

# *Department of Accounts*

## *Payroll Bulletin*

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*In This Issue of  
the Payroll  
Bulletin.....*

- ✓ **Why Refunds for Weight Watcher Fees are Taxable Income**
- ✓ **Employee Tax Paid by Employer**
- ✓ **Manual Paysets – Cautionary Tips**

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)

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### **Why Refunds for Weight Watcher Fees are Taxable Income**

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#### **Employer-Paid Personal Expense**

We have received some inquiries questioning why the refund sent to employees by Anthem for a portion of their Weight Watcher program fees is considered taxable income given that the employee originally paid for the fee from income that had been previously taxed.

The Commonwealth's Health Insurance program is a self-insured program. Anthem is contracted to provide administrative services for the Commonwealth related to the Health Insurance program. The distribution of payments to participating employees for half of the Weight Watchers fees by Anthem is simply a function of those administrative services. Therefore the payment is technically a payment being made under an employee/employer relationship between the Commonwealth and participant. The Internal Revenue Service considers any personal expense paid for by an employer to be fully taxable income or a "taxable fringe benefit."

Additionally while some reimbursements for "medical care expenses" by a health care plan may be excluded under IRC Section 105(b) in order to be excluded it must be deductible as an eligible medical expense under IRS Code Section 213(d). "Weight loss programs" are specifically identified as "*non-deductible medical expense*" items under IRS Code Section 213(d).

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## Employee Tax Paid by Employer

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### **Determining Full Amount of Uncollected FICA**

This section provides additional information and clarification of process referred to in Bulletin #2011-21: Health Insurance Plan Awards/Incentives are Taxable Income. At times adjustments are required to be made to the taxable wages of employees *no longer receiving pay* during the remainder of the calendar year. When this occurs uncollected OASDI/HI employee taxes result. While the employee share of the tax is included in the payment made to the IRS, it is the agency's responsibility to contact the employee in an attempt to receive reimbursement for the employee portion of FICA paid by the employer. If reimbursement is not received, the amount of taxes paid for on behalf of the employee then becomes additional taxable income to the employee for that calendar year. This again leads to additional income causing a "pyramiding" effect on tax liability. In other words, adding the tax paid to the employee's taxable income generates additional taxes that the employer has to pay on the employee's behalf, thus creating additional taxable income and on and on. (See IRS Publication 15-A, Section 7.)

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### **Calculations for Special Pay 071, Employer Paid Tax**

If payment for the taxes has not been received at the time the non-cash award is processed in CIPPS, the non-cash award amount is "grossed up" to determine the final "pyramid" value of Uncollected OASDI/HI (FICA) taxes. The non-cash award is processed for the original amount using Special Pay 049 and the employer-paid employee tax amount is processed using Special Pay 071.

To determine the Special Pay 071 amount, divide the non-cash amount by a factor for that year. This factor is determined by subtracting from 1 the combined employee social security and Medicare tax rate for the year that the wages are paid. For 2011, the factor is .9435 (1 - .0565). This provides the "grossed up" non-cash award amount. Then subtract the actual non-cash award amount from the "grossed up" amount to obtain the Employer Paid Tax (SP 071) amount.

If after processing the SP 071 the employee agrees to repay the employer for the FICA he only has to repay the regular FICA amount (5.65% of non-cash award for 2011). Adjustments are then required to back out the full employer paid tax (amount entered in SP 071), thereby appropriately reducing all associated taxables.

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## Employee Tax Paid by Employer, continued

### Calculations for Special Pay 071, Employer-Paid Tax

### General guidelines to increase 2011 Taxable Wages for non-cash award when there will be no further pay in 2011:

1. Calculate the "Grossed Up" non-cash award amount by dividing the amount of the non-cash award by .9435
2. Enter the amount of the actual non-cash award as special pay 049
3. Enter the difference between the grossed up amount and the actual amount of the non-cash award in special pay code 071
4. The amount of OASDI (4.2%) and HI (1.45%) tax related to the grossed up value must be calculated and entered through manual payset on HTQTA to force tax payment.

If the employee repays the agency for the taxes paid on their behalf, the amount of the repayment is based **only** on the original non-cash award. If the repayment is received prior to the end of regular processing for 2011, an adjustment to back-out Special Pay 071 is performed. If the repayment is received after final regular processing for 2011 but before W-2s have been distributed, a year-end adjustment should be submitted. If the repayment is received after W-2s have been distributed, then a W-2C must be prepared for 2011.

### Non-cash Award Payment Examples

Example 1: A non-cash award (SP 049) was previously processed in CIPPS to increase employee's 2011 taxable wages by \$673.30. Additionally the HTQTA to force a payment of regular (not the amount based on the "grossed up" award) FICA taxes paid on behalf of the employee was performed. However nothing has been entered to record the taxable income generated by taxes paid for employee by employer. Therefore the amount of Special Pay 071 must be determined and an additional HTQTA entry for the grossed up taxes not previously processed must be entered.

- a.  $673.30 \text{ (SP 049)} \div .9435 = 713.62$
- b.  $713.62 \text{ minus } 673.30 \text{ (SP 049)} = 40.32 \text{ (SP 071)}$
- c. Employee is re-activated to non-auto status in CIPPS and 40.32 is entered on HUE01 using Special Pay code 071 and tax/check/deduction indicators of 0 0 0
- d. OASDI tax:  $40.32 \text{ multiplied by } .042 = 1.69$   
 HI tax:  $40.32 \text{ multiplied by } .0145 = .58$   
 Combined total of OASDI/HI:  $1.69 + .58 = 2.27$   
 The combined total of 2.27 should be entered in the NET field on HTQTA with an adjustment indicator of '- Y' and the individual amounts for OASDI of 1.69 and HI of .58 should be entered in the proper fields of the 500 transaction line with an adjustment indicator of '+ Y'. Please note that you do not need to process a penny of regular pay to activate the manual payset.

