

Oracle Fusion Cloud Human Resources

What are wage basis rules for the US?

FA Latest



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1 What are tax wage basis rules for the US?

Tax wage basis rules determine those employee earnings that are subject to a tax. For deductions, they determine the elements that reduce the amount subject to tax.

Each wage basis rule is associated with a primary or secondary element classification. When you define a tax wage basis rule, you can associate it with up to six references that define the context for the rule.

2 What are the predefined wage basis rules for the US?

Predefined wage basis rules help determine the taxation of earnings at the federal and state levels. There are no predefined wage basis rules at the local level.

They include rules for primary classifications of supplemental earnings, imputed earnings, and pretax deductions along with the corresponding secondary classifications.

Note: Involuntary deductions have their own wage basis rules. For further info, see Involuntary Deduction Wage Basis Rules for the US in the Help Center.

To view wage basis rules:

1. Start the Component Group Rules task.
2. Select your US legislative data group (LDG).
3. Select **Federal**.
4. In the tree structure, expand the **Federal** and **Wage Basis Rules** nodes. Select **No References**.
5. View the wage basis rules for Imputed Earnings, Pretax Deductions, and Supplemental Earnings, as they relate to each federal-level tax.
 - o For **Earnings**, a check mark indicates the earning is subject to that tax.
The **Not Withholdable Federal Tax** column indicates the earning is subject to federal tax but no tax is withheld.
 - o For **Pretax Deductions**, a check mark indicates that the deduction is subject to taxation and doesn't reduce subject wages.
If no check mark is present, then the deduction isn't subject to taxation and does reduce subject wages.
6. Select **Regional**.
7. In the tree structure, expand the **Regional** and **Wage Basis Rules** nodes. Select **State**.
8. View the wage basis rules for Imputed Earnings, Pretax Deductions, and Supplemental Earnings, as they relate to each state-level tax.
9. Due to the large volume of data, you can filter the data to view a state. Enter a search string in the field above **State**. If no field is available above the State column, click **Filter**.

To edit the predefined wage basis rules:

1. Start the Component Group Rules task, and select your US LDG.
2. In the tree structure, navigate to the appropriate **Wage Basis Rules** node.
3. Click **Create**.
4. Enter an effective date.
5. If you're updating the **State** node, select the appropriate state.
6. Select a primary classification and secondary classification.
7. Suspend the predefined rule.
 - a. For **Subject to wage basis rule**, select **No**.

- b. Click **Submit**.
- 8. Navigate to **Federal Tax** or **State Tax** under **Related Deductions**, and select **Wage Basis Rules**.
- 9. Click **Create**.
- 10. Enter an effective date.
- 11. If you're updating the **State** node, select the appropriate state.
- 12. Select a primary classification and secondary classification.
- 13. Create the rule.
 - a. Mark the **Subject to wage basis rule** as **Yes**.
 - b. Click **Submit**.

For example, for Group Term Life (GTL) for applicable federal and some state components, the default rule is **Not withholdable**. You may want to change this to **Withholdable**.

3 Are there predefined wage basis rules for local taxes?

There are no predefined wage basis rules for local taxes. By default, local taxes follow the wage basis rules of their state. However, there are some exceptions.

For example:

- In Colorado, all Pretax elements are taxable at the local levels.
- In Ohio, Deferred Compensation 401k and Deferred Compensation 401k Catch-Up elements are subject to city tax.
- In Kentucky, all Section 125 elements are taxable at the local levels.

If you require different rules, you must define them manually.

If you define wage basis rules at the local level, you must define wage basis rules for all primary and secondary classifications for that locality, including predefined and user-defined classifications.

4 How Tax Wage Basis Rules Work

How Wage Basis Rules Affect Taxability for the US

The payroll process uses wage basis rules to control the taxability of employee earnings. There are predefined rules at the federal and state levels.

The following describes how the various element classifications use the wage basis rules.

Note: When an earning or deduction doesn't appear in the table, the payroll process considers it nontaxable. For example, because Domestic Partner Dependent isn't taxable for federal income tax (FIT), it isn't included in the FIT wage basis rules table.

Imputed Earnings

Here's some examples of how the payroll process applies FIT to Imputed Earnings classifications.

Wage basis rule	What it does	For example
Taxable and Withhold	Marked as subject to federal taxes and withheld by the payroll process.	Cash Tips Reported
Taxable and Not Withhold	Marked as subject to federal taxes but not withheld.	Group Term Life
Nontaxable	Nontaxable classifications don't appear in the table.	Domestic Partner Dependent As this imputed earning isn't taxable for FIT, it isn't included in the table.

