

SWCAP, Fringe/Payroll Tax & Indirect Overview

Recording Date: February 26, 2025



OFFICE OF THE COMPTROLLER
COMMONWEALTH OF MASSACHUSETTS



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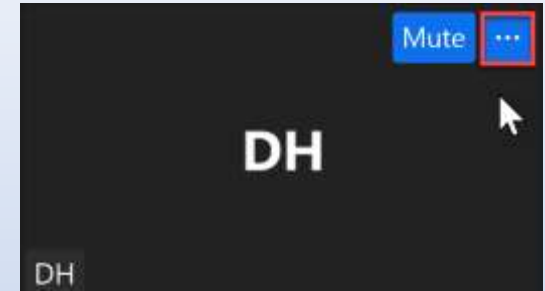
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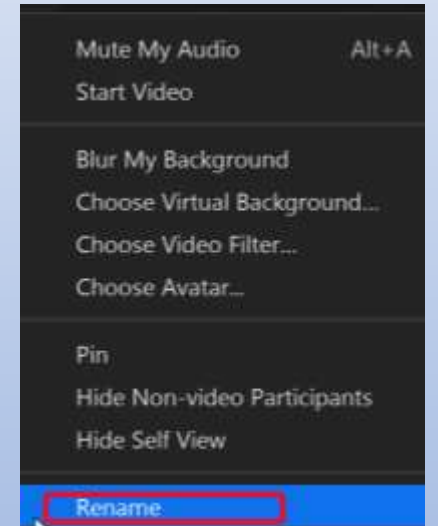
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Welcome

Jessie Zuberek
Budget Team Manager

Kraig Keady
Accountant V

Agenda

1. Why calculate SWCAP, Fringe Benefits, Payroll Taxes and Indirect Cost Rates?
2. SWCAP
3. Indirect Rates
4. Fringe Benefits and Payroll Taxes
5. Payroll, Fringe & Indirect (PF&I) Application
6. Questions

Why calculate SWCAP, Fringe Benefits, Payroll Taxes and Indirect Cost Rates?

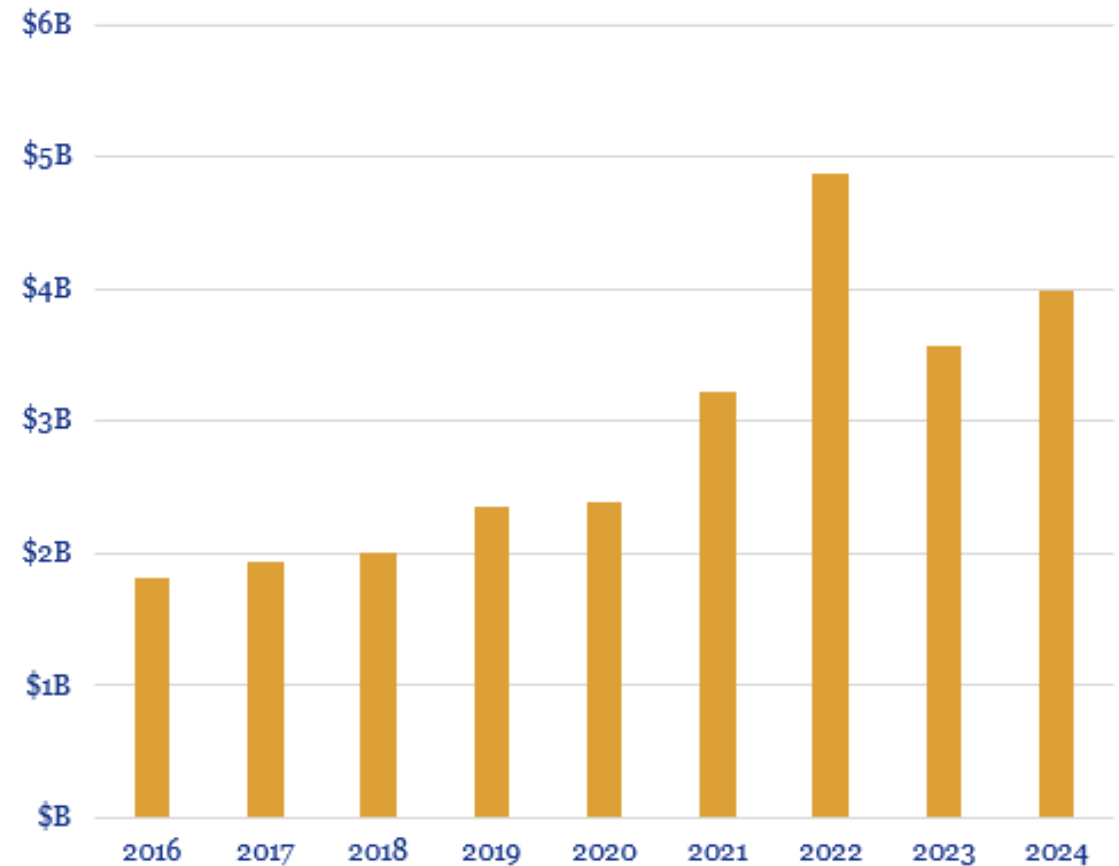
Why calculate SWCAP, Fringe Benefits, Payroll Taxes and Indirect Cost Rates?

