

May 4, 2017

CIRCULAR LETTER TO ALL MEMBER COMPANIES

Workers Compensation Insurance

RE: North Carolina Basic Manual Update -  
NCCI Item B-1433 - Part 1 Rules - Rule 1 -  
Assignment of Classifications and Rule 2 -  
Premium and Payroll

The North Carolina Rate Bureau has filed and the North Carolina Commissioner of Insurance has approved revisions to the North Carolina Basic Manual for Workers Compensation and Employers Liability. The approved revisions are rule changes related to NCCI Item B-1433 – Revisions to Basic Manual Rule 1 – Classification Assignment and Rule 2 – Premium Basis and Payroll Allocation. The approved changes will be applicable to all new and renewal policies effective on or after October 1, 2017.

For additional information on these changes please review the following attachments:

- NCRB filing Memorandum
- NCRB Exhibits 1-8
- NCCI Item B-1433

If you have questions, contact the NCRB Information Center at 919-582-1056 or via email at [wcinfo@ncrb.org](mailto:wcinfo@ncrb.org).

Sincerely,

Joanna Biliouris

Chief Operating Officer

JB: amt  
Attachments  
C-17-6

**FILING MEMORANDUM**

RE: NCCI Item B-1433

**REVISIONS TO NORTH CAROLINA BASIC MANUAL - Part 1 – RULES  
Rule 1 - Assignment of Classification  
Rule 2 - Premium and Payroll****PURPOSE**

The purpose of this filing is to clarify and enhance the *North Carolina Basic Manual for Workers Compensation and Employers Liability Insurance* (NCBM) Part 1 – Rule 1 - Assignment of Classifications and Rule 2 – Premium and Payroll.

**BACKGROUND**

As a result of ongoing research and analysis by the National Council on Compensation Insurance (NCCI) changes have been proposed, by way of NCCI Item B-1433, for rules related to the assignment of classifications, premium basis and payroll allocation. The Bureau has reviewed the NCCI recommendations and believes it appropriate for similar changes to be made to rules in the NCBM.

**PROPOSAL**

The following is a summary of changes proposed for NCBM Part 1, Rules 1 and 2:

- **Rule 1-B-2-c—Salespersons or Collectors—Outside (Code 8742)**

This item clarifies that district or regional managers who travel between locations of the employer to perform various duties not involving outside sales or collection are not assigned to Code 8742. They must be assigned to the classification that best describes their duties.

- **Rule 1-B-3—General Inclusions**

General inclusions are operations that appear to be separate businesses but are included within all basic classifications. These operations are not separately classified. The following operations are to be added to, or updated in, the list of general inclusions:

- Add stores and day care services operated by the insured for employee use. These operations have become common to many businesses.
- Update the description of an insured printing on its own products or of its own materials for advertising or packaging.

- **Rule 1-B-4—General Exclusions**

General exclusions are operations in a business so unusual for the type of business described by the applicable basic classification that they are separately classified even though the operations are not conducted as a secondary business. This item proposes to eliminate employer-operated day care service from the list of general exclusions. This type of operation has become common to many businesses and is proposed to be added as a general inclusion.

## FILING MEMORANDUM

RE: NCCI Item B-1433

## REVISIONS TO NORTH CAROLINA BASIC MANUAL - Part 1 – RULES

## Rule 1 - Assignment of Classification

## Rule 2 - Premium and Payroll

- **Rule 1-B-5—Governing Classification**

Generally, a governing classification at a specific job or location is the classification, other than a standard exception classification, that produces the greatest amount of payroll. This item clarifies how to determine the governing classification when:

- A basic classification produces the greatest amount of payroll
- A basic classification is applicable but no payroll is assigned
- Multiple basic classifications apply
- Multiple classifications apply but no payroll is assigned to any of the basic classifications
- A basic classification is not applicable

- **Rule 1-C-1—Classification Captions and Notes**

This item clarifies the definitions for caption and note. It also adds the term “phraseology” as a common alternative to “classification wording.”

- **Rule 1-C-2—Words and Phrases**

- The definition of “Clerical” will be updated to remove an obsolete reference to drafting.
- The classification examples referenced under Stories in Height will be eliminated because they are unnecessary and do not provide value to the definition.
- A rule will be added to define “Separate and Distinct Business.” This rule will provide guidance on what qualifies as a separate and distinct business or operation.

- **Rule 1-D-3-f—Employee Leasing, Labor Contractors and Temporary Labor Services**

The term “Professional Employer Organizations” will be added because it is commonly used in the industry and in NCRB and NCCI’s manuals. Also “employee leasing” will be changed to “employee leasing firms.”

- **Rule 1-D-5—Businesses Described by a Standard Exception Classification**

This item clarifies that the rule applies to individual locations as well as to the overall business.

- **Rule 1-D-6—Classifications Limited to Separate Businesses**

This rule will be simplified but also updated with the addition of “and Distinct” to the title. This is for consistency with the proposed addition of Rule 1-C-2-l, which defines a separate and distinct business.

- **Rule 1-F—Changes or Corrections in Classifications**

**FILING MEMORANDUM****RE: NCCI Item B-1433****REVISIONS TO NORTH CAROLINA BASIC MANUAL - Part 1 – RULES****Rule 1 - Assignment of Classification****Rule 2 - Premium and Payroll**

The following will be added to the list of operations that are exempt from the rule:

- “Professional employer organization” is a common alternative term for an employee leasing firm. The policies for these entities often have numerous classifications for different operations that are added or deleted during a policy term.
- Operations assigned to standard exception classifications can be added to a policy at any time.
- General exclusions are operations so unusual for a business that they are classified separately even though they are not conducted as a secondary business. These operations could be added at any time during a policy term and should be classified appropriately.

- **Rule 2-A—Premium Basis**

This item revises the exception to the rule to accommodate classifications using a premium basis other than per capita.

- **Rule 2-B—Payroll**

The following changes will be made to Rule 2-B:

- Clarify the rule to indicate that “payroll” and “remuneration” mean money or substitutes for money. The terms mean the same in all rule, classification, and endorsement references.
- Eliminate the inclusion of payments or allowances for hand tools or hand-held power tools used by employees in their work. This is an outdated concept because there are numerous items that employees purchase and are reimbursed for by their employer. These are allowed to be excluded from audit.
- Add employee-authorized salary reductions for health savings accounts and flexible spending accounts to the list of payroll inclusions. This is similar to employee savings plans and retirement or cafeteria plans.
- Increase the maximum amount for expense reimbursements without verifiable receipts from \$30 to \$75 per day. This revision provides a more current and reasonable expense allowance.
- Add a rule to address that reimbursements for allowable travel expenses permitted by a governmental contract are excluded from payroll. The employer must produce a copy of the contract, and the allowable travel expenses must be in addition to the current wage of the employee.
- Add a rule to include payroll adjustments by the employer to raise employees’ wages to federal, state, or local minimum wage, whichever is higher.
- Replace the term “money for food” with “meal money” for a more accurate description.
- Add educational assistance and relocation and moving expenses to the list of employer-provided perks that are excluded from payroll. These are common perks provided by employers to their employees.
- Add health savings accounts and flexible spending accounts to the list of employer contributions to employee benefit plans that are excluded from payroll.

**FILING MEMORANDUM**

RE: NCCI Item B-1433

**REVISIONS TO NORTH CAROLINA BASIC MANUAL - Part 1 – RULES****Rule 1 - Assignment of Classification****Rule 2 - Premium and Payroll****• Rule 2-D—Payroll Limitations**

The following changes will be made to Rule 2-D:

- Clarify the rule applies to executive officers, members of LLCs, partners, and sole proprietors, and to classifications with notes that indicate payroll limitations.
- Address how payroll limitations are impacted by overtime pay, partial weeks worked, and bonuses earned. This is part of NCCI's continuing effort to clarify and modernize the rules.

**• Rule 2-E—Executive Officers, Members of Limited Liability Companies, Partners, and Sole Proprietors**

This rule will be updated to address the treatment of an employee who is not an executive officer during the entire policy period. The payroll limitation will be prorated based on the number of weeks that such persons were executive officers during the policy period.

This item also includes various formatting and grammatical changes.