Pretax Deductions

Here's some examples of default wage basis rules for Medicare tax.

Wage basis rule	What it does	For example
Taxable and Withhold	Marked as subject to Medicare tax and withheld by the payroll process.	Deferred Compensation 401k
Nontaxable	Nontaxable classifications don't appear in the table.	Health Care 125 As this pretax deduction isn't taxable for Medicare, it isn't included in the table.

Supplemental Earnings

Here's some examples of how the payroll process applies Puerto Rico regional taxes to Supplemental Earnings classifications.

Wage basis rule	What it does	For example
Taxable and Withhold	Marked as subject to state tax and withheld by the payroll process.	Bonus
Taxable and Not Withhold	Marked as subject to state tax but not withheld.	Deferred Compensation Distribution
Nontaxable	Nontaxable classifications don't appear in the table.	Pensions and Annuities As this supplemental earning isn't taxable for Puerto Rico, it isn't included in the table.

Related Topics

- [Example of State Tax Wage Basis Rules](#)
- [Involuntary Deduction Wage Basis Rules for the US](#)
- [What are tax wage basis rules for the US?](#)
- [Configure Wage Basis Rules for Pretax Deductions for the US](#)

How do wage basis rules work with element classifications for the US?

Wage basis rules act differently depending on the element's classification.

- Deduction element classifications identify whether they reduce the subject wages.
When you view wage basis rules through the Component Group Rules task, a check mark indicates the deduction doesn't reduce.
- Earnings element classifications identify which earnings are subject to the tax.

These element classifications have predefined wage basis rules.

Primary classification	Secondary classifications
Imputed Earnings	Cash Tips Reported Domestic Partner Dependent Domestic Partner Nondependent Group Term Life

Primary classification	Secondary classifications
	<ul style="list-style-type: none"> Moving Expense Nonqualified and Taxable Moving Expense Qualified and Nontaxable Noncash Award Personal Use of Company Car Third-Party Long-Term Disability Third-Party Short-Term Disability
Pretax Deductions	<ul style="list-style-type: none"> Adoption Deferred Compensation 401k Deferred Compensation 401k Catch-Up Deferred Compensation 403b Deferred Compensation 403b Catch-Up Deferred Compensation 457 Deferred Compensation 457 Catch-Up Dental Care 125 Dependent Care 125 Flexible Spending Account Health Care 125 Health Savings Account Health Savings Account Catch-Up Vision Care 125
Supplemental Earnings	<ul style="list-style-type: none"> Adoption Awards and Prizes Bonus Cafeteria Plan Commission Deferred Compensation Distribution Dismissal Payments Moving Expense Nonqualified Moving Expense Qualified Paid Time Off Payout Pensions and Annuities

Primary classification	Secondary classifications
	Tips Supplemental Travel Taxable Reimbursement

5 How Involuntary Deduction Wage Basis Rules Work

How Involuntary Deductions Wage Basis Rules Work for the US

Wage basis rules for involuntary deductions define how:

- Earnings contribute to the disposable income for the different involuntary deduction types.
For example, an earning type might contribute to disposable income for Child Support deductions in Alabama but are excluded in California.
- Deductions reduce the disposable income for the different involuntary deduction types.
For example, a deduction type might reduce the disposable income for Tax Levy deductions but not for Child Support.

Note: Configuring these wage basis rules to exclude element classifications isn't a suitable alternative for configuring time-of-writ deductions for tax levies. The payroll process doesn't refer to the wage basis rules when it determines what liabilities the employee had at the time a levy was served.

To view the wage basis rules that have been predefined at the state and federal level:

1. Start the Component Group Rules task.
2. Search for and select **Involuntary Deductions**.
3. In the tree structure, expand **Involuntary Deductions**.
Enlarge **Calculation Component Group Overview** to view the tree.
4. Expand **Wage Basis Rules**.
5. Select the appropriate node.
 - **State** to view state-specific rules
 - **No References** to view federal rules

A table of all wage basis rules displays, organized by the appropriate state and deduction type.

To view the rules by deduction type, expand the tree under **Related Deductions** and select the appropriate type.

Green check marks under **Deductions** have different meanings for earnings and deductions.

A check mark here	Means this
Supplemental earnings	Identifies the classifications that contribute to the disposable income for that deduction type.

