

YEAR-END PAYROLL PROCESSING

PURPOSE

This recommended practice describes the actions that agency payroll may need to take at calendar year-end. These actions will help ensure that each employee receives a correct IRS Form W-2 Wage and Tax Statement and that OSPA is ready for the new tax year.

AUTHORITY / REFERENCES

See Resources below

SCOPE / APPLICABILITY

This practice applies to all agencies that use OSPA.

RESPONSIBILITIES / 2009 TIMELINE

For more information, see Notes, Supporting Documentation / Forms, and Reports below.

Date / Deadline	Activity	Who
Before October run 1 10/26/09	Outdate for 11/30/09: <ul style="list-style-type: none"> DPT / DPN P050 gross pay adjustments Charitable Fund Drive P070 deductions 	OSPS / OSPA
11/02/09	Enter 2010 PEBB deduction codes on Payroll Deduction Table	OSPS
November run 1, 11/23/09	Distribute ANNLDEC Deceased Employees – Agency Summary report to agencies. See Reports.	OSPS / OSPA
11/30/09	Last date to set P010 check dates for employees who transfer in 2009	Agencies
November run 2, 12/09/09	For months prior to November, last date to: <ul style="list-style-type: none"> Set own P010 check dates Set correctives Request check reversals Last date to enter cash payments for 2009 expense reimbursements without setting 11/30/09 P010 dates	Agencies

Date / Deadline	Activity	Who
12/31/09	For 2009, last date to: <ul style="list-style-type: none"> Pay-off leave balances for employees who separated prior to December Accept payment from an employee for the return of a 2009 overpayment without the need for a corrected W-2 Request manual checks for separated employees with net pay positive adjustments 	Agencies
01/04/10	Last date to receive updated Form W-5, Form 8233, Form W-9, or OSPS Form 99.01 Remind employees to give agency HR any home address changes for W-2's	Agencies
December run 2, 01/11/10	Last date for 2009 to: <ul style="list-style-type: none"> Request check reversals Enter non-cash expense reimbursements or fringe benefits Correct negative YTD amounts from the XREF68N Employees with Negative Amount(s) Listed report Request P060 tax adjustments for separated employees with net pay positive adjustments Record return of 2009 overpayment Correct payments from the B850-01 Nov or Dec Pay Reported in Two Tax Years 	Agencies
After December run 2, 01/11/10	First date with access to set P010 check dates for 2010	Agencies
01/19/10	W-2's produced	OSPS / OSPA
January run 1, 01/26/10	Outdate 2009 Governor's Food Drive P070 deductions for 02/28/10 Last date to change EIC Y for employees without a new W-5	OSPS / OSPA Agencies
01/31/10	Deadline for mailing W-2's	Agencies
02/15/10	Last date to receive updated Form W-4 for exemption from withholding	Agencies
February run 1, 02/23/10	Last date to change withholding on P010 for employees who have not submitted a new W-4 claiming exemption from withholding	Agencies
After March run 1, 03/26/10	First date to request that OSPS delete December 2009 P010 check dates	Agencies

SYSTEMS / APPLICATIONS

System / Application	Functionality
	•

PREREQUISITES

RECOMMENDED PRACTICE

Action	More

NOTES

Notes in this section provide additional information on the following:

- ACH
- Automatic Outdates
- Checks
- Corrections for Current Employees
- Dates on the P010 and P370
- Employee Separations
- Employee Transfers
- Maximum Amounts
- Overpayments
- Taxes

ACH

Rejects – After November run 2, rejected direct deposits will not process normally. Work with OSPS to determine the required manual calculation and P050 entry.

Stops -- After November run two, for pay periods prior to November, OSPS can stop the ACH from depositing; but we cannot reverse the transaction in OSPA. You will need to make adjusting entries on the November or December P050 screen. Contact OSPS for specific instructions.

AUTOMATIC OUTDATES

As part of the year-end process, OSPS will make a request to run a program for OSPA to outdate some on-going P050 Gross Pay Adjustments and P070 Deductions and Deduction Adjustments. They include:

Charitable Fund Drive Contributions – Before October run 1, OSPA will outdate any on-going Charitable Fund Drive deductions on the P070 with an end date of 11/30/YYYY. With the October run one reports, you will receive E560-04-01 List of In/Outdated Deductions report.

