Overpayments

Collecting a 2013 Overpayment in 2014

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 11/16/2013 - current result
For-Period 22.2013 (11/01/2013 - 11/15/2013)
In-Period 22.2013 (Fin.: 11/15/2013)

* /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 11-25-2013, 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 = **$850 repaid as of the end of 2013**
  - $1,050 - $850 = **$200 gross to be paid in 2014**

Stop the Old Collection

- Turn off the 2013 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 12/15/2013
      - Remember, 12/1 to 12/15 is paid on 12/24
      - We don't want to take any more gross deductions in 2014.
- IT 0015 Additional Payments:
  - Use the Pencil
    - Change the amount of WT 3224 to $850
      - We will only collect $850 in 2013
      - If we look later, we'll be able to see easily that $850 will be collected in 2013
      - 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 2014?
  - $ 200.00 gross.
  - - 12.40 (6.2% Social Security OASDI)
  - - 2.90 (1.45% Medicare HI)
  - **$ 184.70** Net pay recovered in 2014.
- 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 x 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 2014:
  - Make adjustments to:
    - Employee OASI/Med Taxable and Tax
    - Employer OASI/Med Taxable and Tax
    - Per the IRS, we don't change 2013 FIT *at all*. Employee can claim as a deduction on 2014 (for 2013) tax return.
  - How do I make these adjustments?
    - Complete adjustment worksheet
    - Use as source document for PU19 adjustments
    - Contact DES Service Center for procedure if you need help!

Agency Adjustment Worksheet

Use DES'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	12/24/2012	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/24/2012	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/24/2012	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/24/2012	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, 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?