- ★ Federal dollars over the last few years
- ★ What do the calculations do?
- ★ Methodology highlights
- ★ Calculation timing

Federal Dollars

- ★ Commonwealth Departments receive grant awards to perform activities on behalf of the Federal government
- ★ FY21 and FY22 saw significant Covid related increases

Federal Dollars to the Commonwealth by Year



Federal Grants: What do they cost?



★ Direct Costs

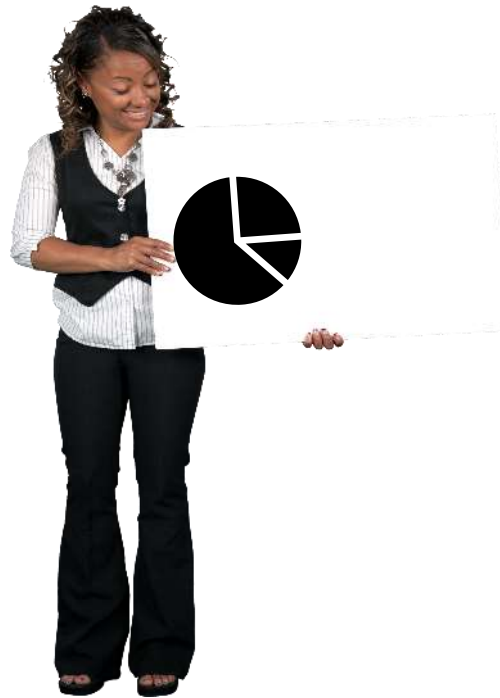
- The grantee department purchases goods, services and payroll to meet the goals of the grant

★ Overhead provided by the Commonwealth

- Indirect/Administrative costs that support the grant
 - Buildings
 - ITD costs
 - Human Resources
 - Payroll system
 - Other Centralized activities

What do the three calculations do?

- ★ The SWCAP, fringe rates, payroll taxes and indirect rates all play a part in the overhead cost recovery for running Federal programs



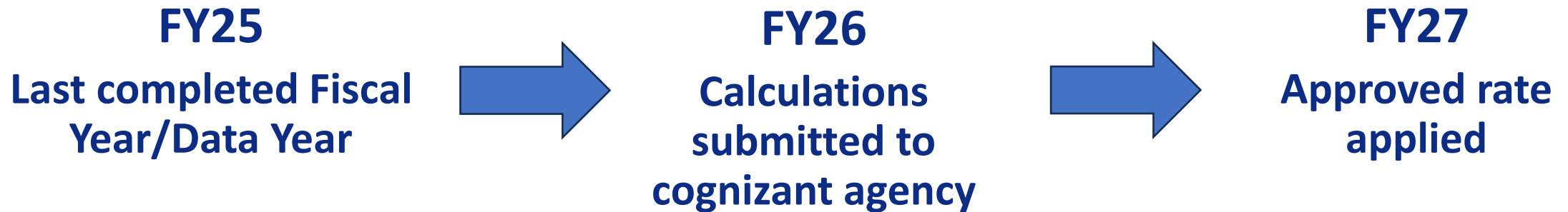
Methodology points to keep in mind

- ★ These are projections based on a completed fiscal year
- ★ Estimates will not be exact even under normal circumstances
- ★ Outside circumstances can make big changes that were not considered during the calculation year (i.e. 2020 based on 2018 did not consider Covid)
- ★ Part of the Calculation is to account for over and under recoveries

What is the timing for the three types of calculations?

