

# Department of Accounts

## Payroll Bulletin

Calendar Year 2006

January 3, 2006

Volume 2006-02

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The Payroll Bulletin is published periodically to provide CIPPS agencies guidance regarding Commonwealth payroll operations. If you have any questions about the bulletin, please call Cathy McGill at (804) 371-7800 or Email at [cathy.mcgill@doa.virginia.gov](mailto:cathy.mcgill@doa.virginia.gov)

#### State Payroll Operations

**Director** Lora L. George  
Assistant Director Cathy C. McGill

## **PBP Nonresident Alien Processing in CIPPS**

**I9 Completion** Agencies that hire non-US citizens should ensure they are in compliance with all of the extremely complex federal immigration regulations as well as the IRS code sections that apply to these individuals. Details of proper I9 completion can be found at: <http://uscis.gov/graphics/formsfee/forms/i-9.htm>, and <http://uscis.gov/graphics/services/employerinfo/EIB102.pdf>.

### **Taxability**

After your agency has determined that a non-US citizen has the proper work authorization for employment, you need to determine the proper taxing for that individual. Determining the proper tax status is important to protect the Commonwealth from overpaying employer taxes and also to prevent underpayment of employer taxes and the resulting penalties. Resident aliens are taxed like US citizens, and nonresident aliens (NRAs) are taxed differently. More information regarding the proper taxation of NRAs can be found in the Circular E: <http://www.irs.gov/pub/irs-pdf/p15.pdf>

*Due to the complexity of federal tax regulations for NRAs, DOA recommends that your agency withhold federal and state taxes from all nonresident aliens as outlined in Circular E. Also see the section below on changes to calculating withholding for nonresident aliens effective 1/1/06. Please also note that you are required to tax and report certain scholarships given to NRAs.*

### **H0BUO**

Effective 1/1/06 the Alien Code on H0BUO should no longer be used to distinguish nonresident aliens in CIPPS. DOA will change all records that currently contain an "N" to an "A". As you add new employees to the system, be sure not to use the "N" indicator. Edits will be added to limit valid values to "A" or "C".

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## Nonresident Alien Processing in CIPPS, Continued

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<b>Visas</b>	Certain nonresident aliens that have been in the US less than 5 years and have a F1, J1 or M1 visa might be exempt from FICA taxes. Before you exempt them from FICA, you should have a NRA tax expert review each situation.
<b>Treaties</b>	If your agency offers tax treaties to NRAs, please note that there are many ways in which a NRA can make himself/herself ineligible for a treaty. There are over 30 treaties and each one has different rules that apply. If you offer tax treaties you should have a tax treaty expert review each 8233 form to ensure compliance with the IRS regulations. You must also ensure that 1042S and 1042 tax forms are prepared each year to report the earnings that you exempted from tax using a treaty. These complex regulations are outlined in several publications including: Publication 515: <a href="http://www.irs.gov/pub/irs-pdf/p515.pdf">http://www.irs.gov/pub/irs-pdf/p515.pdf</a> and Publication 901: <a href="http://www.irs.gov/pub/irs-pdf/p901.pdf">http://www.irs.gov/pub/irs-pdf/p901.pdf</a>
<b>Contact</b>	Martha Laster at DOA is available to assist you with questions about nonresident alien W-4s, FICA or visas. She can be reached at 804-225-2382 or <a href="mailto:Martha.laster@doa.virginia.gov">Martha.laster@doa.virginia.gov</a> .

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## New Withholding Calculations for Nonresident Aliens

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<b>Wages paid on or after 1/1/06</b>	<p>For wages paid on or after January 1, 2006, employers are required to apply a new procedure in calculating the amount of federal withholding income taxes on the wages of nonresident alien employees (except for students and business apprentices from India). The new rules are designed to more closely approximate the income tax liability of the nonresident alien employee. In general, nonresident aliens will <b>no longer be required to request an additional withholding amount</b>. When completing Form W-4, nonresident aliens must:</p> <ul style="list-style-type: none"><li>• Not claim exemption from withholding</li><li>• Request withholding as if they are single, regardless of their actual marital status</li><li>• Claim <b>only one</b> allowance (unless a resident of Canada, Mexico, or South Korea)</li><li>• Write “Nonresident Alien” or “NRA” above the dotted line on Line 6 of Form W-4</li></ul>
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## New Withholding Calculations for Nonresident Aliens, Continued

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The IRS recognizes that this change will require substantial programming changes within automated payroll systems and has stated that an employer will not be subject to penalties for failing to use the new procedure for wages paid prior to January 1, 2007, "providing the employer has made a good faith effort to implement the withholding requirements . . . as soon as possible." This transitional relief does not affect the liability of nonresident alien employees for federal income tax.

