Collecting a 2015 Overpayment in 2016

- Why do we have to change to a net overpayment instead of a gross when an overpayment crosses the calendar year?
    - The IRS says that:
        - Overpayments for prior years are not reductions of current year amounts subject to FIT withholding.
        - Overpayments for prior years should not cause a reduction of FIT withholding tax paid this year.
        - Any FIT tax overpayment the employee has made should be recovered by the employee on his next tax return, as a deduction from income.
        - If the overpayment is never repaid, it is considered taxable wages.
    - The SSA says that:
        - Medicare and Social Security overpayments should be reported to the Social Security Administration as soon as they are repaid, but for the correct tax year.
    - If we keep collecting the gross overpayment in the new year, we break most of the above rules
        - Gross subject to FIT will be understated.
        - FIT withheld will be incorrect.
        - Reductions to Social Security and Medicare subject amounts are reported in the wrong year.
        - Social Security and Medicare is reported in the wrong year.

- **Example:**

Portion of PC_PAYRESULT (Collapsed Display) for sample employee.

```
Personnel No.      12345432 SAMPLE JOHN Q - USA
Seq. number        00195 - accounted on 11/16/2015 - current result
For-Period         22.2015 (11/01/2015 - 11/15/2015)
In-Period          22.2015 (Fin.: 11/15/2015)


* /R00 Regular Ra                                21.08   96.00       2,023.91
* 2143 LTD        01                B 04                                38.04-
* 2260 N2 PSERS 2 01                B 03                               135.23-
* 2360 N2 ER PSER                   B 03                               175.98
* 2538 Reg BlueSh 01                B 02                                69.50-
* 2550 Health - E                   B 02                               353.50
* 2575 Health - P 01                B 02                               423.00
* 3223 RepayPlan                                                        50.00-
* 3224 RePay bala                                                      300.00
* 3225 RePay Tota                                                      750.00-
* 9182 P0/T0 Base                                                    2,058.23
* 9188 PSERS 2 Ba                                                    2,058.23
```

- Overpayment Details:
  - As of 11-25-2015, how much has the employee paid?
    - $ 750 repaid as of this pay (WT 3225)
    - <u>+ 300 balance remaining (WT 3224)</u>
    - 1,050 Total Gross Overpayment.
  - We originally had a gross overpayment of $1,050.
  - The employee agreed to pay it back $50 per pay period.
  - The employee has paid back $750
  - EE will make two more payments on Dec. 10 and Dec. 24, adding another $100.
  - $750 + $100 = **$850** repaid as of the end of 2015
  - $1,050 - $850 = **$200** gross to be paid in 2016
- Turn off the 2015 gross deduction in HRMS, ***before*** 12/24 payroll exits.
  - IT 0014 Recurring Payments/Deductions
    - Use the ***Pencil*** to change the end date of WT 3223 to 12/15/2015
      - Remember, 12/1 to 12/15 is paid on 12/24
      - We don't want to take any more gross deductions in 2016.

- IT 0015 Additional Payments:
    - Use the ***Pencil***
        - Change the ***amount*** of WT 3224 to $850. Why?
            - We will only collect $850 in 2015
            - If we look later, we'll be able to see easily that only $850 was collected in 2015.
            - If we have another overpayment later, the leftover balance could cause problems with the new overpayment.

- How much are we going to collect from the employee?
    - **$ 200.00** gross.
    - **- 12.40** (6.2% Social Security OASDI) (We'll get this back from the Feds later.)
    - **- 2.90** (1.45% Medicare HI) (We'll get this back, too.)
    - **$ 184.70** Net pay recovered in 2016.
    - Caution! If collecting overpayments from 2012 or 2011, be sure to use 4.2% for the Social Security rate!

- How many payments were left?
    - $200.00 / $50.00 = 4 payments
    - So, $184.70 / 4 payments = $46.18
    - $46.18 x 4 = 184.72, so take $0.02 off of the final payment.

- Key 3101/3111 combination
    - $46.18 payment (3101)
    - $184.70 balance (3111).
    - Employee is only paying back the gross, less SS and Medicare!

- What about the employer taxes?
    - When we pay back gross in the same year, taxes are automatically adjusted, including EE and ER share.
    - When we pay back net in the next year, taxes aren't adjusted at all!
    - We want to get the agency's money back as soon as possible, so recover taxes immediately:
        - Agency = 6.2%, SS $12.40, Med $2.90

- Write a JV to reverse the Social Security and Medicare expenditure on the agency side.
    - Account 035, TC 025 (1324V/7140) DR $15.30
    - Operating, TC 670 (7140/6510) SubObject BA CR $12.40
    - Operating, TC 670 (7140/6510) SubObject BH CR $ 2.90
    - *IFT JV: Don't send to OST!!!*
- Basically, we're carrying a receivable in Account 035 until we get it back from the Feds!

- As the employee pays back the money, it will accrue as a credit in Account 035, GL 1324
    - <u>No additional JV is necessary</u> for the net pay collection.
- After the employee is done paying back, we have $15.30 + $15.30 = **$30.60** left as a receivable in Account 035, GL 1324.
    - This is the money we get from the Feds.
    - We have to file a tax return to get it.
- We shouldn't file frequent amended returns if we can avoid it. We should file the tax return once the employee has repaid in full or at reasonably infrequent intervals (for instance, annually.)

- Once the employee has paid us back in 2016:
  - Make adjustments to:
    - Employee OASI/Med Taxable and Tax
    - Employer OASI/Med Taxable and Tax
    - Per the IRS, we don't change 2015 FIT *at all.* Employee can claim as a deduction on 2016 (for 2015) tax return.
  - Use CTS's Agency Adjustment Worksheet (available online at http://www.dop.wa.gov/SiteCollectionDocuments/Payroll/HRMSSupport/Resources/AgencyYTDManualUpdates.xls:)

PERNR	Personnel Area	Tax Authority (FED, WA, etc)	Effective Date	Tax Group (TxGr)	Taxable or Value	Tax	Note
12345432	9898	FED	12/24/2015	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/24/2015	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/24/2015	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/24/2015	0006	-200.00	-2.90	ER Medicare

  - This results in $30.60 due back from IRS for 4th quarter.
    - File 941 (or 941-X if we've already filed.)
    - File W-2c, provide employee with copy. (remember, don't change Box 1 or Box 2!)
- When we get the check back from the U.S. Treasury:
  - Make a deposit:
    - AFRS Form A-8
    - Account 035: TC 090 (7110/1324V) $30.60
  - 1324 should be clear with respect to this overpayment.
  - If there was interest paid by IRS, deposit it to revenue source 0499 in the operating account.

- What about Retirement, union dues, etc.?
    - Any other changes that must be made should be done manually, with retirement adjustment codes, union adjustment codes, etc.
    - In the subsequent year, employee will **always** pay back gross, less Social security and Medicare.
    - Any other money owed to the employee should be paid back with adjustment codes.
        - If retirement, make adjustments to WBET based on the overpayment dates, not the repayment dates.
    - This keeps our current year taxable amounts correct (some of those deductions are pretax).

For more information on wage repayments for previous years, see “Wage Repayments” in IRS Publication 15.