A check mark here	Means this
	For example, the Bonus supplemental earning for Alabama is marked as contributing to disposable income for Child Support, Garnishment, and Alimony calculations.
Deductions	<p>Identifies the classifications subject to disposable income. These classifications don't reduce the disposable income for calculations of the indicated involuntary deductions.</p> <p>For example, the Health Care 125 pretax deduction for Alabama is marked as subject to disposable income for Child Support, Garnishment, and Alimony calculations.</p> <p>For the classifications that aren't subject to disposable income, no wage basis rule exists. These classifications reduce the disposable income for calculations of the involuntary deduction.</p> <p>For example, the Health Care 125 pretax deduction for Colorado isn't subject to disposable income for Child Support or Garnishment calculations.</p>
Employee Requested	This payroll component has predefined wage basis rules. By default, all earnings and deductions are subject to disposable income for this component. You can modify them to suit your needs.

6 How to Configure Wage Basis Rules

How do I define my own wage basis rules?

There are no predefined wage basis rules at the local level, such as city, county, or school district. While most local wage basis rules follow their state wage basis rules, there are a few states where the local wage basis rules differ. You must create the local wage basis rules in these cases.

For example, at the Ohio city level, Deferred Compensation 401k and Deferred Compensation 401k Catch Up are subject to tax. At the Kentucky local level, all Pretax Section 125 secondary classifications are taxable, such as Dental Care 125, Dependent Care 125, and Vision Care 125.

Create wage basis rules using the Component Group Rules task.

1. Start the Component Group Rules task.
2. In the tree structure, select **Regional**.

To define wage basis rules at the federal level, select **Federal**.

3. Expand **Related deductions** and then the child node appropriate to the tax.
4. Select **Wage Basis Rules**.
5. In **Wage Basis Rules**, click **Create**.
6. In **Create Wage Basis Rule**, enter the following.

Field name	What you enter
Effective Start Date	Use either the implementation date or the earliest date a pay period exists.
State	Full state name or the 2-character state abbreviation, such as OH. How you configured your state name settings determines how the values appear in this field. For further info, see Configure State Style Formats in the Help Center.
County	Specify the appropriate county from the list, such as Franklin.
City	Specify the appropriate city from the list, Columbus.
Primary Classification	Select the primary classifications to be used in the wage basis. For example, city tax rules most commonly use: <ul style="list-style-type: none">○ Imputed Earnings○ Pretax Deductions○ Supplemental Earnings

Field name	What you enter
Select all secondary classifications	If you select Yes for Subject to Wage Basis Rule below, you must select No here.
Secondary Classification	Select an appropriate secondary classification, such as Deferred Compensation 401k and Deferred Compensation 401k Catch-Up.
Subject to Wage Basis Rule	If you select Yes here, you must select No for Select all secondary classifications .

7. Click **Submit**.

You may need to query by state to view the data you created. If so, enter a value in the field directly above **State** for the state entered in the previous step. This filters the data in the UI for that state. If a blank field isn't available for entry above **State**, click **Filter**.

These rules are stamped with the LDG and aren't overwritten by subsequent upgrades or patches.

8. Repeat these steps for each combination of primary classification, secondary classification, and jurisdiction (state, county, or city) that needs updating.
9. Complete a review of all secondary classifications impacted to determine which entries require corrections.

For example, when working with pretax deductions, determine what Section 125 secondary classifications are impacted for a state-county-city or state-county combination. There could be a difference between the treatment of HSAs, FSAs, Dental, Vision, Healthcare, and Dependent Care. One or more may need corrections where others may not.

How do I configure wage basis rules for user-defined element classifications?

If you're using user-defined Pretax Deduction secondary classifications, you must make sure the payroll process honors the appropriate involuntary deduction wage basis rules for them. To do that, feed the Other Pretax balance for any elements that use your user-defined classifications.

How do I configure wage basis rules for tips?

Credit card tips aren't subject to disposable income. If your employees earn credit card tips:

1. Define your credit card tip elements using the Tips Supplemental secondary classification.
2. Define the appropriate wage basis rules to exclude those earnings from disposable income for the applicable states.

Alternatively, you can create a user-defined Supplemental Earning secondary classification and define the wage basis rules as appropriate.

Note: If you have surcharge and service charge tips, use the Tips Regular secondary classification, as these earnings are subject to disposable income. You don't need to configure the wage basis rules.

Configure Wage Basis Rules for City Taxes for the US

In this example, you want to define a wage basis rule to exempt 401 (k) Deferred Compensation contributions from Columbus, Ohio city taxes.

Define the City Tax Wage Basis Rule

1. Start the Component Group Rules task.
2. Search for your US legislative data group.
3. Under **Component Group**, click **Regional**.
4. Expand **Regional**, and then **Related Deductions**, and then **City Tax**.
5. Select **Wage Basis Rules**.
6. Under **City Tax: Wage Basis Rules**, click **Create**.
7. Enter an effective date.
Use either your implementation date or the earliest date a pay period exists.
8. Select **OH** as the state, **Franklin** as the county, and **Columbus** as the city.
9. Select the **Pretax Deductions** primary classification and **Deferred Compensation 401k** secondary classification.
10. Select **Yes** to make this subject to wage basis rules.
11. Click **Submit**.
12. Repeat these steps for the Deferred Compensation 401k Catch-Up secondary classification.