Governor's Food Drive Contributions -- Before January run 1, OSPA will outdate any on-going Food Drive deductions on the P070 with an end date of 02/28/YYYY (02/29 in leap years). With the February run one reports, you will receive the E560-04-01 List of In/Outdated Deductions report.

PEBB Domestic Partner Insurance – Under federal and state tax law, health insurance benefits provided by an employer to an employee are not taxable for the employee if the benefits are for the employee or the employee's spouse or eligible tax dependents. An employee may submit a PEBB Domestic Partner Certification for Dependent Tax Status for the partner and/or children.

If the employee does not claim the partner and/or children as a tax dependent, the imputed value of the benefit is taxable income for the employee. In this case, we make a DPT (Domestic Partner Taxable) entry on the P050 to make the imputed value subject to withholding. For **part-time or job share** employees with out-of-pocket premium costs for domestic partner insurance, the out-of-pocket costs may reduce the employee's taxable income. If so, we also make a negative DPN (Domestic Partner nontaxable) entry on the P050.

The DPN and DPT amounts remain in effect for one plan (calendar) year. Before October run 1, OSPA will outdate the DPT and DPN entries on the P050 with an END DATE of 11/30/YYYY.

With October run one reports, you will receive the following reports:

- E820-1 Gross Pay Adjustments Outdated, which lists employees where OSPA has outdated the DPT and DPN entries
- E820-2 Gross Pay Adjustments Beginning after Outdate, which shows GPA's with a STRT DATE after the END DATE for the automated process
- E820-3 Duplicate Gross Pay Adjustments

See Entry Guides, PEBB, Domestic Partners.

CHECKS

Cancellations / Reversals -- For current tax year payroll checks with errors, reverse the checks, remove the hours and/or gross pay adjustments, and set a corrective flag prior to December Run 2 final. DO NOT process any corrections that will create a net pay negative that the employee will not repay in the current tax year.

After November run 2 final, we cannot reverse October and prior checks.

After December run 2 final, we cannot reverse or cancel checks for that year. Instead, call or e-mail OSPS for assistance or see the Recommended Practice, Taxes, Corrected W-2 (W-2c). Also, see the Cancel an Employee Check flowchart on the OSPS website (see Resources).

Early Check Release – If you release a paycheck prior to January 1, make sure the employee understands the tax implications of cashing the check early. If an employee cashes a December paid January check on or before December 31, you will need to request two corrected W-2s:

- For the tax year in which the employee cashed the check, request a corrected W-2 to increase taxable, Medicare subject, and social security subject income
- For the subsequent tax year, request a W-2c to decrease the taxable, Medicare subject, and social security subject income

Manual Checks for Separations -- If your agency issues an agency check to a separating employee, be sure to enter the PANN deduction on the P070 Deductions and Deduction Adjustments by December run two.

Old Checks – Payroll checks are valid for two years. An employee can cash a check as long as it is correct and has a date within the last two years. The wages are tax reportable in the year in which the employee received the check, even if the employee delays cashing it.

Social Security Wage Base Limit for Year-end Reversals – There is a maximum dollar amount for wages that are subject to social security taxes. For 2009, the maximum is \$106,800.

In November, if:

- You need to reverse a check or stop an ACH and re-write the payment **AND**
- The employee has reached the maximum in the month

You will need to check the social security tax calculation for the re-write. OSPA reads the new calculation before it reads the reversal. This may result in additional social security tax withholding and a net pay negative.

To review the calculation, do the following:

- Note the SOC SEC TAX for the check or ACH you are reversing
- Look up the SSEC on the P370 Calculation of Current Payoff for the employee
- If they are not the same, calculate the difference between them
- Subtract the difference from the NET on the P370 when you request the manual check

CORRECTIONS FOR CURRENT EMPLOYEES

Ideally, correct errors for prior months before November Run two cutoff. After November run 2 final, we cannot enter corrections and set correctives in any pay period prior to November.

- Make all of the adjustments for the tax year on the P050 Gross Pay Adjustments. Use 11/30/YY as the pay period end date, even if the adjustment is for months prior to November.
- Use the P370 Calculation of Current Pay-off (see Dates, P370) and the P091 YTD Wages, Taxes, and Retirement to verify your entries
- On the P190 Payroll Register Data set the corrective flag for November

When you set the corrective flag:

- OSPA will check for FINAL CHECK ISSUED and FINAL CHECK PERIOD ENDING dates on the P010. If the P010 has dates from December of the current year, you will not be able to set a November corrective.
- If there are no December P010 dates, OSPA will enter 11/30/09 check dates on the P010 (see Dates, P010)

NOTE: If you want to change the November P010 dates before the corrective processes, change the Corr Flag to N on the P190. OSPA will change the P010 check dates to 000000.

