

PCG Alert

01/11/13

RE: Payroll Repayment Procedure and Payroll Repayment Form

Attention Payroll Officers:

Please forward this alert to those in your Organization who need this information:

The following documents are now found on the Division of Accounting, Payroll Compliance Group website:

- Payroll Repayment procedure (PCG-REPAY) including
 - Current Calendar Year Worksheet
 - Prior Calendar Year Worksheet
 - Sample Receipt for Prior Year Repayments
- Payroll Repayment Form

http://accounting.delaware.gov/payroll_comp/policies.shtml

The Payroll Repayment process is currently being reviewed and updated to create a more effective tool in which to collect funds owed the State of Delaware. Look for new policies and procedures in 2013.

If you have any questions regarding the Payroll Repayment process, please contact Robin Isham, 672-5517 or Debbie Hurd at 672-5506.

PCG Alerts are posted on the DOA Website:

http://accounting.delaware.gov/payroll_comp/communications.shtml

**Payroll Repayment
PCG-REPAY**

POLICY:

Contact the **Payroll Compliance Group (PCG), 302-672-5000**, to ensure the correct gross or net dollar amount is collected and the proper forms are completed.

Calculate Payroll Repayments as a gross or net amount by Pay Period by Calendar Year.

Forward all personal checks and money orders made payable to the State of Delaware to the **Payroll Compliance Group, Division of Accounting, SLC D570C**. The PCG is responsible for depositing these funds to the State's bank account.

DEFINITIONS:

Payroll Repayment (Total Check) – Processed when an employee is not entitled to any payment (live check or direct deposit) and repays the entire net payment to the State.

Payroll Repayment (Partial Check) – Processed when an employee is overpaid (live check or direct deposit) and repays a portion of the payment.

PROCEDURE:

PAYROLL REPAYMENT – TOTAL CHECK (CURRENT CALENDAR YEAR)

Option 1: The preferred process to recoup an overpayment to an employee is to make an adjustment on a subsequent paycheck through the payroll system.

Option 2: Contact the PCG for approval of the gross or net amount to be collected. Complete the **Payroll Repayment** form. Collect a personal check/money order (made payable to the State of Delaware) from the employee for the **net** overpayment.

- Submit to the PCG:
 - Payroll Repayment form
 - Overpayments crossing a Calendar Year must be calculated by calendar year
 - Overpayments crossing a Fiscal Year require special consideration for General Funds. The gross overpayment must be calculated by fund type separately. Prior Fiscal Year General Fund repayments are returned to the State.
 - The PCG deposits the employee's personal check/money order(s) and completes the Create Accounting Entry Page in the Financials system.

- PHRST processes a "Reverse Manual Check" for the amount of the Payroll Repayment to reduce the employee's wages, and credit the Organization for all related payroll charges (with the exception of prior Fiscal Year General Funds as noted above).

PAYROLL REPAYMENT – PARTIAL CHECK (CURRENT CALENDAR YEAR)

Option 1: The preferred process to recoup an overpayment to an employee is to make an adjustment on a subsequent paycheck through the payroll system.

Option 2: Contact the PCG for approval of the gross or net amount to be collected. Complete the Payroll Repayment form. Collect a personal check/money order (made payable to the State of Delaware) from the employee for the **net** overpayment.

- **Before** collecting a repayment from the employee, calculate the amount of the repayment using the Payroll Repayment Worksheet Calculate the Net Overpayment for the Current Calendar Year (below).
 - Overpayments crossing a Calendar Year must be calculated by calendar year
 - Overpayments crossing a Fiscal Year require special consideration for General Funds. The gross overpayment must be calculated by fund type separately. Prior Fiscal Year General Fund repayments are returned to the State.
- Submit the completed form to the PCG for approval.
- Collect a personal check/money order from the employee for the approved net overpayment amount.
 - If the employee did not have enough earnings to cover a garnishment, collect a separate personal check/money order for the garnishment deduction.
 - Submit to the PCG.
- The PCG deposits the employee's personal check/money order(s) and completes the Create Accounting Entry Page in the Financials system.
- PHRST processes a "Reverse Manual Check" for the amount of the Payroll Repayment to reduce the employee's wages, and credit the Organization for all related payroll charges (with the exception of prior Fiscal Year General Funds as noted above).