Related Topics

- [What are tax wage basis rules for the US?](#)
- [Configure Wage Basis Rules for Group Term Life Earnings](#)
- [Configure Wage Basis Rules for Pretax Deductions for the US](#)
- [Configure Wage Basis Rules for State Family Leave Insurance](#)

Configure Wage Basis Rules for Group Term Life Earnings

In this example, you want to change the predefined wage basis rules for your Group Term Life (GTL) earnings.

In this case, you're changing the **Federal** component from **Not withholdable** to **Withholdable**.

This involves two actions.

1. Deprecate the predefined rule.
2. Define a new one.

Deprecate the Not Withholdable Rule

To cancel the default rule:

1. Start the Component Group Rules task.
2. Search for your US legislative data group (LDG).
3. Under **Component Group**, click **Federal**.
4. Expand **Federal**, then **Related Deductions**, and then **Not Withholdable**.
5. Select **Wage Basis Rules**.
6. Under **Not Withholdable Federal Tax: Wage Basis Rules**, click **Create**.
7. Enter an effective date.
8. Select the **Imputed Earnings** primary classification and **Group Term Life** secondary classification.
9. Select **No** for **Select all secondary classifications**.
10. Select **No** to make this exempt from wage basis rules.
11. Click **Submit**.

Define the Withholdable Rule

To define the rule:

1. Start the Component Group Rules task.
2. Search for your US LDG.
3. Under **Component Group**, click **Federal**.
4. Expand **Federal**, then **Related Deductions**, and then **Not Withholdable**.
5. Select **Wage Basis Rules**.
6. Under **Not Withholdable Federal Tax: Wage Basis Rules**, click **Create**.
7. Enter an effective date.
8. Select the **Imputed Earnings** primary classification and **Group Term Life** secondary classification.
9. Select **No** for **Select all secondary classifications**.
10. Select **Yes** to make this subject to wage basis rules.
11. Click **Submit**.

Related Topics

- [What are tax wage basis rules for the US?](#)
- [Configure Wage Basis Rules for Pretax Deductions for the US](#)
- [Configure Wage Basis Rules for State Family Leave Insurance](#)

Configure Wage Basis Rules for Hours Worked for the US

In this example, you need to feed all your applicable earnings elements to SUI Eligible Hours as of the start of the next calendar year and configure tax wage basis rules appropriately.

For this example, assume you're:

- Registered for state unemployment insurance (SUI) taxes in Alabama, Massachusetts, and Oregon

- Tracking vacation hours using elements with the Absence primary classification and Vacation secondary classifications
- Tracking sick hours using elements with the Absence primary classification and Sick secondary classifications
- Tracking holiday hours using elements with the Absence primary classification and Other secondary classifications

Alabama has no specific requirement on what hours to include for SUI reporting.

Massachusetts requires you include these hours for SUI reporting.

- Regular hours
- Overtime hours
- Vacation hours
- Sick hours
- Holiday hours

Oregon requires you include these hours for SUI reporting.

- Regular hours
- Overtime hours

Define Balance Feeds

By default, the payroll process includes all hours fed to the SUI state's Eligible Hours balance.

In this example, you need to define wage basis rules that exclude Oregon's vacation, sick, and holiday hours from SUI hours calculation and reduce the hours from the State Worked Hours reporting balance.

1. Define feeds to the SUI Eligible Hours balance for all applicable regular hours, overtime hours, vacation hours, sick hours, and holiday hours elements.

These earnings hours now accumulate in the SUI Eligible Hours and State Worked Hours balances for Alabama, Massachusetts, and Oregon.

Configure the Wage Basis Rules

Because Oregon requires only regular and overtime hours for SUI reporting, you must define special wage basis rules for Oregon.

You don't need any configuration for Alabama or Massachusetts.

This ensures the payroll process reports the correct hours in the State Worked Hours balance. You configure these rules as subject to the wage basis rule in order to exclude vacation, sick, and holiday hours from SUI calculations for Oregon.

1. From **My Client Groups**, click **Show More**.
2. Click **Component Groups Rules**.
3. Search for your US legislative data group (LDG).
4. Under **Component Group**, click **Regional**.
5. In **Calculation Component Group Overview**, expand **Regional, Related Deductions**, and then **State Unemployment Hours**.
6. Select **Wage Basis Rules**.
7. Enter an appropriate effective date.