**IMPACT**

The overall statewide premium will vary as a result of the changes proposed in this item. For some employers a negligible premium change may result based on the revised rules. This item proposes changes to the NCRB Basic Manual that will modernize and clarify rules relevant to current market conditions. As part of an ongoing effort to simplify and clarify rules, we anticipate that these changes will enhance the understanding of NCRB Basic manual rules.

**IMPLEMENTATION**

This item is applicable to new and renewal policies with an effective date on or after October 1, 2017.

## North Carolina Basic Manual

### Part 1

#### Rule 1 – Assignment of Classifications

##### B - Classification Explanation

#### 2. Standard Exception Classifications

##### c. Salespersons or Collectors- Outside (Code 8742)

This classification is assigned to employees engaged in sales or collection duties away from their employer's premises.

This ~~code excludes~~ classification is not assigned to employees who:

- ~~Deliver merchandise-~~
- ~~Use vehicles to deliver or pick up goods, even if they collect or sell. These employees must be assigned to the classification applicable to the business for drivers.~~
- ~~Use public transportation or walk to deliver goods even if they collect or sell. These employees must be assigned to the governing classification applicable to the business.~~
- Travel between locations of the employer as district or regional managers to perform various duties not involving outside sales or collections. Refer to Rule 2-G-Interchange of Labor.

Code 8742 does not apply when the basic classification wording includes "Outside Salesperson" and/or "Collector".

## North Carolina Basic Manual

### Part 1

#### Rule 1 – Assignment of Classifications

##### 1. B - Classification Explanation

##### 3. General Inclusions

General Inclusions are operations that appear to be separate businesses but are included within the scope of all basic classifications. These operations are not separately classified. They include the following:

- Restaurants or cafeterias, stores, or day care services operated by the insured for employee use

**Exception:**

If these operations are conducted in connection with construction, erection, lumbering, or mining operations, they must be separately classified.

- Manufacture of containers by the insured, such as bags, barrels, bottles, boxes, cans, cartons, or packing cases for sole use in the insured's business operations
- Medical clinics, facilities, or hospitals operated by the insured for its employees
- Repair or maintenance of the insured's buildings or equipment by the insured's employees
- ~~Lithography or printing~~ Printing by the insured on its own products, packaging, brochures, or promotional materials

For employees that perform general inclusion duties for more than one basic classification, refer to Rule 2-G for classification treatment.

**Exceptions:**

A general inclusion operation must be classified separately if any of the following conditions apply:

- It is conducted as a separate and distinct business of the insured (Rule 1-D-3).
- It is specifically excluded in the basic classification wording.
- The principal business is described by a standard exception classification.

**Example of a general inclusion exception:**

*An internet service provider, classified to the standard exception Code 8810 – Clerical Office Employees NOC, operates a restaurant for its employees' use. A restaurant operated for the insured's employees is a general inclusion and usually not separately classified. However, because this business is classified to a standard exception classification, the restaurant operations must be separately classified to the appropriate restaurant classification.*

##### 4. General Exclusions

Some operations in the business are so unusual for the business described in the basic classification they must be separately classified even though the operations are not conducted as a secondary business. These operations are called general exclusions. They are classified separately unless they are specifically included in the basic classification. General exclusions are:

- Aviation – all operations of ground and flying crews
- New construction or alterations
- Stevedoring
- Sawmill operations
- ~~Employer operated day care service~~

**Example of a general exclusion:**

An internet service provider, classified to the standard exception Code 8810 – Clerical Office Employees NOC, ~~provides/maintains a child care program private plane, pilot and flight crew for its employees. An the use of executives traveling to various work locations. The employer-operated day care service is provided~~ aviation services are considered a general exclusion. This means that unless a classification applicable to at the business includes ~~employer-operated day care services~~ aviation, this service is separately classified. Therefore, the ~~child care program of aviation services provided by~~ the internet service provider must be separately classified to the appropriate ~~child care center~~ aviation classification(s).

**5. Governing Classification**

The governing classification at a specific location or job is the basic classification, other than a standard exception, ~~that produces the largest amount of payroll~~ classification.

~~If a basic classification does not apply, the~~ The governing classification is ~~then the standard exception classification that produces the largest amount of payroll.~~ determined in accordance with the Governing Classification Determination Table.

**Governing Classification Determination Table**

<u>If....</u>	<u>Then the governing classification is the ...</u>
<u>A basic classification produces the greatest amount of payroll</u>	<u>Basic classification</u>
<u>A basic classification is applicable but no payroll is assigned</u>	<u>Basic classification</u>
<u>Multiple basic Classifications apply</u>	<u>Basic classification that is assigned the greatest amount of payroll</u>
<u>Multiple basic classifications apply but no payroll is assigned to any of the basic classifications</u>	<u>Basic classification that is the highest rated classification</u>
<u>A basic classification is not applicable</u>	<u>Standard exception classification that is assigned the greatest amount of payroll</u>

The governing classification is used to determine the classification treatment of:

- Miscellaneous employees
- Local managers
- Executive officers who regularly engage in duties that are usually performed by a foreperson, superintendent, or worker

**Example of a governing classification:**

A business has the following payroll amounts assigned to the following classifications:

- \$220,000 for Code 2003 – Bakery



- *\$120,000 for Code 8017 – Store: Retail NOC*
- *\$240,000 for Code 8810 – Clerical*

*The governing code for this business is Code 2003 because it is the classification code, other than the standard exception code (8810), with the greatest amount of payroll.*

## North Carolina Basic Manual

### Part 1

#### Rule 1 – Assignment of Classifications

##### C. Classification Wording

The following list provides a description of how classification wording shall be used:

###### 1. Classification Captions and Notes

The caption is the heading ~~that precedes~~ the ~~classification and the note is the phrase that follows the classification.~~ Both are part of the classification ~~wording.~~

The note is the phrase that follows the caption.

The classification wording as a whole, including ~~caption~~ the caption and ~~notes, note, controls, restricts, or~~ explains ~~how~~ the classification ~~may be used and what controls or restrictions may apply.~~ usage. The wording is also referred to as the “phraseology.”

###### **Example of a Classification entry:**

*Store: Fruit or vegetable – retail. No handling of fresh meats.*

- *“Store: Fruit of vegetable - retail” is the caption in the above example.*
- *“No handling of fresh meats” is the note.*

## North Carolina Basic Manual

### Part 1

#### Rule 1 – Assignment of Classification

##### C. Classification wording

##### 2. Words and Phrases

###### b. Clerical

Clerical ~~includes~~means office ~~and drafting~~ employees and ~~clerical~~ telecommuters, as defined in Rule 1-B-2-a.

###### j. Stories in Height

~~Some~~Certain classification wording refers to “stories in height.” A story is defined as ~~fifteen (15)~~ feet in height. It is measured from the lowest point above ground level to the highest point above ground level. ~~Examples of these classifications include:~~

~~Code 5037 – Painting: Metal Structures – Over Two Stories in Height – And Drivers~~

###### ~~l.~~ Separate and Distinct Business

~~• Code 5059 – Iron or Steel – Erection – Frame Structures Not Over Two Stories in Height  
Code 5645 – Carpentry – Construction of Residential Dwellings Not Exceeding Three Stories in Height~~ Separate and distinct business means an additional operation of the employer that is not included in the basic classification on the policy. Refer to the following:

- Rule 1.D.3 for the assignment of more than one basic classification
  - Rule 3.A.5 for the combination of legal entities, separate locations, and operations on a single policy.
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## North Carolina Basic Manual

### Part 1

#### Rule 1 – Assignment of Classifications

##### D- Classification Procedures

### 3. Assignment of More Than One Basic Classification

If an insured's business meets the conditions of a, b, or c listed below, more than one basic classification may be assigned. Operation by definition means activities, enterprises, processes, secondary businesses, or undertakings.

#### f. Employee Leasing **Firms**, Labor Contractors, **Professional Employer Organizations**, and Temporary Labor Services

- 1) Leased workers must be classified the same as direct employees of the client performing the same or similar duties.
- 2) If the client has no direct employees that perform the same or similar duties, the leased workers are classified as if they were direct employees of the client entity.

#### **Example of how to classify workers assigned to clients of employee leasing companies, labor contractors, and temporary labor services:**

*The client is a retail store classified to Code 8017:*

- Code 8017 is applicable to the worker assigned as a cashier, just as it is applicable to the client's employee who works as a cashier.
- Code 7380 is applicable to the worker assigned as a delivery truck driver, just as it is applicable to the client's employee who drives a delivery truck.