PAYROLL REPAYMENT – TOTAL CHECK (PRIOR CALENDAR YEAR)

DO NOT recoup the gross overpayment through the payroll system as an adjustment on a subsequent paycheck through the payroll system. Federal regulations prohibit reducing current year wages for a prior year overpayment. See IRS Publication 15 (Circular E).

- **Before** collecting a repayment from the employee, calculate the amount of the repayment using the Payroll Repayment Worksheet Calculate the Net Overpayment for the Prior Calendar Year (below).
 - Overpayments crossing a Calendar Year must be calculated by calendar year
 - Overpayments crossing a Fiscal Year require special consideration for General Funds. The gross overpayment must be calculated by fund type separately. Prior Fiscal Year General Fund repayments are returned to the State.
- Collect a personal *check/money order from the employee* for the approved gross overpayment amount reduced by OASDI and Medicare only. (See prior year considerations listed below)
 - Obtain a written statement from the employee stating that they will not seek a refund of the OASDI and Medicare taxes directly from the IRS. (Sample Attached)
- Submit to the PCG.
- The PCG deposits the employee's personal check/money order(s) and completes the Create Accounting Entry Page in the Financials system.
- PHRST processes a Treasury Journal for the gross amount of the Payroll Repayment to refund the Organization for all related payroll charges (with the exception of prior Fiscal Year General Funds as noted above).
- PHRST processes a Corrected Form W-2 (W-2c) to reduce the employee's taxable gross.

PAYROLL REPAYMENT – PARTIAL CHECK (PRIOR CALENDAR YEAR)

DO NOT recoup the gross overpayment through the payroll system as an adjustment on a subsequent paycheck through the payroll system. Federal regulations prohibit reducing current year wages for a prior year overpayment. See IRS Circular E.

Contact the PCG for approval of the gross or net amount to be collected. Complete the Payroll Repayment form. Collect a personal check/money order (made payable to the State of Delaware) from the employee for the **net** overpayment.

- **Before** collecting a repayment from the employee, calculate the amount of the repayment using the Payroll Repayment Worksheet Calculate the Net Overpayment for the Prior Calendar Year (below).
 - Overpayments crossing a Calendar Year must be calculated by calendar year
 - Overpayments crossing a Fiscal Year require special consideration for General Funds. The gross overpayment must be calculated by fund type separately. Prior Fiscal Year General Fund repayments are returned to the State.
- Collect a personal *check/money order from the* employee for the approved gross overpayment amount reduced by OASDI and Medicare only. (See prior year considerations listed below)
 - Obtain a written statement from the employee stating that they will not seek a refund of the OASDI and Medicare taxes directly from the IRS. (Sample Attached)
- Submit to the PCG.
- The PCG deposits the employee's personal check/money order(s) and completes the Create Accounting Entry Page in the Financials system.
- PHRST processes a Treasury Journal for the gross amount of the Payroll Repayment to refund the Organization for all related payroll charges (with the exception of prior Fiscal Year General Funds as noted above).
- PHRST processes a Corrected Form W-2 (W-2c) to reduce the employee's taxable gross.

ADDITIONAL CONSIDERATIONS:

Prior Year Payroll Repayment Considerations

The following considerations for Prior Year Payroll Repayments must be followed to ensure compliance with IRS Publication 15. Wages paid in error in a prior year remain taxable to the employee for that year. The employee is not entitled to file an amended return (1040X), to recover the income tax, for the year the overpayment was received. Instead, the employee is entitled to an income tax deduction (or credit in some cases) for the repaid wages for the year of repayment.

- The repayment will not reduce Federal, State, Social Security, or Medicare wages in the year of the repayment.
- The repayment must be for the gross amount of the overpayment less withheld OASDI and Medicare.

- **Do not reduce the repayment by the amount of Federal, State and Local taxes, and/or the Pension deduction that was withheld.**
- Employees may be able to take a deduction from income or a tax credit on their personal tax returns for the repayment.
- Provide the employee with a statement showing receipt of the repayment.
- A W-2c will be generated to reflect the reduction in OASDI and Medicare taxable wages for the year of the overpayment.
- Obtain a written statement from the employee stating that a refund of the OASDI and Medicare taxes will not be requested directly from the IRS.

