Table of Contents

Overview

Introduction	CIPPS can be used to process payments to employees for compensation and expense payments not normally associated with their regular salary or wages. These payments are commonly referred to as Special Payments. Examples of Special Payments include: • Annual, sick, or compensatory leave balance payments. • Workers' Compensation payments. • Moving and Relocation payments. • Other miscellaneous taxable and non-taxable income.
Types of Special Payments	Special Payments are processed in CIPPS in two ways: • Automatic Special Pay – processes automatically when the employee is paid. Any special payment that has been activated for your agency can be established in this manner. Generally, only special payments that are for the same amount each period, such as Workers' Compensation or Office Expenses, are established as Automatic Special Payments. Refer to CAPP Topic No. 50310, *Rehires and Employee Data Maintenance*, for more information regarding the use of automatic special pays. • One Time Only Special Pay – processes only on the payroll in which it is data entered. Special payments will process with the normal pay period processing or on a "Special Pay Only" pay run. "Special Pay Only" pay runs are stand-alone payruns in which only special payments are paid and no regular pay is processed.
Special Pay Codes	*Some special pays are standard and some are agency specific. For a current listing of Statewide Special Pay Codes please refer to the Matrix of Special Pay Codes found on the DOA Website under State Payroll Operations – Payroll Forms. DOA determines the taxability of all special pays, which cannot be overridden by the agency.* *Contact the State Payroll Operations if your agency has unique payroll needs that can be accommodated using existing Special Pay codes, but which have not been activated for your agency. Remember that DOA must establish special payments at the company (agency) level in order for them to process for your agency.*

Overview, Continued

Establishing Programmatic Data

To ensure the proper recording of expenditures to the Commonwealth Accounting and Reporting System (CARS), special pay programmatic coding must be established for each employee on HMBU1, if different from the employee's 0R1 (Regular Earnings) programmatic record. If special payments are to be charged to different programmatic coding, set-up a HMBU1 record to reflect the correct coding, with the special pay number in the PAY TYPE field. See the exception noted below and CAPP Topic No. 50125, *Programmatic Data,* for more information about programmatic setup.

Automatic Special Pay Programmatic Data

For the Special Pays listed below, the CIPPS/CARS Interface automatically charges the expenditures to specific object codes. For these Special Pays, CIPPS uses the employee's **0R1** record and changes only the object code of the Special Pay amount. As stated above, if the Special Pay should be charged to different programmatic coding than the employee's 0R1 record, a programmatic record must be established indicating the appropriate Special Pay number in the *PAY TYPE* field. The system will use this programmatic coding with the specific default object code.

PAY CODE	DEFINITION	OBJECT CODE
002	Workers' Compensation	1151
009	Annual Leave	1162
010	Sick Leave	1163
011	Compensatory Leave	1164
016	Adjunct Faculty	1145
017	Other Fac./Part-Time	1145
019	Per Diem Payments	1134
024	IPP Bonus	1131
025	Bonus	1131
031	Inv Sep	1171
033	*Health Incentive*	*1131*
044	Mil Supp	1132
061	VSDP Ben	1153
062	WCSDPBEN	1154
063	WC SUPP	1152

Continued on next page

Overview, Continued

Automatic Special Pay Programmatic Data (continued)

PAY CODE	DEFINITION	OBJECT CODE
066	WTA - Annual Leave	1176
067	WTA - Sick Leave	1177
068	WTA - Comp Leave	1178

Audit Requirements
DOA performs a centralized post-audit of CIPPS payments. **Any hourly employee payments made using a Special Payment transaction must contain the corresponding hours worked with the payment information.** If the hours are not entered, an explanation to the DOA CIPPS/PMIS post-audit will be required and excessive exceptions will be reported in *the Report on Statewide Financial Management and Compliance*, or Quarterly Report.

Taxable Benefits

Taxable Benefits
Special Payments can be used for benefits that must be taxed, but not paid to an employee. Examples are, group-term life insurance, rent, agency-owned automobile usage, gift cards, meals and lodging. These benefits are sometimes referred to as non-cash fringe benefits. According to the IRS, in some cases, these non-cash fringe benefits must be reported as taxable income, and must receive special treatment for taxing and withholding purposes. Most of the CIPPS special payments have been established on a system level to accommodate any special taxing and/or reporting needs associated with these fringe benefits.