**NO CHANGES TO AUTOMATICALLY CALCULATE THE ADDITIONAL AMOUNT HAVE BEEN MADE TO CIPPS AT THIS TIME.** We will notify you when the programming changes have been completed. **You may want to wait until the programming changes have been made before requiring your nonresident aliens to complete new W-4s for 2006 so they are not under-withheld.**

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## 457 Deferred Compensation Plan

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### VRS Board adopts amendments to 457 Deferred Comp Plan

The VRS Board adopted the following amendments to the 457 Deferred Comp plan at their meeting in October, 2005:

- Participant changes to the amount of compensation being deferred to the Plan **may not be effective before** the first of the month following the month in which the request for change is submitted to the employer (i.e., requests received 1/1 through 1/31 are effective 2/1).
- Leave share **is** considered part of compensation and may be deferred to the DCP.
- A new employee may become a Participant in the same month in which he is employed if the employee **submits a completed enrollment form on or before the first day of employment.** This also makes them **eligible for the Cash Match** in their first paycheck. Previously, the requirement was that the enrollment form had to be completed prior to the first day of employment.

The entire revised Plan Document is posted on the website at [www.vadcp.com](http://www.vadcp.com) under Plan Information/457 Plan/Plan Document

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### Military Services Leave Act allows make up of missed Deferred Comp Contributions

An employee who leaves employment for military service and later returns can make up deferred compensation contributions that were not paid while the employee was in the service under the Uniformed Services Employment and Reemployment Rights Act. The employee makes up the deferrals through payroll deduction when he or she returns to employment. If the missed deferrals are made up, the employee is also entitled to the employer cash-match contribution on those deferrals.

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## 457 Deferred Compensation Plan, Continued

### Make up of missed Deferred Comp Contributions, (continued)

An employee can make up the missed deferrals as long as he or she gave advance notice of the military service and was not absent for more than a total of five years (duty served because of war or national emergency does not count against the five-year limit). The employee must have had an honorable discharge from military service and must return to employment within a specified time based on the length of the military service.

The employee must complete a new Payroll Authorization Form and an Application for Uniformed Services Leave Make-Up. Employers should keep copies of these forms on file.

For further information and to obtain the Application for Uniformed Services Leave make-Up, visit the Plan Web site at [www.vadcp.com](http://www.vadcp.com) and select Plan information/457 Deferred Compensation/Forms.

*(taken from 2005 September/October VRS Employer Update)*

## Maximum Limits on 457 and 403(b) Elective Deferral Plans for 2006

### Qualified Benefit Plans

The 457 Deferred Compensation Plan is available to all salaried and wage employees of the Commonwealth. Employees of the Commonwealth who are employed by a college or university may use both the 457 Deferred Compensation Plan and a 403(b) Tax Deferred Account. The maximum limits on 403(b) and 457 plan elective deferrals for calendar year 2006 are:

Deferral Category	457 Deferred Compensation Plan	403(b) Tax-Deferred Account
Normal Annual Limit	\$15,000 (1)(5)	\$15,000 (1)(5)
Age 50 Catch-up	\$5,000 (2)	\$5,000 (2)(5)
457 Standard Catch-up	\$15,000 (3)(5)	N/A
403(b) 15-Year Catch-up	N/A	\$3,000 (4)(5)

- (1) Eligible participants may contribute the normal annual limit to both plans.
- (2) Eligible participants may contribute the Age 50 Catch-up to both plans.
- (3) The 457 Standard Catch-up may not be used in the same year that the 457 Age 50 Catch-up is used. The 457 Standard Catch-up can only be used in the three years preceding "normal retirement age" as designated on the Normal Retirement Age Election Form. The Standard Catch-up plus the Normal Annual Limit results in a total possible deferral to the 457 Plan of **\$30,000 for 2006**.
- (4) The 403(b) 15-Year Catch-up, the 403(b) age 50 Catch-up and the 403(b) Normal Annual Limit can all be used in the same year for a total deferral of **\$23,000 in 2006**.
- (5) The 457 Standard Catch-up and the 403(b) 15-Year Catch-up may both be used in the same year. A participant in both plans could potentially defer **\$53,000 in 2006** if eligible for the full 403(b) 15-Year Catch and the full 457 Standard Catch-up.

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## Child Support & Bankruptcy

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### Bankruptcy Reform act changes withholding for Child Support

The Bankruptcy Abuse Prevention and Consumer Protection Act which became effective October 18, 2005 defines domestic support obligations and permits their enforcement despite bankruptcy proceedings.