### 5. Businesses Described by a Standard Exception Classification

If the principal business is described by a standard exception classification, the operations of all employees not included in the definition of a standard exception classification must be assigned to the separate basic classification that most closely describes their operation.

This rule applies to both an employer's business within a state and to individual jobs or locations where the governing classification is described by a standard exception classification.

#### **Example of principal business that is described by a standard exception code:**

*The insured is a public museum:*

- Professional and clerical employees are assigned to Code 8810
- Maintenance employees are assigned to Code 9101
- Gift shop employees are assigned to Code 8017

### 6. Classifications Limited To Separate **and Distinct** Businesses

The assignment of certain classifications is limited by their classification notes to separate and distinct businesses. ~~These~~The notes may describe an operation that frequently is an integral part of a business described by another classification.

**North Carolina Basic Manual**

**Part 1**

**Rule 1 – Assignment of Classifications**

**F. Classification Changes or Corrections**

1. Classification changes due to changes in an insured’s operations will be applied as of the date the change in operations occurred.
2. Classification corrections that result in a decrease in premium, whether determined during the policy period or at audit, must be applied retroactively to the effective date of the policy.
3. Classification corrections that result in an increase in premium, must be applied as follows:

<i>If the correction in classification is effective...</i>	<i>Then the correction is applied...</i>
During the first 120 days of the policy term...	Retroactively to the inception of the policy.
After the first 120 days of the policy term, but before the final 90 days...	As of the date the carrier discovers the cause for that correction.
During the last 90 days of the policy term...	Only to a renewal policy, if any.

The effective date of change, for purposes of the time periods noted in the table above, is the date a carrier applies a classification change.

**Exceptions to the table above:**

- a. If the classification correction is the result of an omission or misrepresentation by the insured, its agents, employees, officers, or directors, then the correction must be applied from the date on which the change would have applied if such omission or misrepresentation had not occurred.
  - b. The above rules do not apply to the following types of operations; therefore, classifications are assigned and applied at any time during the term of the policy or at audit:
    - Construction or erection ~~risks~~
    - Employee leasing ~~firms~~
    - Labor ~~contractors~~ contracting
    - Temporary labor services
    - Professional employer organizations
    - Operations assigned to standard exception classifications
    - General exclusions
4. For purposes of Rule 1-F, the reallocation of payroll among classifications on the policy is not considered a change or correction in classification(s).

**Example of reallocation of payroll:**

- *An insured has Codes 8810 and 3632 on its policy. Jane Doe has been reported in 8810 by the insured. The auditor discovers that she cleans the office and reassigns her payroll in 3632. This is permissible because Code 3632 was already on the policy.*

- *An insured has Codes 3179 and 3076 on its policy. John Doe has been reported in 3179. The auditor discovers that John Doe interchanges between 3076 and 3179 operations and there is no division of payroll. Code 3076 is the higher rated code. It is permissible to reassign all ~~of the~~ payroll from 3179 to 3076 because 3076 was already on the policy.*
5. No application to change classification(s) on the grounds that the risk has been improperly classified will be considered by the NCRB unless:
- The application is filed directly with the Bureau, by the insured or by the carrier, and
  - The application is made during the term of the policy or within twelve months after the expiration date thereof.

As provided in the standard workers compensation and employers liability policy, the insurance carrier is permitted to audit or re-audit within three years after termination of the policy. The revised audit may be for the purpose of reallocation or amendment of the payroll or other premium basis, according to the rules, rates, and rating plans applicable under the manuals used by the carriers at the time the policy was terminated.

## North Carolina Basic Manual

### Part 1

#### Rule 2 – Premium and Payroll

##### A. Premium

Premium is calculated on the basis of the total payroll paid or payable by the insured for services of ~~individual~~employees who are eligible to receive workers compensation benefits for work-related injuries as provided by the policy. Some classifications may have a different premium basis. See Example below:

**~~Exception~~Example:**

Premium is calculated for domestic workers on a per capita basis instead of payroll. Domestic workers are employees who perform household duties. See Rule 3-C for additional information.

A per capita classification uses the number of workers rather than payroll to measure exposure.

##### B. Payroll

For purposes of this manual, the terms “payroll” means and “remuneration” mean money or substitutes for money.

###### 1. Includes:

- a. Salary or wages (including retroactive salary or wages).
- b. ~~Cash~~Total pay received by an employee for commissions and draws against commissions.
- c. Bonuses and stock bonus plans. See Rule 2-D-3.
- d. Extra pay for overtime work except as provided in Rule 2-C-2.
- e. Pay for holidays, sick leave, or vacations. See Rule 2-G-3 for allocation of payroll for employees subject to more than one classification code.
- f. Employer payments withheld from employees to meet statutory obligations for insurance and/or pension plans, such as the Federal Social Security Act or Medicare.
- g. Payment to employees on any basis other than time worked, such as piecework, profit sharing, or incentive plans.
- ~~h. Payment or allowances for hand tools or hand held power tools used by employees in their work for the insured. This includes tools supplied directly by the employee or to the employee through a third party.~~
- h. (RESERVED FOR FUTURE USE.)
- i. The rental value of a house or apartment provided to an employee based on comparable accommodations.

- j. The value of lodging, other than an apartment or house, received by an employee as part of their pay as shown in the insured's records.
- k. The value of meals received by employees as part of their pay as shown in the insured's records.
- l. The value of store certificates, credits, merchandise, or any other substitute for money received by employees as part of their pay.
- m. Payment for retirement or cafeteria plans (Internal Revenue Code 125), health savings accounts, flexible spending accounts, employee savings plans, or salary reduction that is made through employee-authorized salary ~~reduction~~reductions from the employee's gross pay.
- n. Davis-Bacon Act wages (A federal law that establishes the requirement for paying the local prevailing wages on public works projects) or wages from similar prevailing wage laws.
- o. Annuity plans.
- p. Expense reimbursements to employees ~~to~~if the ~~extent that an~~ employer's records do not confirm that the expense was incurred as a valid business expense. Refer to Rule 2-B-2-h for contractual allowable travel expenses.

**Exception:**

When it can be verified that the employee was away from home overnight on business for the employer, but no verifiable receipts for incurred expenses have been retained, a reasonable expense allowance, also known as a per diem, is permitted, ~~up to be excluded. The allowance is limited~~ to a maximum of \$~~3075~~ per day. The remaining non-verifiable expenses are included as payroll.

- q. Payment for filming commercials for the insured, excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in ~~print or is broadcast~~any type of media.

**2. Excludes:**

- a. Tips or other gratuities received by employees.
- b. Group insurance or group pension payments made by an employer for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m.
- c. Payments by an employer into third-party trusts for the Davis-Bacon Act or similar prevailing wage laws, provided the pension trust is qualified under the Internal Revenue Code, Sections 401(a) and 501(a).
- d. The value of special rewards for individual invention or discovery.
- e. Payments for dismissal or severance except for time worked or vacation accrued.
- f. Payments for active military duty.



- g. Employee discounts on goods purchased from the employee's employer.
- h. Expense reimbursements to employees if the employer's records confirm that ~~were the expense was~~ incurred as a valid business expense ~~and for which a receipt has been retained.~~

Flat expense allowances and reimbursed expenses ~~(except for hand or hand-held power tools)~~ paid to employees may be excluded from the audit if all three of the following conditions are met:

- 1) The expenses or allowances are incurred for the business of the employer.
- 2) The amount of each employee's expense ~~payments or allowances are~~ allowances are shown separately in the records of the employer
- 3) The amount of ~~each employee's the~~ expense ~~reimbursement is a fair estimate of or~~ allowances approximate the actual ~~expenses~~ expense incurred by the employee in the conduct of ~~his/her~~ their work.

**NOTE:** ~~When it can be verified that the employee was away from home overnight on business for the~~ If an employer, ~~but no did not maintain~~ verifiable receipts for ~~the~~ incurred expenses ~~have been retained, for an employee that was away from home overnight on the business of an~~ employer a reasonable maximum expense allowance, ~~also known as a per diem,~~ is permitted ~~up to a maximum be excluded.~~ Refer to Rule 2-B-1-p Exception for the maximum employee expense allowance.