Taxable Benefits, Continued

Taxable Benefits, Continued

For taxes to be appropriately withheld, such special payments must be processed with a payroll in which the employee is also receiving regular pay. If the employee is not receiving regular pay, taxes cannot be withheld, and transactions entered will be recycled as system-generated Tax and Deduction Overrides, which will process the next time the employee receives a regular payment.

Special Pay transactions to update employee records to reflect taxable benefits must be processed **before the last payroll cycle of the calendar year** so that tax amounts can be withheld correctly. If they are not processed before the December 10 – 24 payroll, manual pay sets must be used to update the taxable wage fields for non-cash fringe benefits at year-end. Manual pay sets will update the taxable wage fields, but no taxes will be withheld. Refer to the IRS Publication 15, Circular E, Employer's Tax Guide, and CAPP Topic 20319, *Electronic Federal Tax Payments Processing*, for the reporting of payroll taxes when not withheld from the employee as required.

Agencies are required to certify each quarter that all non-paid/non-cash taxable benefits have been recorded in CIPPS.

Imputed Life Special Pay 14

The IRS has determined that the uniform premium cost of providing life insurance coverage in excess of $50,000 is a taxable benefit known as imputed life. The IRS requires imputed life to be reported as taxable federal and state income. FICA (OASDI and HI) tax must be withheld, however, no income taxes are withheld.

In order to calculate Imputed Life for an employee, an automatic Special Pay 14, IMP LIFE, must be established on the Automatic Special Payment Screen (H10AS). CIPPS will automatically calculate and withhold Old Age and Survivor, Disability Insurance (OASDI) and Hospitalization Insurance (HI) taxes on imputed life income on a monthly basis.

For specific instructions on the set-up of the Imputed Life, see CAPP Topic No. 50425, *Group and Optional Life Insurance.*

Terminated Payments

Leave Payments

During periods of LWOP, upon termination and/or transfer to another state agency, employees may be entitled to payments for their accumulated annual, sick, and compensatory leave balances or may receive leave share payments. The following chart references the appropriate policy for guidance:

Special Pay			For Maximum Payouts and Other Information, See
Number		Name	
006		Leave Share	DHRM Policy No. 4.35, *Leave Sharing*
009	*066-WTA*	Annual Leave	DHRM Policy No. 4.10, *Annual Leave*
010	*067-WTA*	Sick Leave	NON-VSDP EMPLOYEES - DHRM Policy No. 4.55, *Sick Leave*
			VSDP EMPLOYEES - DHRM Policy No. 4.57, Virginia *Sickness and Disability Program*
011	*068-WTA*	Compensatory Leave	DHRM Policy No. 3.10, *Compensatory Leave*
027		Overtime Leave	DHRM Policy No. 3.15, *Overtime Leave*

Deceased Pay Guidelines

The method for handling federal taxation and reporting of a payment of wages to an employee who has died, depends on when the wages are paid in relation to the employee's death.

Electronic fund transfers (direct deposit) are considered "negotiated" for deceased employees once the transaction has been released through NACHA to the receiving financial institution (RFI) which occurs two days before payday. Therefore, the funds can be stopped up to and including three business days before payday. For example, if payday is Thursday, Sept 30 you can do a stop payment 9/27 or earlier. On 9/28, 9/29 and later, the money has already been transferred out and there is no guarantee it can be stopped, therefore no void and reissue should be requested. Any overpayment would need to be deducted from any other funds due to the estate/beneficiary, such as regular pay, overtime, annual leave, etc.

Employee dies before cashing paycheck. *If an employee dies after a physical check has been mailed, check with the Department of Treasury to see if the check has cleared. If it has not, perform a stop payment and upon receipt of the required documentation reissue the check in the name of the executor/administrator. The wages and amounts withheld must be reported on the employee's Form W-2.*

Terminated Payments, Continued

In compliance with Code of Virginia 64.132.3, when there is no executor or administrator and the gross amount is $15,000 or less *the agency must wait 60 days before processing the payment* to any successor. If the amount due is more you need to contact the Assistant Attorney General for guidance.

Wages paid after employee dies and in the same year. Wages paid to a deceased employee's estate or executor/administrator after the employee dies but in the year of death are not subject to federal income tax withholding. However, they are subject to social security, Medicare, and FUTA taxes. (Note: Virginia wages are exempt from FUTA taxes.) Therefore, the agency must report the social security and Medicare wages and the amounts withheld on the deceased employee's Form W-2 in Boxes 3-6. The amount of Federal and State taxable income should be reported only on a Form 1099-MISC in the name of the executor/administrator or beneficiary.