★ Calculated Annually

- This example would be named “FY25 for FY27”



SWCAP

SWCAP

- ★ **What is the SWCAP**
- ★ **How is the SWCAP calculated**
- ★ **Who is the contractor that the Commonwealth engages for the SWCAP**

What is the SWCAP?

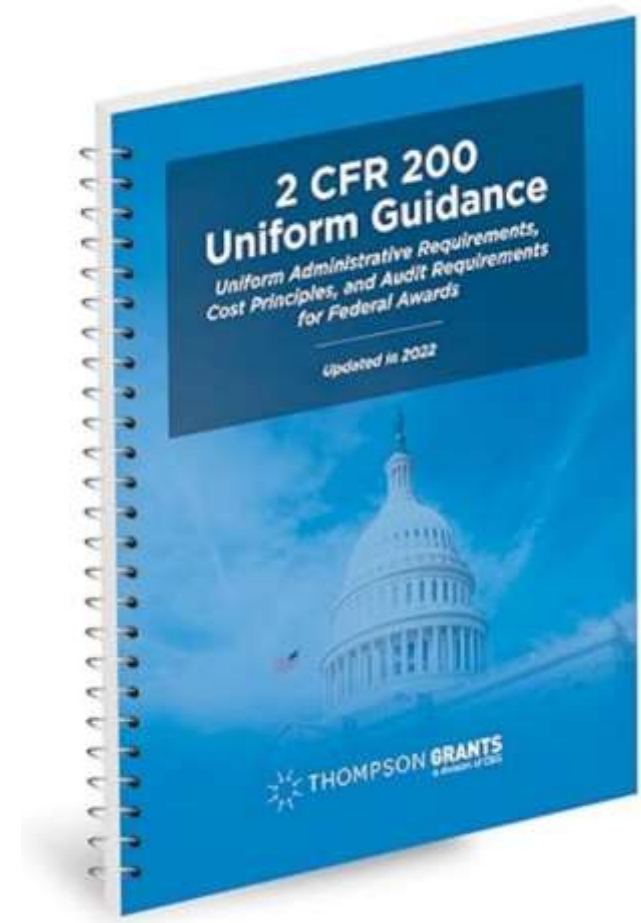
★ Statewide Cost Allocation Plan (SWCAP)

- A statistical method of allocating central government costs to the state agencies that receive government support services
- Our Federal cognizant agency is the U.S. Department of Health and Human Services (HHS)



Where are the SWCAP rules found?

★ Under the Provision of Title 2 CFR, Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Award (Uniform Guidance)



How is the SWCAP calculated?

★ Explains broken out central services agencies and applied costs

- **Section I: Allocated Costs**

- Proportionally assigns central service costs to departments

- **Section II: Billed Costs**

- Fringe
 - Payroll Tax
 - Chargebacks'
 - Etc.

- **Section III: Conditions**

- Outlines how Section I and Section II costs are calculated/applied

Possible Methods for Allocated Costs

★ **Direct Methodology**

★ **Two Stepdown Methodology**



Two Stepdown Method

- ★ Takes into consideration reciprocal services
- ★ Requires sequence of allocations and reallocations

Example:

The Comptroller's Office (CTR) is a Central Services agency whose services are allocated to client departments. i.e.- statewide payroll, statewide contracts, etc.

CTR also consumes other Central Services agency services. i.e. – state website/email address hosting, etc.

