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PG&E
FOR INTRA - COMPANY USES

DIVISION OR DEPARTMENT Disbursement Accounting
FILE NO. 260
RE LETTER OF
SUBJECT Taxability of Employee Sick Leave Payments

January 10, 1977

TO EMPLOYEES WHO, DURING 1976, RECEIVED
EITHER SUPPLEMENTAL BENEFIT PAYMENTS DUE
TO INDUSTRIAL INJURY OR SICK LEAVE PAYMENTS:

On October 4, 1976, the Tax Reform Act of 1976 was signed by the president and became Public Law 94-455. The Tax Reform Act of 1976 repealed the general sick pay exclusion. As a result, sick pay is now included in income and is potentially taxable for federal income tax purposes.

The State of California has not changed its income tax law. In reporting your wages for state income tax purposes, you may be eligible to exclude all or a portion of the sick leave pay you received from your employer as prescribed by the following rules:

1. Received from your employer 75% or less of your normal compensation
 - a. If you were hospitalized for at least 1 day, you may exclude from your income up to \$75 per week for the first 30 days. Thereafter, you may exclude up to \$100 per week.
 - b. If you were not hospitalized, you must wait 7 calendar days before you may exclude up to \$75 per week for the remainder of the first 30 days (23 days). Thereafter, you may exclude up to \$100 per week.
2. Received from your employer more than 75% of your normal compensation

Whether you were hospitalized or not, you must wait 30 days before you can exclude any part of your pay. Thereafter, you may exclude up to \$100 per week.

The Company is required to include in taxable wages on your W-2 Form all sick leave and supplemental benefit payments which were paid to you during the year. Upon request, the Disbursement Accounting Department will furnish you with a statement of your sick leave and/or supplemental benefit payments which may be subject to exclusion in accordance with the above provisions.

If you have any questions concerning the effect of the tax law on sick leave or supplemental benefit-payments, you should contact the Internal Revenue Service, the Franchise Tax Board, or your tax adviser.


A. W. DEFOE