Wages paid after the year of death. Wages paid to a deceased employee's estate or executor/administrator after the year of the employee's death are not subject to federal income tax withholding or social security, Medicare, or FUTA taxes and should be reported only on a Form 1099-MISC in the name of the beneficiary of the payment.

NOTE: See CAPP Topic 20302, *Information Returns Reporting,* for information relating to Form 1099.

Deceased Payments

In the event an active employee dies, ALL payments (regular, overtime, annual leave, sick leave, etc.) must be made using two Special Pay codes as follows:

Special Pay		
Number	**Name**	**Description**
054	Deceased Pay 1	Used to record payment to a deceased employee's estate, administrator, and/or executor. All payments due the employee after the date of the employee's death should be made using this special payment, EXCEPT IF THE DEATH OCCURRED IN A PREVIOUS CALENDAR YEAR.
055	Deceased Pay 2	Used to record payment to a deceased employee's estate, administrator, and/or executor if the death occurred during the previous calendar year.

Special Payments – Data Entry

Creating check to Employee's Estate

The employee name on H0BID should remain unchanged. Deduction 013, DECS PAY, is used to create a check to the beneficiary of or Estate of the deceased. After establishing the check Payee information on H0901 as directed in CAPP Topic, 50405, *Court-Ordered Withholding,* establish deduction 013 using the following:

Amt/Pct

Amount/Percent- Enter 100% (to five decimal places – entered as 1.00000).

Utility

Enter a value of two (2) in the first position of the utility field. Enter the name number of the H0901 page containing the Payee information in the 17th position. All other positions should be zeroes.

The net amount will be calculated as gross, minus FICA tax (if any), minus pre-tax deductions, Deduction 010, and any child support, garnishment, or tax levy. Be sure to turn off direct deposit and any other deductions that should not be withheld from the final deceased payment.

Special Payment Transactions in General

Special Payment transactions can be entered and paid as either 9XX transactions (Special Payments - HUE01) or as 7XX transactions (Regular Payments - HUC01). When paying a special payment as a regular payment, all actions that are associated with regular pay are applied to the special payment (i.e., all deductions are processed, deduction overrides process, and manual paysets will update). Special Payments (9XX transactions) can also be treated as totally separate payments with separate taxing and deduction processing. Care should be taken when deciding how the special payment will be entered and determining how the processing of the special pay may affect other payments due the employee. See the processing hints section near the end of this topic prior to processing.

Reportable Meals and Company Car

When processing Special Pay 005 (Reportable Meals) or Special Pay 007 (Company Car), only the employee number, special pay number, and amount should be entered on HUE01. **DO NOT ENTER HOURS.**

Special Payments – Data Entry, Continued

HUE01   Special Payment (9XX) transactions are entered using HUE01. Access HUE01 using routine Command Line navigation.
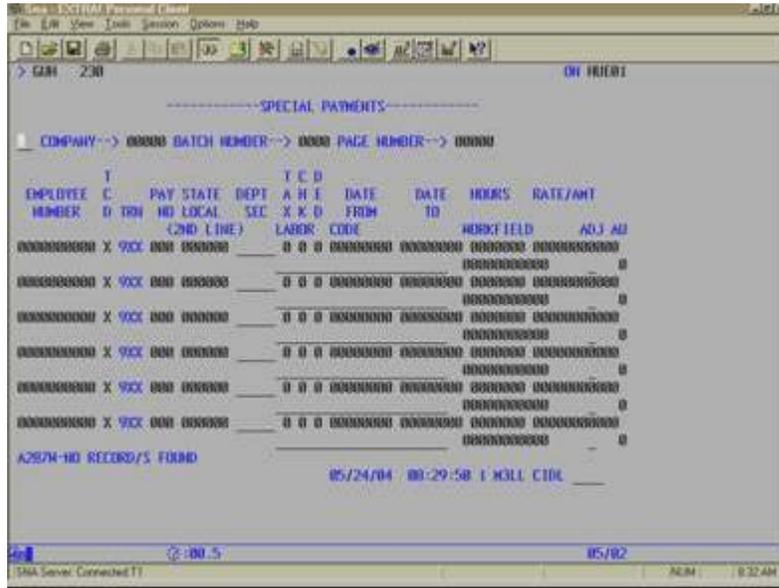
COMPANY NUMBER	Enter the agency number preceded by two (2) zeros.
BATCH NUMBER	Enter numeric value(s) identifying each batch. Each batch must have a different number within the same period.
PAGE NUMBER	Enter the page number as applicable to this unique batch.
EMPLOYEE NUMBER & TCD	Enter the assigned Employee Number. For employees having more than one pay record, the last position and TCD identify the particular pay record.
TRN	**Transaction Code (9XX) -** This field defaults to the special pay number preceded by a 9, identifying the transaction as a special payment.
PAY NO	**Special Pay Number -** All special payments are assigned a unique pay number.