The Two Stepdown Method takes the cost of the Central Services that CTR consumes and allocates them to CTR client departments. This is added to the amount allocated to the client department based on their service usage

SWCAP Example

Commonwealth of Massachusetts Statewide Cost Allocation Plan Fixed Costs For Fiscal Year 2019

DEPARTMENT	HRD-HUMAN RESOURCES DIV 2019 Net Projected + Roll Forward	OSD-OPERATIONAL SVCS 2019 Net Projected + Roll Forward	POL- ST POLICE 2019 Net Projected + Roll Forward	TRE-TREASURER 2019 Net Projected + Roll Forward	TOTAL 2019 Net Projected
ABC-ALCOHOLIC BEVERAGES CONTROL COMMISSI	\$ -	\$ -	\$ -	\$ -	\$ 2,958
ADD-DEV DISABILITIES CNCL	583	(623)	-	337	6,819
AGO-ATTY GENERAL OFC	-	-	-	-	-
AGR-AG. RESOURCES	5,558	(12,358)	-	4,404	179,666
ALA-ADMIN LAW APPEALS DIV	2,069	(3,435)	-	759	49,725
ANF-EXEC OFC ADMIN & FIN	-	-	-	-	-
ANF IT SWCAP COSTS	-	-	-	-	1,084,784
APC-APPEALS COURT	1,212	(2,833)	-	2,746	15,116
ART-MASS CULTURAL CNCL	283	(21,033)	-	691	(6,274)
ATB-APPELLATE TAX BRD	990	(5)	-	444	8,996
BBE-BRD OF BAR EXAMINERS	110	(7,175)	-	294	(9,454)
BCA-BRD CONCILIATION & ARB	-	-	-	-	-
BCC-BERKSHIRE COMM COLLEGE	6,967	(680)	-	15,113	252,960
BER-BERKSHIRE DISTRICT ATTY	556	(3,175)	-	1,220	36,290
BHC-BUNKER HILL COMM COLLEGE	19,272	(2,555)	-	38,758	359,127
BLC-BRD OF LIB COMMERS	216	(8,005)	-	2,896	9,312
BRC-BRISTOL COMM COLLEGE	10,444	(921)	-	21,330	208,075
BRI-BRISTOL DISTRICT ATTY	1,484	(3,484)	-	3,158	35,221
BSB-BUR OF ST BLDGS	-	-	-	-	-
BSC-BRIDGewater ST COLLEGE	24,393	265	-	49,117	432,548
BSD-SHERIFF DEPT BRISTOL	6,239	(35,113)	-	12,907	243,878
CAD-COMM AGAINST DISCRIMINATION	4,171	(3,571)	33,346	1,602	239,792

The SWCAP Calculation is currently contracted with



Indirect Rate Negotiations

Indirect Rate Negotiations

- ★ Who needs an Indirect Rate?
- ★ How are the Indirect Rates calculated?
- ★ Indirect Rate caveat to keep in mind

Who needs an Indirect Rate?

- ★ Departments need a negotiated rate with their cognizant agency to apply for grants
- ★ Low grant dollar departments can sometimes apply a de minimus rate of 15% (raised from 10% starting in FY26)
- ★ Most rates are negotiated for 1 year, some up to 3
- ★ Each year 30-40 Commonwealth departments negotiate an indirect rate with their cognizant agency via CTR/Maximus
- ★ Departments can negotiate directly with their cognizant agency