Allowable travel expenses permitted by any contract with a federal, state, or local government entity, including, but not limited to, a city, borough, or village, are excluded from payroll. In lieu of \$30 per day verifiable receipts for incurred expenses, the employer must produce a copy of the contract provision permitting the travel expenses at audit. The allowable travel expenses must be in addition to the current wage of the employee.

**Example of payroll exclusions:**

*Consider an employer that allows a \$0.55 per mile reimbursement for an employee that uses a personal vehicle for company business. The employer considers the \$0.55 per mile reimbursement a fair estimate of actual incurred expenses. The employee drives 100 miles in a personal vehicle for the company. The ~~\$0.55.00~~ reimbursement (100 miles x \$0.55) is a fair estimate and is excluded from payroll.*

- i. ~~Money~~ Meal money for ~~food when working~~ late work.
- j. Work uniform allowance
- k. Disability income benefits paid to an employee by a third party such as an insured's group insurance carrier
- l. Employer-provided perks including, but not limited to:
  - 1) Use of company car
  - 2) Airplane flights
  - 3) Incentive vacations (e.g., contest winners)
  - 4) Discounts on property or services
  - 5) Club memberships
  - 6) Tickets to entertainment events

- 7) Educational assistance
- 8) Relocation and moving expenses

m. Employer contributions to employee benefit plans such as:

- 1) Employee savings plans
- 2) Retirement plans
- 3) Cafeteria plans (Internal Revenue Code 125)
- 4) Health savings accounts
- 5) Flexible spending accounts

These include any ~~matching~~ contributions made by the employer, at the employer's expense, which are based upon the amount contributed by the employee.

#### D. Payroll Limitations

~~1. Payroll limitation is to be applied after any deductions of extra pay for overtime. When determining average weekly pay, partial weeks are considered full weeks. The total time an employee works during the policy period is the sum of the portions of all verbal and/or written agreements with that employee.~~

1. Certain Specific limitations may apply to payroll:

- a. Payroll for executive officers ~~and to classifications, members of limited liability companies, partners, and sole proprietors~~
- b. Classifications with notes that ~~outline specific payroll~~ indicate

2. Payroll limitations— apply after any exclusions of extra pay for overtime, refer to Rule 2-C-2-a.

~~2-3.~~ Payroll used to calculate premium must exclude that part of the employee's average weekly pay that exceeds the applicable weekly limitation, provided:

- Books and records are maintained to show separately that the total payroll earned by each employee is in excess of the weekly payroll limitation for the total time employed during the policy period and
- Separate records are maintained, in summary, by classification for such employees

~~Refer~~ For more information on payroll, refer to Rule 2-B

4. Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the ~~Miscellaneous Values section~~ policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.

5. Bonuses For the purposes of applying the payroll limitation rule, bonuses paid during the policy term must be earned during the policy term ~~and~~. They are prorated for the period of employment during the policy term ~~for the purposes of applying the payroll limitation rule. See Rule 2-E-1-b~~ for to determine the average weekly bonus to be added to the average weekly pay.

~~3.~~ For additional information regarding executive officer payroll limitations on bonuses, refer to Rule 2-B-1-c

**Example of prorating bonuses for the purpose of applying the payroll limitation rule:**

- Policy period is 9/1/14 – 9/1/15
- Period of employment is 52 weeks
- Amount of employee's annual bonus declared in December 2014 is \$1,560

*Average weekly bonus to be added to average weekly wage is \$30 (\$1,560 divided by 52 weeks).*

## North Carolina Basic Manual

### Part 1

#### Rule 2 - Premium and Payroll

##### E. Executive Officers, Members of Limited Liability Companies, Partners, and Sole Proprietors

###### 1. Executive Officers

###### b. Premium Determination

Premium for executive officers is based on their total payroll, subject to the following limitations and the requirements of Rule 2-D:

- 1) The minimum individual payroll for an executive officer is shown in the Miscellaneous Values section.
- 2) The maximum individual payroll for an executive officer is shown in the Miscellaneous Values section.
- 3) Payroll limitations listed in Rules 2-E-b-1 and 2-E-b-2 above apply to the average weekly payroll of each executive officer for the number of weeks the officer was employed during the policy period.

When an individual is not an executive officer for the entire policy period, the payroll limitation is prorated based on the number of weeks that the individual was an executive officer.

- 4) Payroll is subject to minimum and maximum limitations and included when one of the following apply:
  - The executive officer frequently visits the premises of the risk but does not perform any duties.
  - The executive officer frequently visits the premises of the ~~risk~~employer for business conferences, directors' meetings, or similar duties, even if the officer is an employee or officer of another risk in the operations of which he/she takes an active interest.
  - The executive officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll.
  - The executive officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum per Rule 2-D.
- 5) Payroll is excluded when:
  - The executive officer is elected for the value of his/her name or because of stock holdings, has no duties and does not visit the premises, except perhaps to attend directors' meetings, or

- The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings.

**C. Executive Officers Performing Flight Duties**

If an executive officer acts as a pilot or member of the flying crew of an aircraft used in the insured's business, the payroll of that executive must be assigned as follows:

- 1) For each week that the executive officer did not perform flight duties, the classification of the principal operations in which the executive officer is engaged should be used.
- 2) For each week that the executive officer did perform flight duties, the officer's payroll for that week should be assigned to ~~Code 7421 – Aviation – Flying Crew~~the appropriate aviation – flying crew classification. However, if the executive officer's non-flight duties in that same week are subject to a higher rated classification, assign that higher rated classification for that week.

**NOTE:** These rules apply on the basis of the pilot's logbook, which is required under federal regulations, or on the basis of verifiable records.

- 3) ~~If Code 7421 – Aviation – Flying Crew~~if an aviation – flying crew classification applies and verifiable records are not kept to indicate those weeks during which flying is performed by the executive officer, assign the executive officer's payroll to the highest rated classification that applies to any of his or her duties.

## FILING MEMORANDUM

### **ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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#### **PURPOSE**

This item clarifies and enhances NCCI's *Basic Manual for Workers Compensation and Employers Liability Insurance (Basic Manual)* Rule 1—Classification Assignment and Rule 2—Premium Basis and Payroll Allocation.

#### **BACKGROUND**

NCCI has an ongoing process dedicated to the systematic research, analysis, and maintenance of NCCI's manuals. This process ensures that NCCI products continue to add value to the various industry stakeholders. As a result of this research, NCCI is proposing certain changes to *Basic Manual* Rules 1 and 2.

#### **PROPOSAL**

The following is a summary of the key changes proposed to *Basic Manual* Rules 1 and 2:

- **Rule 1-B-2-c—Salespersons or Collectors—Outside (Code 8742)**

This item clarifies that district or regional managers who travel between locations of the employer to perform various duties not involving outside sales or collection are not assigned to Code 8742. They must be assigned to the classification that best describes their duties.

- **Rule 1-B-3—General Inclusions**

General inclusions are operations that appear to be separate businesses but are included within all basic classifications. These operations are not separately classified. The following operations are to be added to, or updated in, the list of general inclusions:

- Add stores and day care services operated by the employer for employee use. These operations have become common to many businesses.
- Update the description of an employer printing on its own products or of its own materials for advertising or packaging.

- **Rule 1-B-4—General Exclusions**

General exclusions are operations in a business so unusual for the type of business described by the applicable basic classification that they are separately classified even though the operations are not conducted as a secondary business. This item proposes to eliminate employer-operated day care service from the list of general exclusions. This type of operation has become common to many businesses and is proposed to be added as a general inclusion.

- **Rule 1-B-5—Governing Classification**

Generally, a governing classification at a specific job or location is the classification, other than a standard exception classification, that produces the greatest amount of payroll. This item clarifies how to determine the governing classification when:

- A basic classification produces the greatest amount of payroll
- A basic classification is applicable but no payroll is assigned

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## FILING MEMORANDUM

### **ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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- Multiple basic classifications apply
- Multiple classifications apply but no payroll is assigned to any of the basic classifications
- A basic classification is not applicable
- **Rule 1-C-1—Classification Captions and Notes**

This item clarifies the definitions for caption and note. It also adds the term “phraseology” as a common alternative to “classification wording.”