Continued on next page

Special Payments – Data Entry, Continued

HUE01, continued

STATE   **NOT USED AT THIS TIME**
LOCAL,
DEP
SEC

TAX   **Tax Indicator -** Enter the value indicating how to tax the special pay.

Values	Description
0	Withhold at the IRS Supplemental Rate.
1	Withhold taxes on a daily basis using the DATE FROM and DATE TO fields to calculate the taxes. Reference IRS guidelines before using this function. All special payments may not qualify for daily taxing.
2	Does not withhold any taxes, but updates all taxable fields.
3	Does not withhold any taxes, and updates all non-taxable fields.
4	Reduce regular pay by the amount of the special payment before calculating taxes.
5	Withhold taxes based on the EMF & Tax file

CHK   **Check Indicator -** Enter the value that determines whether a separate check or direct deposit advice will be issued for the special payment.

Values	Description
0	Do not produce a separate payment, and tax in conjunction with regular pay.
1	Do not produce a separate payment, and tax separately from regular pay.
2	Produce the special payment and no regular payment.
3	Produce the special payment on a separate pay instrument in addition to the regular payment.

NOTE: Cannot have multiple 9XX payments with a value of 2. If multiple 9XX payments are required, use '2' for the first transaction and a '3' for all remaining transactions.

Special Payments – Data Entry, Continued

HUE01, continued

DED　　　　　　**Deduction Indicator -** Enter value indicating which deductions are to be withheld for the employee on the special payment.

Values	Description
0	Withhold normal deductions from the payment.
7	Withhold only percentage deductions from the payment.
8	Do not withhold deductions from this payment.
9	Withhold only banking deductions from this payment.

DATE FROM, DATE TO　　Enter in MMDDYYYY the beginning and ending dates of the pay period covered by the transaction when applying Daily Taxing. Reference IRS guidelines before using this function. All special payments may not qualify for daily taxing.

HOURS　　　　Enter the numbers of hours associated with the special payments, to two decimal places (i.e. 40 hours equals 4000).

RATE AMOUNT　　Enter either a rate or amount the employee is to be paid. If the hours field is entered, the amount entered in this field is assumed to contain a *6-decimal place rate*, otherwise, this field is assumed to contain a 2-decimal place amount (used in conjunction with the 'AU' field).

WORK-FIELD, LABOR CDE　　**THESE FIELDS ARE NOT USED.**

Special Payments – Data Entry, Continued

HUE01, continued

ADJ   **Adjustment Indicator** - This field is used only to override an automatic special pay that is on the employee's masterfile on H10AS. **Note:** A separate check will not be issued for this transaction if a plus or minus is used, since this will be an adjustment to an automatic special pay.

Values	Description
BLANK	Not an adjustment.
+	Increase special payment value on H10AS by this amount.
-	Reduce special payment value on H10AS by this amount.

AU   **Rate/Amount Indicator** – Enter the value indicating if the payment is a flat amount or a rate.

| Values	Description
0 or BLANK	If hours are entered, the RATE AMT field is *a 6-decimal place rate*; if no hours are entered, the RATE AMT field is a 2-decimal place amount.
1	The RATE AMT field is a 2-decimal amount even if hours are entered.

Special Payments as Regular

HUC01 Payments

CIPPS allows the user flexibility in processing special payments by allowing special payments (9XX transactions) to process as regular payments (7XX transactions). All actions that are associated with regular pay are applied to the 7XX transaction (i.e., all deductions and deduction overrides will process, and manual paysets will update). In order to use this function, special pay transactions must be entered on HUC01.

Note: Special payments 001, 002, 003 and 004 cannot be processed as "regular" due to the multiple special rates allowed per employee (see CAPP Topic No. 50505, *Time and Attendance*). Additionally, all nontaxable special pays cannot be "paid as regular pay" and must be entered on HUE01.