- Domestic Support Obligation – any debt (plus interest) for alimony, maintenance or support resulting from a separation agreement, divorce decree or property settlement agreement, an order of the court, or a ruling made under nonbankruptcy law by a governmental unit.
- The debt must be in place before, on or after the date of the bankruptcy filing and be owed to a spouse, former spouse, child of the debtor or the minor's parent or guardian.

Continue to withhold for domestic support obligations until official notice to discontinue is received from the issuing agency – even if the employee provides copies of the bankruptcy filing.

Note: This does not apply to bankruptcy cases started before the 10/18/2005 effective date.

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## Taxability of Reimbursements to Employees

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### Nontaxable Reimbursements

Reimbursements to employees for goods or services initially paid for by the employee (such as home internet service, tool allowances) are considered taxable income unless a specific exception is provided by IRS Code or if the reimbursement is made under an “accountable plan”.

To be considered an “accountable plan”, the reimbursement must meet all of the following criteria:

- The reimbursement must be allowable as a deduction and paid or incurred in connection with performing services as an employee
- Each reimbursed expense must be documented to the employer within a reasonable time
- Any amounts given in excess of expenses must be returned

Reimbursements not meeting all of these requirements must be considered taxable income subject to withholding and federal income taxes and reported as wages on the employee's W-2.

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## Fringe Benefits Management Company (FBMC) Focus Group

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### FBMC Focus Group

There will be an FBMC Focus Group Meeting on Tuesday, February 7, 2006. The group will meet in Conference Room D of the Monroe Building at 9:30 am. The meeting provides a forum for interested Benefit and Payroll Administrators to meet with representatives from FBMC to discuss issues and /or changes in procedures associated with the administration of voluntary supplemental insurance, annuities (403(b)), and cash match (401(a)) products provided through the Virginia Provider Network. In addition, it provides an opportunity for FBMC to meet new Virginia employees and answer any questions they might have about the process. Please email Cathy McGill at [cathy.mcgill@doa.virginia.gov](mailto:cathy.mcgill@doa.virginia.gov) if you plan to attend.

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## FBMC Provider Update

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### New Provider Added

The following new provider has been added to the FBMC provider network as follows:

- Texas Life Insurance Company (code UL02) (This is not the same as Texas International Life Insurance)

The following provider will no longer be available:

- Professional Insurance Corporation

For more details, visit FBMC's website at

<http://www.fbmcbenefits.com/VaProviders/index.asp>.

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## Deleting Manual Paysets Reminder

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### Deleting Manual Paysets

Circumstances often require adjustments to the accumulated balances (e.g., earnings, deductions) stored in the CIPPS Masterfile. Adjustments to these balances are called Manual Pay Sets.

Once Manual Pay Sets are entered and edited, transactions appear in the Pending File and are applied to the Masterfile. Upon certification and processing, the adjustments are recorded through the General Ledger Interface creating the appropriate CARS transactions.

**If the pay set is determined to be invalid after edit but prior to certification, it should not be deleted using the BFM process. Data entry of a second manual payset reversing the original entry must be performed.**

Manual paysets accidentally deleted through batch file maintenance must be reported to Denise Halderman at 804-371-8912.

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**Correction to Payroll Operations – PR/Benefits Accounting Contact Information**

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<b>Name</b>	<b>Functional Area</b>	<b>E-mail</b>	<b>Phone</b> <i>(804 Area Code)</i>
Denise Waddy	Healthcare Reconciliations; Deferred Compensation; Deferred Compensation Cash Match; Political Appointee ORP	<a href="mailto:denise.waddy@doa.virginia.gov">denise.waddy@doa.virginia.gov</a>	225-2246
Cathy Gravatt	941s; W-2Cs; Void Checks; Employee Masterfile Maintenance; CIPPS/CARS Interface; CIPPS Adjustments	<a href="mailto:cathy.gravatt@doa.virginia.gov">cathy.gravatt@doa.virginia.gov</a>	225-2386
Denise Halderman	Payroll Accounting; Benefits Accounting; CIPPS Security	<a href="mailto:denise.halderman@doa.virginia.gov">denise.halderman@doa.virginia.gov</a>	371-8912
Walter Roish	Supplemental Insurances and Annuities; Annuity Cash Match; Flexible Reimbursement Accounts; ORPs (other than political appointee)	<a href="mailto:walter.roish@doa.virginia.gov">walter.roish@doa.virginia.gov</a>	225-3100
Cathy Royal	CIPPS/PMIS Audit; Savings Bonds; CVC; VPEP; VEST	<a href="mailto:catherine.royal@doa.virginia.gov">catherine.royal@doa.virginia.gov</a>	225-2390

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