Note: Remember that the amount of FICA repayment from the employee would be determined using the original tax rates ( $673.30 \text{ multiplied by } .0565 = 38.04$ ).

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**Employee Tax Paid by Employer, continued**

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**Non-cash Award  
Payment Examples,  
continued**

Example 2: A non-cash award (SP 049) was previously processed in CIPPS to increase employee's 2011 taxable wages by \$673.30; the regular FICA tax amount (award \* .0565) paid by the employer in the amount of \$38.04 was entered using Special Pay code 071; and the associated HTQTA transaction was processed. However, the "pyramid" effect on taxable income was not taken into account; therefore additional entries are required to correctly record the full taxable income generated when an employer pays taxes on behalf of the employee. This will require an additional SP 071 and another HTQTA:

- a.  $673.30$  (SP 049) divided by  $.9435 = 713.62$
- b.  $713.62$  minus  $673.30$  (SP 049) =  $40.32$  (total amount that should be recorded for taxes paid on employee's behalf)
- c.  $40.32 - 38.04 = 2.28$  (difference in amount that should be included in taxable income and amount already entered)
- d. Employee is re-activated to non-auto status in CIPPS and  $2.28$  is entered on HUE01 using Special Pay Code 071 and tax/check/deduction indicators of 0 0 0
- e. OASDI tax on  $2.28 = 2.28$  multiplied by  $.042 = .96$   
HI tax on  $2.28 = 2.28$  multiplied by  $.0145 = .33$   
Combined total of OASDI/HI =  $.96 + .33 = 1.29$   
The combined total of  $1.29$  should be entered in the NET field on HTQTA with an adjustment indicator of '- Y' and the individual amounts for OASDI of  $.96$  and HI of  $.33$  should be entered in the proper fields of the 500 transaction line with an adjustment indicator of '+ Y'. Please note that you do not need to process a penny of regular pay to activate the manual payset.

Note: Remember that the amount of FICA repayment from the employee would be determined using the original tax rates ( $673.30$  multiplied by  $.0565 = 38.04$ ).

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**Employee Tax Paid by Employer**, continued

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**Non-cash Award  
Payment Examples,**  
continued

Example 3: No entries have been entered to record the taxable value of the non-cash award which is \$673.30:

- a. Employee is re-activated to non-auto status in CIPPS and 673.30 is entered using Special Pay 049 for the non-cash award on HUE01 and tax/check deduction indicators of 0 0 0
- b.  $673.30 \text{ (SP 049)} \div .9435 = 713.62$
- c.  $713.62 \text{ minus } 673.30 \text{ (SP 049)} = 40.32 \text{ (SP 071)}$
- d. 40.32 is entered on HUE01 using Special Pay Code 071 and tax/check deduction indicators of 0 0 0
- e.  $\text{OASDI tax on } 40.32 = 40.32 \text{ multiplied by } .042 = 1.69$   
 $\text{HI tax on } 40.32 = 40.32 \text{ multiplied by } .0145 = .58$   
 $\text{Combined total of OASDI/HI} = 1.69 + .58 = 2.27$   
The combined total of 2.27 should be entered in the NET field on HTQTA with an adjustment indicator of '- Y' and the individual amounts for OASDI of 1.69 and HI of .58 should be entered in the proper fields of the 500 transaction line with an adjustment indicator of '+ Y'. Please note that you do not need to process a penny of regular pay to activate the manual payset.

Note: Remember that the amount of FICA repayment from the employee would be determined using the original tax rates ( $673.30 \text{ multiplied by } .0565 = 38.04$ ).

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**Manual Paysets – Cautionary Tips**

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**Period Indicator**

Always use a "Y" in the Period Indicator field. This will update the year-to-date totals which are used in quarter reconciliation reports.

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**Careful Review**

Generally, when entering a value into an amount field the operator keys the amount starting in the far-most left position and after entering the value clears the remainder of the field using the 'END' or 'EOF' button. This action causes the amount to be correctly positioned to the right once 'ENTER' is pressed. However, if the 'END' or 'EOF' button is not used to clear the field, then the amount entered becomes a value in the millions. The number of occurrences of this type of error has increased recently.

Carefully review your data entry when entering batches. In particular, with manual paysets and deduction overrides, ensure the batch balances and perhaps have a second party review the data entry.

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**Manual Paysets – Cautionary Tips, continued**

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**Never Remove  
Using BFM**

Once a manual payset (including deduction and tax refunds) is processed, the employee masterfile has been updated. This is true even if no payrun (edit or pay) has been requested for that employee's frequency. You can see the effects of this update on the Report 1006, Change Listing. Therefore, it is imperative that those transaction lines generated by a manual payset NEVER be removed using HSBFM.

If a manual payset needs to be backed out, enter another manual payset identical to the first with the exception of the Adjustment Indicator (AI). Enter the opposite values in the AI field as originally entered. If a 'P' was used, enter an 'M'. If a '+' was used, enter a '-'. This will systematically reverse the effect of the original manual payset.

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