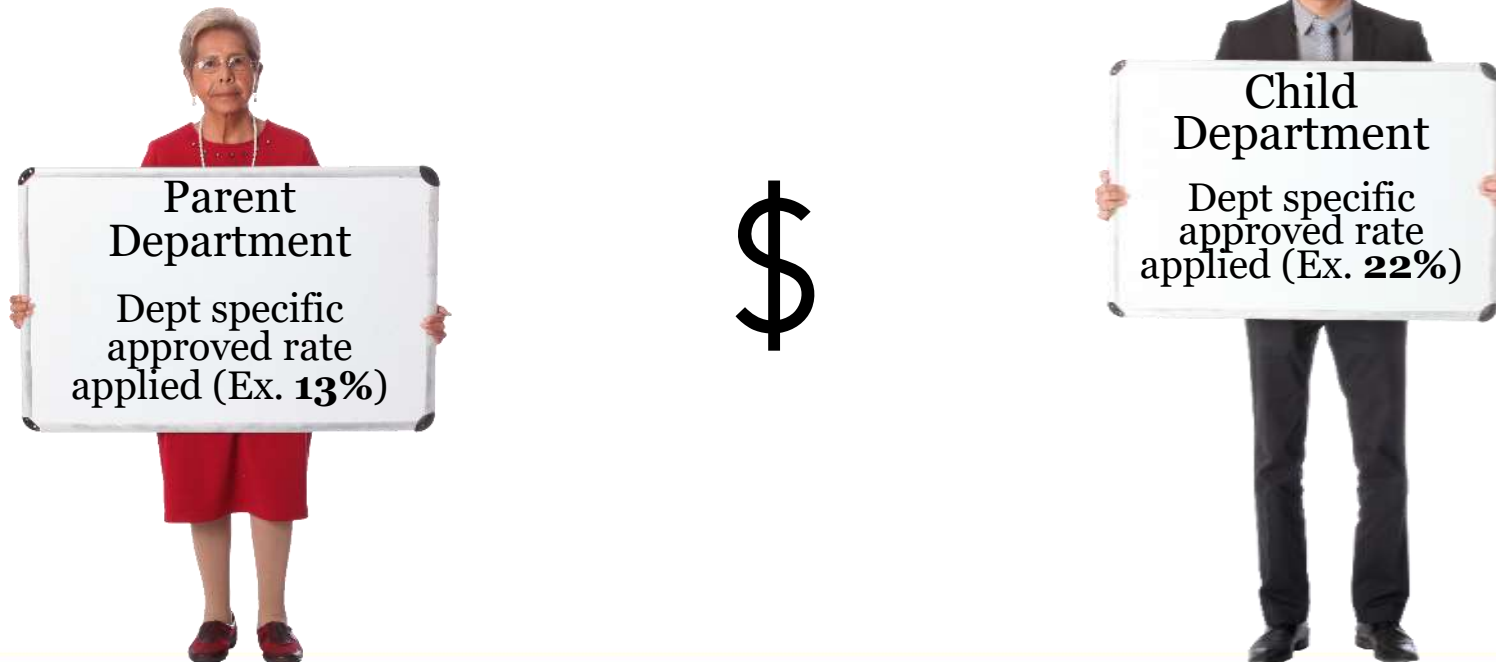
How are the Indirect Rates calculated?

- ★ They utilize the distribution of central services costs calculated in the SWCAP for each department
- ★ They look at the salaries of the department
 - Which were direct billed to grants?
 - Which are considered overhead positions?
- ★ Over/Under recoveries from prior years are part of the calculations



Indirect Rate caveat to keep in mind

- ★ If one department (parent) receives a grant and transfers some of those funds via ISA to another department (child) each department will be charged their own negotiated indirect rate for the funds spent under their Dept Code



Fringe Benefits and Payroll Taxes

Fringe Benefits and Payroll Taxes

- ★ Fringe Benefits and Payroll Taxes Components
- ★ Basics of Individual Cost Recover Rates
- ★ Comparison of FY25 Rates to Proposed FY26 Rates

Fringe Benefits and Payroll Taxes Components

★ Fringe Benefits

- State Pensions
- Health Insurance
- Terminal Leave Costs

★ Payroll Taxes

- Medicare
- Unemployment Insurance
- Universal Health Care
- Paid Family Leave

Basics of Individual Cost Recovery Rate

$$\frac{\left(\begin{array}{l} \text{Total Recoverable} \\ \text{Costs Against All} \\ \text{Commonwealth} \\ \text{Funds} \end{array} \right) - \begin{array}{l} \text{Disallowable} \\ \text{Costs} \end{array}}{\begin{array}{l} \text{Total State Payroll} \\ \text{Applicable to All} \\ \text{State Employees} \end{array}} = \begin{array}{l} \text{Fringe/Payroll Tax} \\ \text{Rates}^* \end{array}$$