HUC01

Special Payments as Regular Payments (7XX) transactions are entered using HUC01. Access HUC01 using routine Command Line navigation.
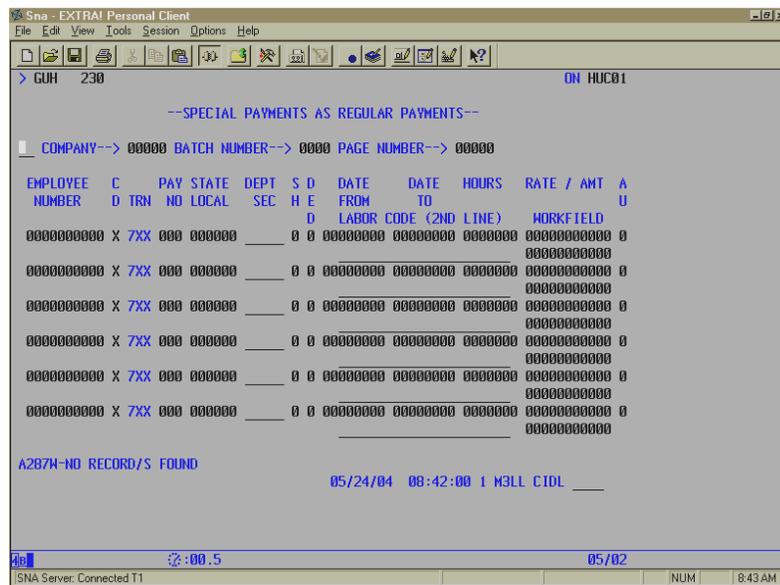
COMPANY NUMBER   Enter the agency number preceded by two (2) zeros.

Special Payments as Regular, Continued

HUC01, continued

BATCH NUMBER   Enter numeric value(s) to identify each batch. Each batch must have a different number within the same period.

PAGE NUMBER   Enter the page number as applicable to this unique batch.

EMPLOYEE NUMBER & TCD   Enter the assigned Employee Number. For employees having more than one pay record, the last position and the TCD will identify the particular pay record.

TRN   **Transaction Code (7XX) -** This field defaults to the special payment number preceded by a 7, identifying the transaction as regular pay with the special payment number following.

PAY NO   All special payments are assigned a unique pay number.

STATE LOCAL, DEP SEC   **NOT USED AT THIS TIME**

SH   **Shift Indicator -** Use this field to override the employee's normal shift for this pay period only.

Values	Description
0	Pay shift differential.
1	Do not pay shift differential.
2	Pay 2nd shift differential if shift field equals 3 or 4 on the H0BBN screen.
3	Pay 3rd shift differential if shift field equals 2 or 4 on the H0BBN screen.

Special Payments as Regular, Continued

HUC01, continued

DED   **Deduction Indicator** – Enter the value indicating which
                     deductions are to be withheld for the employee on the special
                     payment.

Values	Description
0	Withhold normal deductions from the payment.
8	Do not withhold deductions from this payment.
9	Withhold only banking deductions from this payment.

DATE FROM,   Enter in MMDDYYYY format the beginning and ending dates
DATE TO   of the pay period covered by the transaction when applying
                     Daily Taxing. Reference IRS guidelines before using this
                     function. All special payments may not qualify for daily taxing.

HOURS   Enter the number of hours associated with the special payments,
                     entered to two decimal places (i.e. 40 hours equals 4000).

RATE   Enter either a rate or amount the employee is to be paid. If the
AMOUNT   hours field is entered, the amount entered in this field is
                     assumed to contain a *6-decimal place rate*, otherwise, this field
                     is assumed to contain a 2-decimal place amount (used in
                     conjunction with the 'AU' field.)

WORK-FIELD   Workfield. **THIS FIELD IS NOT USED.**

AU   **Rate/Amount Indicator** – Enter the value indicating if the
                     payment is a flat amount or a rate.

Values	Description
0 or BLANK	If hours are entered, the RATE AMT field is a *6-decimal* place rate; if no hours are entered, the RATE AMT field is a 2-decimal place amount.
1	The RATE AMT field is a 2-decimal amount even if hours are entered.

LABOR CDE   Labor Distribution Code. **THIS FIELD IS NOT USED.**

Processing Hints

Importance of Indicators   When processing special payments, agencies may want to achieve many different combinations of payment, taxing, and deduction processing results based on the type of special pay involved and agency preferences. Specific tax (TAX), check (CHK), and deduction (DED) indicators must be used in combination to produce preferred results. **Failure to apply the correct combination of indicators may produce an undesirable result.** The complete list of values and a description of their use for each indicator is provided in the previous section on data entry instructions for HUE01.

