

April 2, 2014 www.mcvpr.com**LABOR & TAX ALERT*****U.S. Supreme Court Decision Reversed Sixth Circuit Finding that Severance Pay in Connection with a Reduction in Force was not Subject to FICA***

Further to our [February 5, 2013 Alert](#), the U.S. Supreme Court, in United States v. Quality Stores, Inc., et al., U.S. No. 12-1408 (March 25, 2014), reversed and remanded the United States Court of Appeals for the Sixth Circuit decision in the case of United States v. Quality Stores Inc. et al., No. 10-1563 (6th Cir. Sept. 7, 2012).

On September 7, 2012, the Sixth Circuit held that severance payments made by Quality Stores to its employees upon their involuntary termination due to business cessation were not “taxable wages” subject to withholdings under the Federal Insurance Contributions Act (“FICA”). On March 25, 2014, upon reviewing the Sixth Circuit’s decision, the Supreme Court unanimously held that the severance payments in question constituted “wages” subject to FICA payroll taxes.

With this opinion, the Supreme Court resolved a split of authority between the U.S. Courts of Appeals regarding the FICA withholdings on such payments. The Court held that the severance payments at issue were “taxable wages” under FICA because they are “remuneration for employment.” In so holding, the Supreme Court provided a broad definition of “wages” for purposes of FICA withholding requirements.

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