- **Rule 1-C-2—Words and Phrases**
  - The definition of “Clerical” will be updated to remove an obsolete reference to drafting.
  - The classification examples referenced under Stories in Height will be eliminated because they are unnecessary and do not provide value to the definition.
  - A rule will be added to define “Separate and Distinct Business.” This rule will provide guidance on what qualifies as a separate and distinct business or operation.
- **Rule 1-D-3-f—Employee Leasing, Labor Contractors and Temporary Labor Services**

The term “Professional Employer Organizations” will be added because it is commonly used in the industry and in NCCI’s manuals. Also “employee leasing” will be changed to “employee leasing firms.”

- **Rule 1-D-5—Businesses Described by a Standard Exception Classification**

This item clarifies that the rule applies to individual locations as well as to the overall business.

- **Rule 1-D-6—Classifications Limited to Separate Businesses**

This rule will be simplified but also updated with the addition of “and Distinct” to the title. This is for consistency with the proposed addition of Rule 1-C-2-I, which defines a separate and distinct business.

- **Rule 1-F—Changes or Corrections in Classifications**

The following will be added to the list of operations that are exempt from the rule:

- “Professional employer organization” is a common alternative term for an employee leasing firm. The policies for these entities often have numerous classifications for different operations that are added or deleted during a policy term.
- Operations assigned to standard exception classifications can be added to a policy at any time.
- General exclusions are operations so unusual for a business that they are classified separately even though they are not conducted as a secondary business. These operations could be added at any time during a policy term and should be classified appropriately.

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## FILING MEMORANDUM

### **ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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- **Rule 2-A—Premium Basis**

This item revises the exception to the rule to accommodate classifications using a premium basis other than per capita.

- **Rule 2-B—Payroll**

The following changes will be made to Rule 2-B:

- Clarify the rule to indicate that “payroll” and “remuneration” mean money or substitutes for money. The terms mean the same in all rule, classification, and endorsement references.
- Eliminate the inclusion of payments or allowances for hand tools or hand-held power tools used by employees in their work. This is an outdated concept because there are numerous items that employees purchase and are reimbursed for by their employer. These are allowed to be excluded from audit.
- Add employee-authorized salary reductions for health savings accounts and flexible spending accounts to the list of payroll inclusions. This is similar to employee savings plans and retirement or cafeteria plans.
- Increase the maximum amount for expense reimbursements without verifiable receipts from \$30 to \$75 per day. This revision provides a more current and reasonable expense allowance.
- Add a rule to address that reimbursements for allowable travel expenses permitted by a governmental contract are excluded from payroll. The employer must produce a copy of the contract, and the allowable travel expenses must be in addition to the current wage of the employee.
- Add a rule to include payroll adjustments by the employer to raise employees’ wages to federal, state, or local minimum wage, whichever is higher.
- Replace the term “supper money” with “meal money” for a more accurate description.
- Add educational assistance and relocation and moving expenses to the list of employer-provided perks that are excluded from payroll. These are common perks provided by employers to their employees.
- Add health savings accounts and flexible spending accounts to the list of employer contributions to employee benefit plans that are excluded from payroll.

- **Rule 2-D—Payroll Limitations**

The following changes will be made to Rule 2-D:

- Clarify the rule applies to executive officers, members of LLCs, partners, and sole proprietors, and to classifications with notes that indicate payroll limitations.
- Address how payroll limitations are impacted by overtime pay, partial weeks worked, and bonuses earned. This is part of NCCI’s continuing effort to clarify and modernize the rules.

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FILING MEMORANDUM

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

• **Rule 2-E—Executive Officers, Members of Limited Liability Companies, Partners, and Sole Proprietors**

This rule will be updated to address the treatment of an employee who is not an executive officer during the entire policy period. The payroll limitation will be prorated based on the number of weeks that such persons were executive officers during the policy period.

This item includes state-specific updates to address the national changes and/or to better organize the state rules exceptions.

This item also includes various formatting and grammatical changes.

**IMPACT**

The impact to overall statewide premium will vary as a result of the changes proposed in this item. Also, for some employers, a negligible premium change may result based on the revised rules. This item proposes changes to NCCI's *Basic Manual* that will modernize and clarify rules relevant to current market conditions. As part of NCCI's continuing effort to simplify and clarify manual rules, we anticipate that these changes will enhance the understanding of NCCI's *Basic Manual*.

**EXHIBIT COMMENTS AND IMPLEMENTATION SUMMARY**

To implement this item, the attached exhibits detail the changes required in NCCI's *Basic Manual*.

Exhibit	Exhibit Comments	Implementation Summary
<b>National Exhibits</b>		
1	<ul style="list-style-type: none"> <li>• Details the revisions to Rule 1-B-2-c</li> <li>• Refer to state exhibit for TX</li> <li>• All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits</li> </ul>	To become effective for new and renewal policies effective on and after 12:01 a.m. on October 1, 2017.
2	<ul style="list-style-type: none"> <li>• Details the revisions to Rules 1-B-3, 1-B-4, and 1-B-5</li> <li>• The revisions to Rules 1-B-4 and 1-B-5-b do not apply in TX</li> <li>• Refer to state exhibits for FL, OR, and TX</li> </ul>	
3	<ul style="list-style-type: none"> <li>• Details the revisions to Rule 1-C-1</li> </ul>	
4	<ul style="list-style-type: none"> <li>• Details the revisions to Rules 1-C-2-b and 1-C-2-j, and the establishment of Rule 1-C-2-l</li> <li>• The revisions to Rule 1-C-2-b do not apply in TX</li> <li>• Refer to state exhibits for FL, TX, and VA</li> </ul>	

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**FILING MEMORANDUM**

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

Exhibit	Exhibit Comments	Implementation Summary
5	<ul style="list-style-type: none"> <li>• Details the revisions to Rules 1-D-3-f, 1-D-5, and 1-D-6</li> <li>• The revisions to Rules 1-D-3-f and 1-D-5 do not apply in TX</li> <li>• Refer to state exhibits for CO, MT, TN, and TX</li> </ul>	
6	<ul style="list-style-type: none"> <li>• Details the revisions to Rule 1-F</li> <li>• The revisions to Rules 1-F-1 and 1-F-3-a do not apply in VA</li> <li>• The revisions to Rule 1-F-3-a and 1-F-3-b do not apply in FL and MO</li> <li>• Refer to state exhibits for FL, MO, TX, and VA</li> <li>• All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits</li> </ul>	
7	<ul style="list-style-type: none"> <li>• Details the revisions to Rules 2-A, 2-B, and 2-D</li> <li>• The revisions to Rule 2-A do not apply in FL, NV, and TN</li> <li>• The revision to Rule 2-B-1-a does not apply in MT</li> <li>• The revision to Rule 2-B-1-b does not apply in AK</li> <li>• The revision to Rule 2-B-1-c does not apply in OR and TN</li> <li>• The revisions to Rule 2-B-1-e do not apply in AR, IL, IN, KS, KY, MD, NM, OK, OR, SD, TN, and UT</li> <li>• The revision to Rule 2-B-1-j does not apply in AZ, MT, and NV</li> <li>• The revision to Rule 2-B-1-k does not apply in AZ, MT, and NV</li> <li>• The revision to Rule 2-B-1-m does not apply in OK</li> <li>• The revision to Rule 2-B-1-n does not apply in AK, CO, OR, and VA</li> <li>• The revisions to Rule 2-B-1-p do not apply in AZ, MS, NV, and OR</li> <li>• The revision to the Rule 2-B-1-p exception does not apply in MT and TX</li> <li>• The revisions to Rule 2-B-2-h does not apply in OR</li> <li>• The revisions to Rule 2-B-2-l do not apply in NV</li> <li>• The revisions to Rule 2-B-2-m do not apply in VA</li> <li>• The revisions to Rule 2-D do not apply in MT</li> <li>• The revision to Rule 2-D-4 does not apply in NV</li> <li>• Refer to state exhibits for AK, AR, AZ, CO, FL, IL, IN, KS, KY, MD, ME, MS, MT, NM, NV, OK, OR, SD, TN, TX, UT, and VA</li> </ul>	

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FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