Corrections between November Run two Final and December 31 – Make the corrections in and set the P190 corrective flag for the November pay period if:

- The entry will result in a cash payment, which the employee will receive **by** December 31 **or**
- The corrections will not result in an additional cash payment, such as entry of a taxable fringe benefit paid from accounts payable

Make the changes on the P050 for the January pay period if:

- The entry will result in an additional cash payment, which the employee will receive **after** December 31

Corrections after December Run 2 – Because it is a closed tax year, we cannot make corrections after December run 2 of any tax year.

- For positive changes to cash wages, make the corrections on the P050 for the January pay period
- For changes to non-cash fringe benefits, request a corrected W-2 (see the Recommended Practice, Taxes, Corrected W-2 (W-2c))

DATES

P010 Withholding Data / Locator Data Check Dates

Generally, you or OSPA will enter FINAL CHECK ISSUED and FINAL CHECK PERIOD ENDING dates on the P010 for the following reasons:

- An employee separated from state service
- An employee transferred to another state agency in any month except December
- You set a corrective for the November payroll run
- You want to force a December payment into the old tax year

Impact of P010 Dates on OSPA Processing -- P010 FINAL CHECK ISSUED (date printed on a check) and FINAL CHECK PERIOD ENDING dates are critical at year-end. These dates force the calculation of wages into the specified tax year.

During the payroll run, OSPA only uses P010 dates that apply to the pay period it is processing. In general, if you enter P010 dates for a prior pay period, OSPA will only apply those dates if you have also entered changes and set a corrective for that pay period.

For year-end, for example, if during the December pay period you have:

- Entered changes for November
- Set the corrective flag for the November pay period

OSPA will:

- Enter November P010 dates
- Use the P010 dates for the November changes
- Apply the November corrections to the old tax year
- Apply the December payroll to the new tax year

December Dates

Agency payroll staff cannot enter, change or delete December P010 check dates at any time. You can ask OSPS staff members to enter, change or delete December dates. Write “please set P010 dates” on your manual check request. If you are not ordering a manual check, send an e-mail or fax to OSPS.

December P010 Date after December Run 1 -- If you are considering requesting a December P010 date after December Run one final, consider the following:

- Does the P190 Payroll Register Data show a December set?
- If it does, did that set calculate taxes for the new tax year?

If the answer to BOTH of these questions is "YES," first reverse the check or cancel the ACH that created the set. Then you can ask OSPS to set December P010 dates.

Removing a December P010 Date -- If you wish to remove a December check date for an employee who still works for the agency:

- After March run 1 final, make sure the December set is no longer on the P190 Payroll Register Data
- Ask OSPS to delete the date

By waiting, you avoid the risk of setting a corrective for a closed tax year. OSPA will normally remove the December run from the P190 Payroll Register Data with the March run.

Separations in December -- If a separating employee will receive his/her final pay during December, we need to include that payment in the current year's W-2. We can force the wages into the current year by entering December FINAL CHECK ISSUED and FINAL CHECK PERIOD ENDING dates on the P010.

Transfers in December -- Do not request check dates for December if an employee is transferring from one state agency to another. The IRS considers all State of Oregon agencies as one employer. Without check dates, OSPA will combine the December wages from both agencies into the December paid January wages and report them in the next tax year.

January Dates

Agency payroll staff cannot enter, change or delete January dates on the P010 until after December run 2. We suggest that you set up a pending folder as a reminder to delete the January dates after December Run two final.

P370 Calculation of Current Pay-off

The P370 shows entries you have made since the last final payroll run. The amounts shown are the result of an on-line calculation. OSPA makes the calculation based upon the pay period end date and check date you enter for the inquiry.

Check Date in Old Tax Year -- If you enter a check date for the old tax year, OSPA will use the withholding percentages for the old tax year to calculate the amounts displayed on the P370.

Check Date in New Tax Year -- If you enter a check date in the new tax year for a pay period in the old tax year, OSPA will display amounts based upon the withholding percentages for the new tax year. This means that the amounts will not match the withholding calculated during the payroll run.