SUPPORTING DOCUMENTS:

Payroll Repayment Worksheet, Calculate the Net Overpayment for the Current Calendar Year
Payroll Repayment Worksheet, Calculate the Net Overpayment for the Prior Calendar Year
Payroll Repayment Form
PayBreeze Application

Payroll Repayment Worksheet
 Calculate the Net Overpayment for the
 Current Calendar Year

Organization: Employee Name:
 Paycheck Date: Empl ID:

NOTE: The results of this worksheet must be approved by the Payroll Compliance Group, before collecting money from the employee and before completing the Payroll Repayment Form on the Division of Accounting website.

1. Complete the *Actual Amount Paid* column below with the figures from the paycheck in which the overpayment occurred. If the overpayment involved more than one paycheck, complete a worksheet for each paycheck.
2. PayBreeze the **gross pay** in the *Correct Amount* column. Be sure to include the Pension (based on the correct gross pay), pretax deductions, Deferred Compensation/TSA, and any after-tax deductions in PayBreeze (as long as there is enough gross pay). PayBreeze will calculate the taxes.
3. Complete the *Correct Amount* column with the amounts calculated by PayBreeze.
4. Calculate the *Overpayment* (A-B=C)
5. Contact the PCG for approval of the *Net Pay Overpayment* **before** collecting the money from the employee.

	A Actual Amount Paid	B Correct Amount (PayBreeze)	C Overpayment
Gross Pay			
Federal Tax			
State Tax			
Local Tax			
OASDI			
Medicare			
Pension			
Before Tax Deduction			
After Tax Deductions			
NET PAY			

List any Garnishment deductions, and any deduction that could not be included in the *Correct Amount* column above:

Deduction/Vendor	Amount

The Payroll Compliance Group (PCG) Contact:

Phone: 302-672-5000

Fax: 302-739-1304

e-mail: Robin.isham@state.de.us or Deborah.hurd@state.de.us

Payroll Repayment Worksheet
 Calculate the Net Overpayment for the
 Prior Calendar Year

Organization: Employee Name:
 Paycheck Date: Empl ID:

NOTE: The results of this worksheet must be approved by Payroll Compliance Group (PCG) before collecting money from the employee and before completing the Payroll Repayment Form on the Division of Accounting website.

1. Enter the Gross Pay the employee received in the *Actual Amount Paid (A)* column from the paycheck(s) in which the overpayment occurred.
2. Enter the Gross Pay the employee should have received in the *Correct Amount (B)* column.
3. Calculate the *Overpayment (A-B=C)*
4. PayBreeze the amount in the *Overpayment* column. Remove Federal, State and Local taxes from the PayBreeze worksheet.
5. Enter the OASDI (Social Security) and Medicare in the *Overpayment (C)* column.
6. Subtract OASDI and Medicare from the gross overpayment. The result is the amount the employee owes.
7. Contact the PCG for approval of the *Net Pay Overpayment* **before** collecting the money from the employee.

	A Actual Amount Paid	B Correct Amount	C Overpayment (PayBreeze)
Gross Pay			
OASDI			
Medicare			
NET PAY			

The Payroll Compliance Group (PCG) Contact:

Phone: 302-672-5000

Fax: 302-739-1304

e-mail: Robin.isham@state.de.us or Deborah.hurd@state.de.us

SAMPLE RECEIPT

State of Delaware
Any Organization

Receipt for John Doe, Employee ID 012345

Details:

Payroll Repayment of prior year wages due to overpayment of Vacation Payout on mm/dd/yy paycheck.

Gross:	\$1000.00
OASDI:	\$ 62.00
Medicare:	\$ 14.50
Net:	\$ 923.50

Personal Check number: 232323

Payroll Repayment Received: \$ 923.50

Date Received: mm/dd/yy

I, John Doe will not seek a refund of the OASDI and Medicare taxes associated with this transaction directly from the IRS.

Employee Signature

Date

Organization Representative Signature

Date

