

December 2025

Overpayments

Collecting a 2025 Overpayment in
2026

SWA Payroll Unit



Agenda

- Why do we change to net?
- Example of converting gross to net
- Tax Recovery JV
- YTD Corrections
- Retirement/Dues/Misc. adjustments



Why Change?

- Why do we have to change to a net (Gross less employee Social Security and Medicare taxes) 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 or prior year wages subject to Federal Income Tax Withholding (FIT).
 - Overpayments for prior years should not cause a reduction of Federal Income Tax paid in either year.
 - Employees should consult a tax professional to find out how they can recover any FIT overpayment.
 - If the overpayment is never repaid, it is considered taxable wages.



Why Change continued:

The Social Security Administration (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 in the new
year:**

*We break most of the
IRS and SSA rules*

- Gross wages 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 11/16/2025 - current result
 For-Period 22.2025 (11/01/2025 - 11/15/2025)
 In-Period 22.2025 (Fin.: 11/15/2025)

* /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 11/25/2025, how much has the employee repaid?
 - \$750 repaid as of this pay date (WT3225)
 - +300 balance remaining (WT3224)
 - \$1,050 Total Gross overpayment

Current Situation continued:

- 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.

Current Situation continued:

- Employee will make two more payments on Dec. 10 and Dec. 24 adding another \$100.
- $\$750 + \$100 = \$850$ repaid as of the end of 2025.
- $\$1,050 - \$850 = \$200$ gross overpayment remaining and needs to be converted to *net* to be recovered in 2026.



Stop the Old Collection

- End date the 2025 gross deduction in HRMS, before 12/24 payroll exits.
 - IT0014 Recurring Payments/Deductions
 - Use Pencil to change the end date of WT 3223 to 12/15/2025.
 - Remember, 12/1-12/15 is paid on 12/24.
 - We don't want to take any more gross deductions in 2026.



Stop the Old Collection continued:

- IT0015 Additional Payments:
 - Use Pencil to change the amount of WT 3224 to \$850.
 - We will only collect \$850 in 2025.
 - We want to update the amount because a leftover balance could cause issues with a new overpayment.

Calculate the New Collection–From Gross to Net

- How much are we going to collect from the employee in 2026?

200.00	Gross
(12.40)	(6.2% Social Security OASI)
(2.90)	(1.45% Medicare)
<u>\$ 184.70</u>	<u>Net Pay Recovery in 2026</u>

Calculate the New Collection–From Gross to Net continued:

- How many payments are left?
 - $\$200 / \$50 = 4$ payments
 - $\$184.70 / 4 \text{ payments} = \46.18
 - $\$46.18 \times 4 = \184.72
 - You will want to take \$0.02 off the final payment.



Start the New Collection

- Key WT 3101/3111 combo in IT0014 Recurring Payments/Deductions.
 - \$46.18 payment (3101) for 3 pay periods (12/16/25 – 01/31/26)
 - \$138.54 balance (3111) of 3 payments (12/16/25)
- Since the total balance is not divisible by 4, you need to key another 3101/3111 combo.
 - \$46.16 payment (3101) for 1 pay period (02/01/26 – 02/15/26)
 - \$46.16 balance (3111) of the final payment (02/01/26)
- Both entries equal the total amount due of \$184.70 and the employee is only paying back the net, which is 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 the employee (EE) and employer (ER) share.
 - When we pay back net in the next year, taxes aren't adjusted.
 - 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 JV to reverse SS and Med 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
 - Interfund (IFT) JV: Do NOT send to OST!
- **Basically, we are carrying a receivable in 035 until we get the tax refund.**



Employee Repayment

- As the employee makes payments, it will accrue as a credit in Account 035, GL 1324.
 - **No additional JV is necessary** for the net pay collection.

Employee is Done Paying

- After the employee is done paying, 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 must 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 (annually).

Year to Date Corrections

- Once the employee has paid the agency back in 2026:
 - Make adjustments to employees 2025 W-2:
 - Employee (EE) SS/Med Taxable Wages and Tax
 - Employer (ER) SS/Med Taxable Wages and Tax
 - Per the IRS, we don't change 2026 FIT *at all*.
 - If the employee has questions regarding how a repayment of a prior year overpayment will affect their current year tax filing, they should consult a tax advisor.



Year to Date Corrections continued:

- How do I make these adjustments?
 - Complete adjustment worksheet
 - Use worksheet as a source document for PU19 adjustments
 - View HRMS Support Hub for procedures or contact HeretoHelp@ofm.wa.gov if you need help!

Agency Adjustment Worksheet

- Use OFM's Agency Adjustment Worksheet available at:

[Agency YTD Manual Updates Worksheet](#)

PERNR	Personnel Area	Tax Authority (FED, WA, etc)	Effective Date	Tax Group (TxGr)	Taxable or Value	Tax	Note
12345432	9898	FED	12/24/2025	0003	-200	-12.4	EE Social Sec.
12345432	9898	FED	12/24/2025	0004	-200	-12.4	ER Social Sec.
12345432	9898	FED	12/24/2025	0005	-200	-2.9	EE Medicare
12345432	9898	FED	12/24/2025	0006	-200	-2.9	ER Medicare



Refund

- This results in \$30.60 due back from IRS for 4th quarter.
 - File 941 (or 941-X if 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. Treasury:
 - Make a deposit:
 - AFRS Form A-8
 - Account 035: TC 090 (7110/1324V) \$30.60
 - If there was interest paid by the IRS, deposit to revenue source 04-99 in the operating account.



Retirement/PFML/LTSS/Misc.

- In the subsequent year, the employee will always pay back gross less Social Security and Medicare (net). What about retirement, PFML, LTSS, etc.?
 - Any amounts owed to the employee should be refunded using adjustment codes in HRMS.
- For PFML and LTSS, contact heretohelp@ofm.wa.gov to re-report wages and hours (increases/decreases).
 - Include the quarter, year, wages, hours, personnel number and employee name to be corrected.
 - Templates can be found on our website under the Paid Family Medical Leave and WA Cares (LTSS) heading: [Payroll Reconciliation](#)
- For more information regarding HRMS and accounting entries, refer to:
 - [Overpayment identification and recovery](#)

Retirement/Dues/Misc. Continued

- This keeps our current year taxable amounts correct (some of those deductions are pretax).
- For more information on wage repayments for previous years, see IRS publication 15
 - [Wage repayments.](#)



Questions?

For more information

Contact:

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