In addition, OSPA will calculate the pay for the full month. Since the employee did not receive payment in the tax year you have indicated, OSPA assumes the full month is due (December has been paid as 2009 wages, not 2010, or vice versa).

EMPLOYEE SEPARATIONS

December Separations

To process a December separation (not an interagency transfer) in OSPA, the following conditions must exist:

- Your agency's Human Resource office must have processed the separation in the PPDB
- The P030 in OSPA must have values in the SEPARATION DT/REASON fields
- The P190 cannot have a November Corr Flag of Y
- The P190 cannot have a December run set for the new tax year

December Separations Prior to December Run 1 – Only OSPS staff members can add, change or delete December check dates on the P010.

- If you will request a manual check, write "please set P010 dates" on your manual check request
- If you will not be requesting a manual check, e-mail or fax a request to OSPS to set P010 dates

IMPORTANT NOTE: If you have set a corrective flag for November and the employee separates before December Run 1, contact OSPS. We must handle this procedure with caution to prevent the November corrective from calculating into the next tax year.

December Separations after December Run 1 – You may receive notice that a non-hourly employee is separating in December after December run 1. If OSPA has already produced a payment for the entire month for the employee, try to cancel and reissue the payment by the last working day in December. If you are able to do so, OSPA will include the final check in the employee's taxable wages for the ending tax year.

- If the employee has direct deposit, OSPS can stop the deposit up to the deadline listed on the OSPS Processing Calendar. You can then request a manual check.
- If the employee will receive a check, ask OSPS to reverse and reissue the check with a December date.

If you are unable to cancel the ACH prior to the deadline or reissue a check prior to the last working day of the month, the employee's payment will be made after January 1 and will be included in the employee's income for the new tax year.

December Separations with Corrections for Prior Months -- Because we need to set December P010 check dates to include the final pay in the current year's wages, we cannot process corrections for prior months in the same payroll run. (See Dates, P010 Check Dates.)

If it is **prior to November run 2 final**:

- If the months to be corrected are still on the P190, make the corrections in the appropriate month(s) and set the P190 corrective flag(s)
- If the months are no longer on the P190 and the correction will increase the employee's wages or the employee will fully repay a net pay negative (see Notes, Overpayments), make the entry on the P050 for the December pay period

If it is **after November run 2 final** and the correction will increase the employee's wages or the employee will fully repay a net pay negative (see Notes, Overpayments), make the entry on the P050 for the December pay period.

December Separations with Direct Deposits – As with normal separations, delete any direct deposits on the P070 for the pay periods that are still on the P190. For year-end, any accidental deposits may result in an incorrect W-2 or manual adjustments on the P050.

December Separations with Oregon Savings Growth Plan (OSGP) Deductions – The PTD1 Payroll Deduction Table lists the maximum annual amount (Deferred Compensation, TSA and FSA Information: maximum amt ytd) an employee may contribute to a deferred comp plan.

Normally, the December deduction would count against the maximum annual amount for the new tax year. If an employee will separate in December and has a DCNN 100 deduction, check the XREF44 Payroll Register – Alpha for the employee's year-to-date OSGP contribution. Add the December deduction to the YTD total. If the resulting total will exceed the maximum amt ytd on the PTD1, work with the employee to adjust or delete the deduction on the P070 Deductions and Deduction Adjustments for the employee's final pay. Notify OSGP of the change.

If the separating employee has a DCNN 600 (catch-up) deduction on the P070, contact customer service at OSGP.

December Separations with PEBB Flexible Spending Accounts -- The PTD1 Payroll Deduction Table also lists the maximum annual amount (Deferred Compensation, TSA and FSA Information: maximum amt ytd) an employee may contribute to a PEBB Flexible Spending Account (Health or Dependent Care).

If an employee will separate in December and has a FDNN or FHNN deduction, check the XREF44 Payroll Register – Alpha for the employee's year-to-date total. Normally, the December deduction would be included in the edit for the next tax year. If, with the addition of the December deduction, the employee will exceed the maximum amt ytd on the PTD1, work with the employee to delete the deduction on the P070 for the employee's final pay.

Separations Prior to December

If you find that you still owe money to an employee who separated prior to December:

- Make the necessary entries on the P050
- When you save the entries, OSPA will give you an error message
- Make a screen print with the entry and error message
- Write "please make entry" on the screen print and sign
- Fax the screen print to OSPS

If the correction is prior to December 31 -- Use 12/31/YY on the P050. OSPS will enter P010 check dates of 12/31/YY. This will calculate the entry in the current tax year.