Basic Decisions   Several basic decisions concerning the special payments must be made prior to processing to ensure the special payment processes as desired. The basic decisions that follow help determine the values that must be used in the tax, check, and deduction indicators:

Decision	Controlling Indicator
Produce a single payment or combine the special payment with regular payment?	Check (CHK)
How should the special payment be taxed?	Tax (TAX). Except when combining special and regular payments, taxing is controlled by both the TAX and CHK indicators.
How should deductions be processed?	Deduction (DED). Except when combining special and regular payments, deduction processing is controlled by the TAX, CHK, and DED indicators.

NOTE: Certain Special Pays may require specific values for TAX, CHK and DED indicators to process (i.e. Imputed Life, etc.) See the appropriate CAPP topics for these special requirements.

Processing Hints, Continued

Special Rules for Combined Payment Processing

When combining a special and a regular payment into a single payment, the decision on how to tax the combined payment (based on check indicator) affects deduction processing. For example:

- When taxing the special payment <u>in conjunction with</u> the regular payment, the deduction indicator used on the special pay determines how deductions process for the <u>entire payment</u>.

- When taxing the special payment <u>separately</u> from the regular payment, the deduction indicator used on the special pay determines how deductions process for <u>only the special payment</u>.

Preferred Results

A list of the most common preferred payroll results along with the TAX, CHK, and DED indicator required to produced the preferred result follow:

PREFERRED PAYROLL RESULT			Indicators		
Produce a…	Tax according to…	And take…	TAX	CHK	DED
Separate payment	Employee's masterfile	No deductions	5	3	8
		All deductions	5	3	0
		Only banking deductions	5	3	9
		All percentage deductions	5	3	7
	Supplemental rate	No deductions	0	3	8
		All deductions	0	3	0
		Only banking deductions	0	3	9
		Only percentage deductions	0	3	7
Single payment (combine special and regular)	Employee's masterfile	No deductions (from the entire payment)	5	0	8
		All deductions	5	0	0
		Only banking deductions	*5*	*0*	*9*
		No deductions (from the entire payment)	0	0	8
		All deductions	0	0	0
		Only banking deductions	*0*	*0*	*9*

Processing Hints, Continued

Preferred Results (continued)

PREFERRED PAYROLL RESULT			Indicators		
Produce a…	**Tax according to…**	**And take…**	**TAX**	**CHK**	**DED**
Special pay only (no regular)	Employee's masterfile	All deductions	5	2	0
	Supplemental rate	All deductions	0	2	0
		All deductions	0	0	0
2 or more separate special pays, and the regular pay	Employee's masterfile	No deductions (from the special pays)	5 5	3 3	8 8
2 or more special pays, combined w/regular	Employee's masterfile	All deductions	0 0	0 0	0 0
2 or more special pays only (no regular)	Employee's masterfile	All deductions on 1st special pay	5	2	0
		Only bank deductions on 2nd (or more) special pay(s).	*5*	*3*	*9*

Internal Control

Internal Control   Agencies are responsible for verifying information pertaining to special payments is complete, properly authorized, and has been entered accurately into the system. Policies and procedures need to be established to ensure the proper review of information entered into the system, before the certification process. Payroll actions made to CIPPS is a shared responsibility of the person(s) who collects and processes the sources documents and the agency fiscal mangers who must oversee the payroll operations to ensure consistent application of internal control procedures.

Records Retention

Time Period   *The Payroll and Deduction Register, Report 10, must be retained for 4 years after the close of the calendar year or until the year has been audited by the Auditor of Public Accounts, whichever comes later. All other reports should be retained for 60 days. Agency policy and procedures determine the retention of the related agency source documents/records. See CAPP Topic No. 21005, Records Retention and Disposition.*

Contacts

DOA Contact   Director, State Payroll Operations
Voice: (804) 225-2245
E-mail: Payroll@doa.virginia.gov

Payroll Business Analyst/Trainer
Voice: (804) 225-3065; (804) 225-2382
E-mail: Payroll@doa.virginia.gov

Subject Cross References

References   CAPP Topic No. 20319, *Electronic Federal Tax Payments Processing*
CAPP Topic No. 20302, *Information Returns Reporting*
CAPP Topic No. 21005, *Records Retention and Disposition*
CAPP Topic No. 50125, *Programmatic Data*
CAPP Topic No. 50310, *Rehires and Employee Data Maintenance*
CAPP Topic No. 50405, *Court-Ordered Withholdings*
CAPP Topic No. 50425, *Group and Optional Life Insurance*
CAPP Topic No. 50505, *Time and Attendance*