Exhibit	Exhibit Comments	Implementation Summary
	<ul style="list-style-type: none"> <li>All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits</li> </ul>	
8	<ul style="list-style-type: none"> <li>Details the revisions to Rules 2-E-1-b and 2-E-1-c</li> <li>The revision to Rule 2-E-1-b(3) does not apply in IA and MO</li> <li>The revisions to Rule 2-E-1-b(4) do not apply in IA</li> <li>The revisions to Rule 2-E-1-c do not apply in TX</li> <li>The revision to Rule 2-E-1-c(2) does not apply in MO</li> <li>Refer to state exhibits for FL, IA, MO, RI, and TX</li> <li>All state exceptions will continue to apply unless otherwise noted in the state-specific exhibits</li> </ul>	
<b>State Exhibits</b>		
9	Details the revisions to Alaska's exception to Rule 2-B-1.	
10	Details the elimination of Alaska's exception to Rule 2-B-2.	
9	Details the revisions to Arkansas' exception to Rule 2-B-1-e.	
9	Details the revisions to Arizona's exception to Rule 2-B-1.	
9	Details the revisions to Colorado's exception to Rule 1-D-9.	
10	Details the revision to Colorado's exception to Rule 2-B-1-n.	
9	Details the elimination of Florida's exception to Rule 1-B-3.	
10	Details the elimination of Florida's exception to Rule 1-C-2-j.	
11	Details the revisions to Florida's exception to Rule 1-F.	
12	Details the revisions to Florida's exception to Rule 2-A.	
13	Details the revisions to Florida's exception to Rule 2-E-1-b.	
9	Details the revision to Iowa's exception to Rule 2-E-1-b.	
9	Details the elimination of Illinois' exception to Rule 2-A and the revisions to Illinois' exception to Rule 2-B.	
9	Details the revisions to Indiana's exceptions to Rule 2-B.	
9	Details the revisions to Kansas's exception to Rule 2-B-1-e.	
9	Details the revisions to Kentucky's exception to Rule 2-B.	
9	Details the revisions to Maryland's exceptions to Rule 2-B.	

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ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

Exhibit	Exhibit Comments	Implementation Summary
9	Details the revision to Maine's exception to Rule 2-B-1-r.	
9	Details the revisions to Missouri's exception to Rule 1-F.	
10	Details the revisions to Missouri's exceptions to Rules 2-E-1-b and 2-E-1-c(2).	
9	Details the revision to Mississippi's exception to Rules 2-B-1-p and the elimination of Mississippi's exception to Rule 2-B-2-h.	
9	Details the revision to Montana's exception to Rule 1-D-9.	
10	Details the revisions to Montana's exceptions to Rules 2-B-1 and 2-B-2.	
9	Details the revisions to New Mexico's exceptions to Rule 2-B.	
9	Details the revisions to Nevada's exception to Rule 2-A.	
10	Details the revisions to Nevada's exception to Rule 2-B-1.	
11	Details the revisions to Nevada's exception to Rule 2-B-2.	
12	Details the revisions to Nevada's exceptions to Rule 2-D.	
9	Details the revisions to Oklahoma's exceptions to Rule 2-B.	
9	Details the elimination of Oregon's exception to Rule 1-B-4.	
10	Details the revisions to Oregon's exception to Rule 2-B-1.	
11	Details the revisions to Oregon's exception to Rule 2-B-2.	
9	Details the revisions to Rhode Island's exception to Rule 2-E-1-b.	
9	Details the revision to South Dakota's exception to Rule 2-B-2.	
9	Details the revisions to Tennessee's exception to Rule 1-D-3-f.	
10	Details the revisions to Tennessee's exception to Rule 2-A.	
11	Details the revisions to Tennessee's exceptions to Rule 2-B.	
9	Details the revisions to Texas's exception to Rule 1-B-2-c.	
10	Details the revisions to Texas's exceptions to Rules 1-B-3, 1-B-4, and 1-B-5.	
11	Details the elimination of Texas's exception to Rule 1-C-2-j.	
12	Details the revision to Texas's exception to Rules 1-D-5 and the elimination of Texas's exception to Rule 1-D-9.	

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FILING MEMORANDUM

ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
 AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION

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Exhibit	Exhibit Comments	Implementation Summary
13	Details the revisions to Texas's exception to Rule 1-F-3-b.	
14	Details the elimination of Texas's exception to Rule 2-A.	
15	Details the revision to Texas's exception to Rule 2-B-1 and the elimination of Texas's exception to Rule 2-B-2-h.	
16	Details the revisions to Texas's exception to Rule 2-D.	
17	Details the revisions to Texas's exception to Rule 2-E-1-c.	
9	Details the revisions to Utah's exception to Rule 2-B.	
9	Details the elimination of Virginia's exception to Rule 1-C-2-j.	
10	Details the revisions to Virginia's exception to Rule 1-F.	
11	Details the revisions to Virginia's exception to Rule 2-A.	
12	Details the revisions to Virginia's exception to Rule 2-B.	

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**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 1  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
B. EXPLANATION OF CLASSIFICATIONS**

**2. Standard Exception Classifications**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)**

**c. Salespersons or Collectors—Outside (Code 8742)**

(1) This classification is assigned to employees who perform these duties away from the employer's premises.

(2) This ~~code excludes~~ classification is not assigned to employees who:

(a) - Deliver merchandise.

(b) - Use vehicles to deliver or pick up goods, even if they collect or sell. These employees must be assigned to the classification applicable to the business for drivers.

(c) - Use public transportation or walk to deliver goods even if they collect or sell. These employees must be assigned to the governing classification applicable to the business.

(d) Travel between locations of the employer as district or regional managers to perform various duties not involving outside sales or collection. Refer to Rule 2-G—Interchange of Labor.

(3) Code 8742 does not apply when the basic classification wording includes outside salespersons and/or collectors.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 2  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
B. EXPLANATION OF CLASSIFICATIONS****(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)****3. General Inclusions**

a. Some operations appear to be separate businesses but are included within all basic classifications. These are called general inclusions. These operations are not separately classified. They include the following:

- (1) - Restaurants or cafeterias, stores, or day care services operated by the ~~insured~~ employer for employee use

**Exception:**

If these operations are conducted in connection with construction, erection, lumbering or mining operations, they must be separately classified.

- (2) - Manufacture of containers by the ~~insured~~ employer, such as bags, barrels, bottles, boxes, cans, cartons or packing cases for sole use in the operations insured by the policy
- (3) - Hospitals or medical facilities operated by the ~~insured~~ employer for its employees
- (4) - Maintenance or repair of the ~~insured's~~ employer's buildings or equipment by the ~~insured's~~ employer's employees
- (5) - Printing or ~~lithographing~~ by the ~~insured~~ employer on its own products, packaging, brochures, or promotional materials

b. Some employees may perform general inclusion duties for more than one basic classification. In such cases, *refer to Rule 2-G for classification treatment.*

**Exceptions-**

c. A general inclusion operation must be separately classified if any of the following conditions apply:

- (1) - The operation is conducted as a separate and distinct business of the ~~insured~~ employer (*refer to Rule 1-D-3-*)
- (2) - The operation is specifically excluded in the wording of the basic classification-
- (3) - The principal business is described by a standard exception classification-

*Refer to NCCI's User's Guide for an example.*

**4. General Exclusions**

Some operations in a business are so unusual for the type of business described by the applicable basic classification, that they are separately classified even though the operations are not conducted as a secondary business. These are called general exclusions. They are:

- a. - Aviation—all operations of the flying and ground crews
- b. - New construction or alterations
- c. - Stevedoring
- d. - Sawmill operations
- Employer-operated day care service

*Refer to NCCI's User's Guide for an example.*

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 2 (CONT'D)  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
B. EXPLANATION OF CLASSIFICATIONS**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**5. Governing Classification**

- a. The governing classification at a specific job or location is the basic classification, other than a standard exception classification, that produces the greatest amount of payroll.

The governing classification is determined in accordance with the Governing Classification Determination Table.

