Third Party Sick Pay

Third party sick pay is a situation in which an entity other than the employer makes payments to the employee in the event that they are unable to work due to injury or illness.

Employer Provides Sick Pay W-2

When an insurance company pays the taxes withheld, but the employer is responsible for paying the matching portion of the FICA/Medicare taxes:

1. Pay the employer portion of the FICA/Medicare taxes either with a quick check if an actual check is required, or a journal entry if the transaction is done electronically or via the phone using the EXPENSE account for payroll taxes, not the liability account.
2. Edit the employee YTD file. Increase the wages, the taxes, and all wages totals (gross, base, FICA, and Net).
3. The quarterly 941 report will need to be manually adjusted; wages will need to be increased by the gross amount of the disability wages, the FICA/Medicare taxes withheld will need to be reported on line 8 – current quarter's sick pay.
4. The W-2 for this employee will need the Third Party Sick Pay checkbox manually checked.

Insurance Company Provides Sick Pay W-2

When an insurance company pays the taxes withheld, but the employer is responsible for paying the matching portion of the FICA/Medicare taxes:

1. Pay the employer portion of the FICA/Medicare taxes either with a quick check if an actual check is required, or a journal entry if the transaction is done electronically or via the phone using the EXPENSE account for payroll taxes, not the liability account.
2. The quarterly 941 report will need to be manually adjusted. Include third-party sick pay on lines 2, 5a, and 5c of Form 941. There should be no sick pay entry on line 3 because the third party withheld federal income tax, if any. After completing line 6, subtract on line 8 the employee social security and Medicare taxes withheld and deposited by the third party.
3. The W-2 for this employee will need the Third Party Sick Pay checkbox manually checked.