q: How do I process payroll taxes for a severance payment?

A: We know that severance pay is taxable for involuntarily terminated employees, which means the payment is subject to FICA, Social Security, and Medicare, etc. However, there are varying IRS policies and court decisions that seem to conflict. Not surprisingly, this issue was taken up in the Sixth Circuit Court (2008) as well as the Supreme Court (2014). In March of 2014, the U.S. Supreme Court came out with an opinion that clearly supported taxing severance, including but not limited to lump sum payments. In *U.S. v. Quality Stores, Inc., et al.*, No. 12-1408 (Mar. 25, 2014), the Supreme Court opposed the earlier sixth circuit opinion that FICA did not apply to severance payments due to a RIF (Reduction in Force) or a business closing. The Supreme Court held that, except for certain situations outlined in the courts decision, that severance pay was subject to FICA and other taxes, similarly to other wages, regardless of the reason for the separation of employment.

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