**Governing Classification Determination Table**

<b>If . . .</b>	<b>Then the governing classification is the . . .</b>
A basic classification produces the greatest amount of payroll	Basic classification
A basic classification is applicable but no payroll is assigned	
Multiple basic classifications apply	Basic classification that is assigned the greatest amount of payroll
Multiple basic classifications apply but no payroll is assigned to any of the basic classifications	Basic classification that is the highest rated classification
A basic classification is not applicable	Standard exception classification that is assigned the greatest amount of payroll

~~If a basic classification is not applicable, the governing classification is the standard exception classification that produces the greatest amount of payroll.~~

- b. The governing classification is used to determine the classification treatment of:
- Miscellaneous employees
  - Local managers
  - Executive officers who regularly engage in duties that are ordinarily performed by a superintendent, foreperson or worker



**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 3  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
C. CLASSIFICATION WORDING**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**1. Classification Captions and Notes**

The *caption* is the heading or title of that precedes the classification itself and is part of the classification wording.

The *note* is the phrase that follows the caption classification and is part of the classification wording.

The classification wording as a whole, including the captions and notes, controls, restricts, or explains the classification usage. This wording is also referred to as the "phraseology."

*Refer to NCCI's User's Guide for an example.*

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 4  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
C. CLASSIFICATION WORDING**

**2. Words and Phrases**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**b. Clerical**

Clerical means ~~clerical office employees and telecommuters and drafting employees~~ as defined in Rule 1-B-2-a.

~~Clerical includes clerical telecommuters as defined in Rule 1-B-2-a.~~

**j. Stories in Height**

Certain classification wording refers to “stories in height.” A story is defined as ~~fifteen~~ (15) feet in height. It is measured from the lowest point above ground level to the highest point above ground level. ~~Some of these classifications are:~~

- ~~Code 5037—Painting: Metal Structures—Over Two Stories~~
- ~~Code 5059—Iron or Steel—Erection—Frame Structures Not Over Two Stories~~
- ~~Code 5645—Carpentry—Construction of Residential Dwellings Not Exceeding Three Stories in Height~~
- ~~Code 5403—Carpentry—Construction of Residential Dwellings Exceeding Three Stories in Height or Commercial Buildings and Structures~~

**I. Separate and Distinct Business**

Separate and distinct business means an additional operation of the employer that is not included in the basic classification on the policy. Refer to the following:

- Rule 1-D-3 for the assignment of more than one basic classification
- Rule 3-A-5 for the combination of legal entities, locations, and operations on a single policy

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 5  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT  
D. CLASSIFICATION PROCEDURES**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**3. Assignment of More Than One Basic Classification**

More than one basic classification may be assigned to an ~~insured who~~ employer that meets conditions a, b, or c below. Operation means activities, enterprises, processes, secondary businesses or undertakings.

**f. Employee Leasing Firms, Labor Contractors, Professional Employer Organizations, and Temporary Labor Services**

(1) Workers assigned to clients must be classified the same as direct employees of the client performing the same or similar duties.

(2) If the client has no direct employees performing the same or similar duties, leased employees are classified as if they were direct employees of the client entity.

*Refer to NCCI's User's Guide for an example.*

**5. Businesses Described by a Standard Exception Classification**

If the principal business is described by a ~~S~~standard E~~exception C~~classification, the operations of all employees not included in the definition of ~~S~~standard E~~exception C~~classification must be assigned to the separate basic classification that most closely describes their operation.

This rule applies to both an employer's business within a state and to individual jobs or locations where the governing classification is described by a standard exception classification.

*Refer to NCCI's User's Guide for an example.*

**6. Classifications Limited to Separate and Distinct Businesses**

The assignment of certain classifications is limited by their classification notes to separate and distinct businesses. ~~because~~ †The notes may describe an operation that frequently is an integral part of a business described by another classification.

*Refer to NCCI's User's Guide for an example.*

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 6  
BASIC MANUAL—2001 EDITION  
RULE 1—CLASSIFICATION ASSIGNMENT**  
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IN, KS, KY, LA, MD, ME, MS, MT, NE, NH, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)  
(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

**F. CHANGES OR CORRECTIONS IN CLASSIFICATIONS**

1. Changes in classification due to changes in an ~~insured's~~ employer's operations will be applied as of the date the change in operations occurred.
2. Corrections in classifications that result in a *decrease* in premium, whether determined during the policy period or at audit, must be applied retroactively to the inception of the policy.
3. Corrections in classifications that result in an *increase* in premium, must be applied as follows:

If the correction in classification is effective . . .	Then the correction is applied . . .
During the first 120 days of the policy term . . .	Retroactively to the inception of the policy.
After the first 120 days of the policy term, but before the final 90 days . . .	As of the date the company discovers the cause for that correction.
During the last 90 days of the policy term . . .	Only to a renewal policy, if any.

The effective date of change, for purposes of the time periods noted in the table above, is the date a carrier applies a classification change.

**Exceptions to the table above:**

- a. If the correction in classification is the result of a misrepresentation or omission by the ~~insured~~ employer, its agents, employees, officers, or directors, then the correction must be applied from the date on which the change would have applied if such misrepresentation omission had not been made.
  - b. The above rules do not apply to the following types of operations; therefore, classifications are assigned and applied at any time during the term of the policy or at audit:
    - Construction or erection ~~risks~~
    - Employee leasing ~~firms~~
    - Labor ~~contractors~~ contracting
    - Temporary labor services
    - Professional employer organizations (PEOs)
    - Operations assigned to standard exception classifications
    - General exclusions
4. For purposes of Rule 1-F the reallocation of payroll among classifications on the policy is not considered a change or correction in classification(s).

*Refer to NCCI's User's Guide for an example.*

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 7**  
**BASIC MANUAL—2001 EDITION**  
**RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**  
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)  
(Exhibit comment: All current state exceptions will continue to apply unless otherwise  
noted in the state-specific exhibits)

**A. PREMIUM BASIS**

Premium is calculated on the basis of the total payroll paid or payable by the ~~insured~~ employer for services of ~~individuals~~ employees who could receive workers compensation benefits for work-related injuries as provided by the policy. Some classifications may have a different premium basis; *refer to NCCI's User's Guide for examples.*

**Exceptions:**

~~Premium for domestic worker classifications is calculated on a per capita basis instead of payroll. Domestic workers are employees who perform household duties. Refer to Rule 3-C.~~

~~A per capita classification uses the number of workers rather than payroll to measure exposure.~~

**B. PAYROLL**

For purposes of this manual, the terms "payroll" and "remuneration" means money or substitutes for money.

**1. Includes:**

- a. Wages or salaries (including retroactive wages or salaries). *Refer to NCCI's User's Guide for examples.*
- b. Total ~~cash~~ pay received by an employee for commissions and draws against commissions.
- c. Bonuses including stock bonus plans. ~~(Refer to Rule 2-D for payroll limitation rules.)~~
- d. Extra pay for overtime work except as provided in Rule 2-C-2.
- e. Pay for holidays, vacations, or periods of sickness. ~~(Refer to Rule 2-G-3 for allocation of payroll for employees subject to more than one classification code.)~~
- f. Payment by an employer of amounts that would have been withheld from employees to meet statutory obligations for insurance or pension plans such as the Federal Social Security Act or Medicare.
- g. Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans.
- h. ~~Payment or allowances for hand tools or hand-held power tools used by employees in their work or operations for the insured. These tools may be supplied directly by the employee or to the employee through a third party. (RESERVED FOR FUTURE USE.)~~
- i. The rental value of an apartment or house provided to an employee based on comparable accommodations.
- j. The value of lodging, other than an apartment or house received by an employee as part of their pay to the extent shown in the ~~insured's~~ employer's records.
- k. The value of meals received by employees as part of their pay to the extent shown in the ~~insured's~~ employer's records.
- l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 7 (CONT'D)  
BASIC MANUAL—2001 EDITION**

**RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

- m. Payments for salary reduction, employee savings plans, retirement or cafeteria plans (IRC 125), health savings accounts, and flexible spending accounts that are made through employee-authorized salary reductions from the employee's gross pay. Refer to NCCI's *User's Guide* for an example.
- n. Davis-Bacon wages or wages from a similar prevailing wage law. Refer to NCCI's *User's Guide* for an example.
- o. Annuity plans.
- p. Expense reimbursements to employees ~~to the extent that an~~ if the employer's records do not confirm that the expense was incurred as a valid business expense. Refer to Rule 2-B-2-h for contractual allowable travel expenses.

**Exception:**

When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance is permitted to be excluded. The allowance is limited to a maximum of ~~\$30~~ \$75 per day, ~~is permitted~~. The remaining non-verifiable expenses are included as payroll.

