

Overpayments

Collecting a 2009 Overpayment in 2010

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 in 2010.
 - 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 11/17/2009 - current result
For-Period 22.2009 (11/01/2009 - 11/15/2009)
In-Period 22.2009 (Fin. : 11/15/2009)

* /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 11-25-2009, 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 2009**
- n **$\$750 - \$550 = \$200$ gross to be paid in 2010**

Stop the Old Collection

- Turn off the 2009 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 12/15/2009
 - Remember, 12/1 to 12/15 is paid on 12/24
 - We don't want to take any more gross deductions in 2010.
- IT 0015 Additional Payments:
 - Use the Pencil
 - Change the amount of WT 3224 to \$550
 - We will only collect \$550 in 2009
 - We can easily see that \$550 will be collected in 2009
 - 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 2010.
- 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 1324
 - **Change from 2008/2009:** *WT 3101 no longer accrues to GL 5199*
 - 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 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 2010:
 - Make adjustments to:
 - Employee OASI/Med Taxable and Tax
 - Employer OASI/Med Taxable and Tax
 - We don't change 2009 FIT at all. Employee can claim as a deduction on 2010 (for 2009) tax return.
 - How do I make these adjustments?
 - Complete adjustment worksheet
 - Use as source document for PU19 adjustments
 - Contact DOP Service Center for procedure if you need help!

Agency Adjustment Worksheet

PERNR	Personnel Area	Tax Authority (FED, WA, etc)	Effective Date	Tax Group (TxGr)	Taxable or Value	Tax	Note
12345432	9898	FED	12/24/2009	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/24/2009	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/24/2009	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/24/2009	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 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?