

Collecting a 2017 Overpayment in 2018

- 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 11/16/2017 - current result
 For-Period 22.2017 (11/01/2017 - 11/15/2017)
 In-Period 22.2017 (Fin.: 11/15/2017)

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  /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 11-23-2017, 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 2017
- \$1,050 - \$850 = **\$200** gross to be paid in 2018

- Turn off the 2017 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 12/15/2017
 - Remember, 12/1 to 12/15 is paid on 12/23
 - We don't want to take any more gross deductions in 2018.

- IT 0015 Additional Payments:
 - Use the **Pencil**
 - Change the **amount** of WT 3224 to \$850. Why?
 - We will only collect \$850 in 2017
 - If we look later, we'll be able to see easily that only \$850 was collected in 2017.
 - 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 2018.
 - 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, $\$184.70 / 4$ 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 $\$15.30 + \$15.30 = \mathbf{\$30.60}$ 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 2018:
 - Make adjustments to:
 - Employee OASI/Med Taxable and Tax
 - Employer OASI/Med Taxable and Tax
 - Per the IRS, we don't change 2017 FIT *at all*. Employee can claim as a deduction on 2018 (for 2017) 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	12/23/2017	0003	-200.00	-12.40	EE Social Sec.
12345432	9898	FED	12/23/2017	0004	-200.00	-12.40	ER Social Sec.
12345432	9898	FED	12/23/2017	0005	-200.00	-2.90	EE Medicare
12345432	9898	FED	12/23/2017	0006	-200.00	-2.90	ER Medicare

- 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.

- 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](#).