Refer to Rule 2-B-2-h for additional information about exclusion of expense reimbursements.

- q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in ~~print or is broadcast~~ any type of media.
- r. Adjustments made by the employer to raise employees' wages to federal, state, or local minimum wage, whichever is applicable.

**2. Excludes:**

- a. Tips or other gratuities received by employees.
- b. Payments by an employer to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m.
- c. Payments by an employer into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a).
- d. The value of special rewards for individual invention or discovery.
- e. Dismissal or severance payments except for time worked or vacation accrued.
- f. Payments for active military duty.
- g. Employee discounts on goods purchased from the employee's employer.
- h. Expense reimbursements to employees ~~to the extent that an~~ if the employer's records confirm that the expense was incurred as a valid business expense.

Reimbursed expenses and flat expense allowances ~~(except for hand or hand-held power tools)~~ paid to employees may be excluded from the audit only if all three of the following conditions are met:

- (1) The expenses or allowances are incurred for the business of the employer

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

**EXHIBIT 7 (CONT'D)**  
**BASIC MANUAL—2001 EDITION**  
**RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**  
 (Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
 MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)  
 (Exhibit comment: All current state exceptions will continue to apply unless otherwise  
 noted in the state-specific exhibits)

(2) The amount of each employee's expense payments or allowances are is shown separately in the records of the employer

(3) The amount of ~~each employee's~~ the expense reimbursement or allowance approximates ~~is~~ a fair estimate of the actual expenses incurred by the employee in the conduct of ~~his/her~~ their work

*Refer to NCCI's User's Guide for an example.*

**Note:** ~~When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted.~~ If an employer did not maintain verifiable receipts for incurred expenses for an employee that was away from home overnight on the business of an employer a maximum expense allowance is permitted to be excluded. Refer to Rule 2-B-1-p Exception for the maximum employee expense allowance.

Allowable travel expenses permitted by any contract with a federal, state, or local government entity, including, but not limited to, a city, borough, or village, are excluded from payroll. In lieu of verifiable receipts for incurred expenses, the employer must produce a copy of the contract provision permitting the travel expenses at audit. The allowable travel expenses must be in addition to the current wage of the employee.

- i. ~~Supper~~ Meal money for late work.
- j. Work uniform allowances.
- k. Sick pay paid to an employee by a third party such as an ~~insured's~~ employer's group insurance carrier that is paying disability income benefits to a disabled employee.
- l. Employer-provided perks such as:
  - Use of company-provided automobiles
  - Airplane flights
  - Incentive vacations (e.g., contest winners)
  - Discounts on property or services
  - Club memberships
  - Tickets to entertainment events
  - Educational assistance
  - Relocation and moving expenses
- m. Employer contributions to employee benefit plans such as:
  - Employee savings plans
  - Retirement plans
  - Cafeteria plans (IRC 125)
  - Health savings accounts
  - Flexible spending accounts

These include contributions made by the employer, at the employer's expense, which are determined by the amount contributed by the employee.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 7 (CONT'D)  
BASIC MANUAL—2001 EDITION  
RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**  
(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)  
(Exhibit comment: All current state exceptions will continue to apply unless otherwise  
noted in the state-specific exhibits)

**D. PAYROLL LIMITATIONS**

1. Payroll limitation applies after any deductions of extra pay for overtime. Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.
2. Specific limitations may apply to:
  - a. Payroll for Executive Officers, members of limited liability companies, partners, and sole proprietors and to
  - b. Classifications with notes that indicate payroll limitations

Refer to:

  - National and state special Classifications sections for details
  - Refer to State pages for specific limitations
  - Rule 2-E-1-b for additional information regarding executive officer payroll limitations
2. Payroll limitations apply after any exclusions of extra pay for overtime; refer to Rule 2-C-2-a.
3. Payroll used to calculate premium must exclude that part of the employee's average weekly pay that exceeds the applicable weekly limitation, provided:
  - a. Books and records are maintained to show separately that the total payroll earned by each employee is in excess of the weekly payroll limitation for the total time employed during the policy period, and
  - b. Separate records are maintained, in summary, by classification for such employees

For more information on payroll, refer to Rule 2-B.
4. Partial weeks are considered full weeks when determining average weekly pay. Total time of any worker employed during the policy period is the sum of the portions of all verbal or written agreements with that employee that fall within the policy period.
5. Bonuses—For purposes of applying the payroll limitation rule, bonuses paid during the policy term must be earned during the policy term. They are prorated for the period of employment during the policy term to determine the average weekly bonus to be added to the average weekly pay. For additional information on bonuses, refer to Rule 2-B-1-c regarding Executive Officer payroll limitations, refer to Rule 2-E-1-b.  
Refer to NCCI's User's Guide for an example.



**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION****EXHIBIT 8  
BASIC MANUAL—2001 EDITION  
RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION  
E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,  
AND SOLE PROPRIETORS****1. Executive Officers**

(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)

(Exhibit comment: All current state exceptions will continue to apply unless otherwise noted in the state-specific exhibits)

**b. Premium Determination**

Premium for executive officers is based on their total payroll, subject to the following limitations and the requirements of Rule 2-D:

- (1) The minimum individual payroll for an executive officer is shown on the individual state pages in the **Basic Manual**.
- (2) The maximum individual payroll for an executive officer is shown on the individual state pages in the **Basic Manual**.
- (3) The payroll limitations in b(1) and b(2) apply to the average weekly payroll of each executive officer for the number of weeks the officer was employed during the policy period.  
When an individual is not an executive officer for the entire policy period, the payroll limitation is prorated based on the number of weeks that the individual was an executive officer.
- (4) Payroll is subject to minimum and maximum limitations and *included* when one of the following apply: --
  - (a) -The executive officer does not perform any duties but frequently visits the premises.
  - (b) -The executive officer frequently visits the premises of the ~~risk~~ employer for business conferences, directors' meetings, or similar duties, even if the officer is an employee or officer of another ~~risk~~ employer in the operations of which he/she takes an active interest.
  - (c) -The officer receives no salary; however, a regular salary is credited to him or her on the books. In this instance the amount credited must be included in payroll.
  - (d) -The officer receives no salary, either drawn or credited, or the audit records fail to disclose the salary. In this instance the amount to be included in the payroll is the applicable minimum per Rule 2-D.
- (5) Payroll is *excluded* when: --
  - (a) -The executive officer is elected for the value of his/her name or because of stock holdings, has no duties, and does not visit the premises, except perhaps to attend directors' meetings, ~~or~~
  - (b) -The executive officer ceases to perform any duties and does not visit the premises, except perhaps to attend directors' meetings.

For the applicable state weekly minimum and maximum individual payroll limitation formula, *refer to Appendix F*.

**c. Executive Officers Performing Flight Duties**

Payroll of an executive officer who is a pilot or member of the flying crew of an aircraft used in the ~~insured's~~ employer's business must be assigned as follows:

- (1) For each week that the executive officer did not perform flight duties, assign the executive officer's payroll to the classification that applies to the principal operations in which the executive officer is engaged.

**ITEM B-1433—REVISIONS TO BASIC MANUAL RULE 1—CLASSIFICATION ASSIGNMENT  
AND RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION**

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**EXHIBIT 8 (CONT'D)  
BASIC MANUAL—2001 EDITION  
RULE 2—PREMIUM BASIS AND PAYROLL ALLOCATION  
E. EXECUTIVE OFFICERS, MEMBERS OF LIMITED LIABILITY COMPANIES, PARTNERS,  
AND SOLE PROPRIETORS**

**1. Executive Officers**

**(Applies in: AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO,  
MS, MT, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, WV)**

**(Exhibit comment: All current state exceptions will continue to apply unless otherwise  
noted in the state-specific exhibits)**

(2) For each week that the executive officer performed flight duties, assign the officer's payroll for that week to Code 7421— the appropriate Aviation—Flying Crew classification. However, if the executive officer's nonflying duties in that week are subject to a higher rated classification, assign that higher rated classification for that week.

**Note:** The above rules apply on the basis of the pilot's logbook, which is required under federal regulations, or on the basis of verifiable records.

(3) If an Code 7421— Aviation—Flying Crew classification applies and verifiable records are not kept to indicate those weeks during which flying is performed by the executive officer, assign the executive officer's payroll to the highest rated classification that applies to any of their duties.