8. Under **State Unemployment Hours: Wage Basis Rules**, click **Create**.
9. Select **OR** as the state.
10. Select the **Absences** primary classification and **Vacation** secondary classification.
11. Select **Yes** to make this subject to wage basis rules.

This excludes the vacation hours from SUI hours calculation and reduces the hours from the State Worked Hours reporting balance.

12. Click **Submit**.
13. Repeat these steps for the elements that track sick and holiday hours.

When you complete these steps, you will have three Oregon wage basis rules for the Absences primary classification. Each is marked as **Use in Wage Basis**.

Related Topics

- [What are tax wage basis rules for the US?](#)
- [How to Calculate Hours Worked from Balances for the US](#)
- [How to Calculate Hours Worked from Run Results for the US](#)
- [How to Track Weeks Worked for State Unemployment Reporting](#)

Configure Wage Basis Rules for Pretax Deductions for the US

In this example, you want to define state-level wage basis rules so that:

- Supplemental earnings are taxable
- Pretax deductions reduce taxable wages

Taxing Supplemental Earnings

With these steps, you identify supplemental earnings as eligible for California state taxes.

1. Start the Component Group Rules task.
2. Search for your US legislative data group.
3. Expand **Regional**, then **Related Deductions**, and then **State Tax**.
4. Select **Wage Basis Rules**, and click **Create**.
5. Enter an effective start date.
6. Select **CA** as the state.
7. Select the Supplemental Earnings primary classification.
8. Select the secondary classification.
9. Identify this as subject to the wage basis rule.
10. Click **Submit**.

Reducing Taxable Wages

1. No action is required for the pretax deductions to reduce taxable wages. Deductions of this type automatically reduce when you process payroll.

2. To change an existing pretax deduction from reducing gross wages to not reducing gross wages, define a wage basis rule.

Related Topics

- [What are tax wage basis rules for the US?](#)
- [Configure Wage Basis Rules for Group Term Life Earnings](#)
- [Configure Wage Basis Rules for State Family Leave Insurance](#)

Configure Wage Basis Rules for State Family Leave Insurance

If your organization is operating in a state that offers Family Leave Insurance (FLI), you must configure your wage basis rules appropriately.

Configure the wage basis rules for your Imputed Earning, Pretax Deduction, and Supplemental Earnings elements if they're taxable for the specific state FLI.

How to make GTL taxable for FLI

For example, here's how to make your GTL earnings taxable for FLI.

1. Start the Component Group Rules task.
2. Search for your US legislative data group (LDG).
3. In **Component Group**, click **Regional**.
4. In **Calculation Component Group**, expand **Regional**, and then **Related Deductions**, and then **State FLI**.
5. Select **Wage Basis Rules**.
6. Under **State FLI: Wage Basis Rules**, click **Create**.
7. Enter an effective date.
Use either your implementation date or the earliest date a pay period exists.
8. Select the state.
9. Select the **Imputed Earnings** primary classification and **Group Term Life** secondary classification.
10. Select **Yes** to make this subject to wage basis rules.
11. Click **Submit**.

Example of State Tax Wage Basis Rules

This example illustrates how wage basis rules can affect a state income tax (SIT) calculation, specifically imputed earnings.

The wage basis rules for treatment of imputed earnings for SIT, such as personal use of company car, can vary by state.

For New York SIT, the payroll process calculates imputed earnings for the Personal Use of Company Car secondary classification as subject to tax but not withholdable. The process includes earnings amounts in the SIT subject not withholdable balances. These earnings are subject to SIT, but the process doesn't withheld any tax.

For other states, such as California, the payroll process considers imputed earnings amounts for this secondary classification as subject to tax. It includes earnings amounts in the SIT subject withholdable balances.

Scenario

For this example, you have a salesperson who receives a salary of \$2,000 each month, working in your company's East Coast district in the state of New York. This person also has access to a company car. To be taxed properly, they must report their personal use of the car. Last month, they reported personal use that equated to \$100.

The following shows the tax calculations that apply for this person in New York.

Region	Earnings in salary	Eligible imputed earnings	Subject withholdable wages	Subject not withholdable wages
New York	2000	100	2000	100

These would be the wage basis rules for the Not Withholdable State tax calculation for New York.

Region (reference value)	Primary classification	Secondary classification	Use in wage basis?
New York	Imputed Earnings	Personal Use of Company Car	Y

Related Topics

- [Involuntary Deduction Wage Basis Rules for the US](#)
- [What are tax wage basis rules for the US?](#)