

## **Collecting a 2016 Overpayment in 2017**

- 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 11/16/2016 - current result  
 For-Period 22.2016 (11/01/2016 - 11/15/2016)  
 In-Period 22.2016 (Fin.: 11/15/2016)

* /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 11-23-2016, 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. 9 and Dec. 23, adding another \$100.
  - \$750 + \$100 = **\$850** repaid as of the end of 2016
  - \$1,050 - \$850 = **\$200** gross to be paid in 2017
- Turn off the 2016 gross deduction in HRMS, **before** 12/23 payroll exits.
  - IT 0014 Recurring Payments/Deductions
    - Use the **Pencil** to change the end date of WT 3223 to 12/15/2016
      - Remember, 12/1 to 12/15 is paid on 12/23
      - We don't want to take any more gross deductions in 2017.

- IT 0015 Additional Payments:
  - Use the **Pencil**
    - Change the **amount** of WT 3224 to \$850. Why?
      - We will only collect \$850 in 2016
      - If we look later, we'll be able to see easily that only \$850 was collected in 2016.
      - 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 2017.
  - 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,  $\$184.70 / 4 \text{ payments} = \$46.18$
  - $\$46.18 \times 4 = 184.72$ , 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
  - No additional JV is necessary 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 2017:
  - Make adjustments to:
    - Employee OASI/Med Taxable and Tax
    - Employer OASI/Med Taxable and Tax
    - Per the IRS, we don't change 2016 FIT *at all*. Employee can claim as a deduction on 2017 (for 2016) tax return.
  - Use WaTech's Agency Adjustment Worksheet (available online at <http://watech.wa.gov/sites/default/files/Payroll/HRMSSupport/YearEnd/AgencyYTDMannualUpdates%20for%20web%20Aug%202012.xls>)

PERNR	Personnel Area	Tax Authority (FED, WA, etc)	Effective Date	Tax Group (TxGr)	Taxable or Value	Tax	Note
12345432	9898	FED	12/23/2016	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/23/2016	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/23/2016	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/23/2016	0006	-200.00	-2.90	ER Medicare

- This results in \$30.60 due back from IRS for 4<sup>th</sup> 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](#).