

# Overpayments

Collecting a 2008 Overpayment in 2009

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 taxes might be correct if the base/tax hasn't changed, but the contribution is reported in the wrong year.

# Example:

Personnel No. 12345432 SAMPLE JOHN Q - USA  
Seq. number 00195 - accounted on 11/17/2008 - current result  
For-Period 22. 2008 (11/01/2008 - 11/15/2008)  
In-Period 22. 2008 (Fin. : 11/15/2008)

* /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 bal a				300.00
* 3225 RePay Tota				750.00-
* 9182 PO/TO Base				2,058.23
* 9188 PSERS 2 Ba				2,058.23

# Current Situation:

## n Overpayment Details:

- n As of 11-26-2008, how much has the employee paid?
  - n \$750 total
  - n - 300 balance remaining
  - n = 450 paid already!
- n We originally had a gross overpayment of \$750.
- n The employee agreed to pay it back \$50 per pay period.
- n The employee has paid back \$450
- n EE will make two more payments on Dec. 10 and Dec. 24, adding another \$100.
- n  **$\$450 + \$100 = \$550$  repaid as of the end of 2008**
- n  **$\$750 - \$550 = \$200$  gross to be paid in 2009**

# Stop the Old Collection

- Turn off the 2008 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 12/15/2008
      - Remember, 12/1 to 12/15 is paid on 12/24
      - We don't want to take any more gross deductions in 2009.
- IT 0015 Additional Payments:
  - Use the Pencil
    - Change the amount of WT 3224 to \$550
      - We will only collect \$550 in 2008
      - We can easily see that \$550 will be collected in 2008
      - 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?
  - \$ 200.00 gross.
  - - 12.40 (6.2% Social Security OASDI)
  - - 2.90 (1.45% Medicare HI)
  - \$ 184.70 Net pay recovered in 2009.
- 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 cost is same as employee cost, SS \$12.40, 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 debit in Account 035, GL 5199
  - But when we set up the overpayment last year, it showed up in GL 1324 as a receivable!
  - So, move it! After the collection is over (or every payday, agency choice) write a JV reclassing the amount of the recovery from 5199 to 1324
    - TC 347 (9920/1324V) \$184.70
    - TC 348 (5199V/9920) \$184.70
    - Does NOT go to treasurer, local transfer only.

# 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 can't file the tax return until the employee has paid it all back (or we can file lots of little amended returns...)

# YTD Corrections

- Once the employee has paid us back in 2009:
  - Make adjustments to:
    - Employee OASI/Med Taxable and Tax
    - Employer OASI/Med Taxable and Tax
    - We don't change 2008 FIT at all. Employee can claim as a deduction on 2009 (for 2008) tax return.
  - How?

# Agency Adjustment Worksheet

PERNR	Personnel Area	Tax Authority (FED, WA, etc)	Effective Date	Tax Group (TxGr)	Taxable or Value	Tax	Note
12345432	9898	FED	12/24/2008	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/24/2008	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/24/2008	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/24/2008	0006	-200.00	-2.90	ER Medicare

# Refund

- This results in \$30.60 due back from IRS for 4th quarter.
  - File 941 (or 941c if we've already filed.)
  - File W-2c, provide employee with copy. (Remember, don't change Box 1 or 2!)
- When we get the check back from the U.S. Government:
  - 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, check with your revenue officer on how to process interest revenue.

# 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.)

**Questions?**