*other variables apply including over/under recoveries from prior years

FY25 Rates and Proposed FY26 Rates

Approved

★ FY26 Rates not yet submitted to HHS

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE COMPTROLLER

PROPOSED FY2025 FRINGE BENEFIT RATE BASED ON FY2023 ACTUAL COSTS FOR ROLL FORWARD

Fringe Benefit and Payroll Tax Rate Summary

	<u>General Employee</u>	<u>Uniformed Employee</u>	<u>Salaries Subject to Assessment</u>
Group Insurance.....	23.35%	23.35%	A01, A07, A09, AA1
Retirement.....	18.63%	38.20%	A01, A07, A09, AA1
Terminal Leave.....	1.46%	1.46%	A01, A07, A09, AA1
Total Fringe Benefit Rate.....	43.44%	63.01%	Applicable to Regular and Uniformed Employees
Unemployment Insurance.....	0.23%	0.23%	AA & CC*
EMAC Universal Health Insurance..	0.08%	0.08%	AA & CC*
Medicare Tax.....	0.88%	0.88%	AA & CC*
Paid Family & Medical Leave	0.43%	0.43%	AA & CC*
Total Payroll Tax Rate.....	1.62%	1.62%	Applicable to Regular, Uniformed, and Contract Employees *Some Exceptions

Payroll, Fringe & Indirect (PF&I) Application

- ★ Basics of Cost Allocation
- ★ Cost Allocation Quick View



Basics of Cost Allocation

- ★ **Application of negotiated fringe/payroll tax and indirect rates**
- ★ **Payroll Tax, Fringe Benefit and Indirect Cost (PF&I) considerations**
 - PFI runs monthly the weekend after the first Wednesday, for prior accounting period activity
 - The CA program is system generated
 - CA rejects corrected manually by CTR
 - Common issue causing rejects:
 - Insufficient funding in accounts and programs
 - Inactive programs (requires future end dates)

Cost Allocation Quick View

<u>PFI Component</u>	<u>Expenditure Base</u>	<u>Object Code Charged</u>	<u>Applicable To APPR Type:</u>			
			<u>1 C, I, R</u>	<u>2CN</u>	<u>3TN</u>	<u>4FN</u>
Payroll Tax	AA, CC	D09	X	X	X	X
Fringe	A01, A07, A09, AA1	D09		X	X	X
Indirect	Various	E16			X	X

CTR FY Memo #2025-09



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MEMORANDUM

To: Chief Fiscal Officers
From: Kristin Lacroix, Assistant Comptroller
Date: December 11, 2024
Subject: Approved Fiscal Year 2025 Fringe Benefit and Payroll Tax Rates

Comptroller Memo FY2025-09

Executive Summary

The purpose of this memo is to notify departments of the federally approved fringe benefit and payroll tax rates for Fiscal Year 2025. The U.S. Department of Health and Human Services has approved the fringe benefit rate of 43.44% for general employees and 63.01% for uniformed employees and a payroll tax rate of 1.62%.

Comptroller Memo FY2025-01, dated April 9, 2024, advised departments that fringe benefit rates of 43.43% for general employees and 63.00% for uniformed employees and a payroll tax rate of 1.62% had been submitted to the U.S. Department of Health and Human Services for approval. The early notice was to assist departments in planning for Fiscal Year 2025. The U.S. Department of Health and Human Services has approved fringe rates of 43.44% for general employees and 63.01% for uniformed employees and a payroll tax rate of 1.62%.

A&F Bulletin #5

[Fringe Benefits, Payroll Taxes and Indirect Costs \(A&F 5\) | Mass.gov](#)

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ADMINISTRATIVE BULLETIN

Fringe Benefits, Payroll Taxes and Indirect Costs (A&F 5)

DATE: 05/01/2008

ORGANIZATION: Executive Office for Administration and Finance

REFERENCED SOURCES: [M.G.L. Chapter 29, Section 5D](#)
[M.G.L. Chapter 29, Section 6B](#)

This Administrative Bulletin describes the policies and procedures governing the assessment and collection of fringe benefits, payroll taxes and indirect costs for all programs and activities of the Commonwealth as required by M.G.L. c. 29, §§ [5D](#) and [6B](#).

Feedback



SWCAP, Indirect Rates and Fringe – the last piece in federal grant funding

Questions?

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