

Overpayments

Collecting a 2015 Overpayment in 2016

Office of Financial Management

Why change?

- 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.

The Problem:

- 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:

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

Current Situation:

■ Overpayment Details:

- As of 11-25-2015, how much has the employee paid?
 - \$750 repaid as of this pay (WT 3225)
 - + 300 balance remaining (WT 3224)
 - 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.
- $\$750 + \$100 = \mathbf{\$850}$ repaid as of the end of 2015
- $\$1,050 - \$850 = \mathbf{\$200}$ gross to be paid in 2016

Stop the Old Collection

- 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
 - We will only collect \$850 in 2015
 - If we look later, we'll be able to see easily that \$850 will be collected in 2015
 - If we have another overpayment later, the leftover balance could cause problems with the new overpayment.

Calculate the New Collection

- How much are we going to collect from the employee in 2016?
 - \$ 200.00 gross.
 - - 12.40 (6.2% Social Security OASDI)
 - - 2.90 (1.45% Medicare HI)
 - **\$ 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!

Calculate the New Collection

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

Start the New Collection

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

Employer Taxes

- 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, 1.45% Med \$2.90
 - Write a JV to reverse the Social Security and Medicare expenditure on the agency side.

Tax Recovery JV

- 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 035 until we get the tax refund.

Employee Repayment

- As the employee pays back the money, it will accrue as a credit in Account 035, GL 1324
 - No additional JV is necessary for the net pay collection.

Employee's Done Paying

- 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.)

YTD Corrections

- 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.
 - How do I make these adjustments?
 - Complete adjustment worksheet
 - Use as source document for PU19 adjustments
 - Contact CTS Service Center for procedure if you need help!

Agency Adjustment Worksheet

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

Refund

- 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.

Retirement/Dues/Misc.

- 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).

Retirement/Dues/Misc.

- For more information on wage repayments for previous years, see IRS Publication 15
 - Wage Repayments

Questions?