If the correction is after December 31 -- Use 01/31/YY on the P050. This will produce a check and a W-2 for the new tax year. This complies with Internal Revenue Service regulation 26 U.S.C § 31.3121(a)-2, since the employee will receive the pay in the new tax year.

EMPLOYEE TRANSFERS IN DECEMBER

Normally, you will enter P010 check dates for employees who are transferring from one state agency to another. DO NOT request check dates for December for transferring employees. The IRS considers all

State of Oregon agencies as one employer. Without check dates, OSPA will combine the December wages from both agencies into the December paid January wages and report them in the next tax year.

MAXIMUM AMOUNTS

Oregon Savings Growth Plan (OSGP) -- An employee can request a monthly deferred compensation deduction (DCNN) for a specific amount or a percent of wages. IRC Section 457 establishes the maximum that we may deduct from the employee's pay.

The PTD1 Payroll Deduction Table displays the maximums:

- Maximum Amt Curr = the maximum dollar amount that may be deducted in the current pay period for deferred comp
- Maximum Amt YTD = the maximum dollar amount that may be deducted in the current year for deferred comp

Throughout the year, for employees who have requested a FIXED AMOUNT on the P070, OSPA will edit against the Maximum Amt Curr and the Maximum Amt YTD during the payroll run. It will not deduct more than the maximums defined on the PTD1, even if the P070 reflects a higher amount.

Rather than a fixed amount, the employee may designate up to 100% of gross salary. During the year, OSPA will multiply the employee's gross pay by the PCT GRS. It will then compare the amount calculated to the Maximum Amt Curr and the Maximum Amt YTD on the PTD1. It will not deduct more than the maximum amounts defined on the PTD1, even if the PCT GRS on the P070 would dictate a higher amount.

During the payroll run, if the employee's deduction will exceed the maximum, the employee will be on the E120-042A, E120-052A, E122-042A, E122-046A, and E122-056A Payroll Exception Reports. Possible messages include:

- 5980-DEFCMP MONTHLY EXCEEDS PRETAX MAX
- 5980-DEFERRED MONTHLY AMT EXCEEDS MAX
- 5980-DEFERRED MONTHLY AMT REDUCED
- 5985-LEGIS RETIRE SYS AMT > PRETAX MAX
- 5985-LEGIS RETIRE SYS AMT NOT REDUCED
- 8625-DEFCOMP YTD WILL BE EXCEEDED SOON
- 8625-DEFCOMP YTD REDUCE MONTHLY DED
- 8625-YTD AMOUNT EXCEEDS MAXIMUM
- 8625-YTD AMT WILL EXCEED MAX NEXT MONTH

Unless the employee is separating at yearend (see Employee Separations above), you do not need to change the P070; OSPA will only deduct the allowable amount.

PEBB Flexible Spending Accounts – PEBB offers both healthcare and dependent care flexible spending accounts (FSA's) for eligible employees. FSA contributions are exempt from income, social security and Medicare taxes. Employees use the funds to pay for eligible out-of-pocket healthcare or dependent care expenses. The employee enters an annual amount to contribute to the FSA in PEBB.Benefits (PDB). OSPA makes a pre-tax monthly payroll deduction.

The IRS defines the maximum amount per year that is tax exempt. The PTD1 Payroll Deduction Table, Maximum Amt YTD displays the maximum dollar amount that may be deducted in the current year for a healthcare FSA (FHNN) or dependent care (FDNN) FSA.

For each payroll run, OSPA will edit against the Maximum Amt YTD. During the payroll run, if the employee's deduction is reaching the maximum, the employee will be on the E120-042A, E120-052A, E122-042A, E122-046A, and E122-056A Payroll Exception Reports with the following messages:

- 8625-YTD AMT WILL EXCEED MAX NEXT MONTH
- 8625-YTD REDUCE MONTHLY DED AMOUNT

Near year-end PEBB will begin notifying agencies with employees who may exceed the maximum amount for the year.

Savings Bonds -- The U.S. Treasury limits the annual purchase of paper Series EE savings bonds to \$5,000 (face value of \$10,000) per primary owner. The primary owner is the first person listed on the bond. For example,

- If the employee purchases bonds jointly with a spouse, the \$5,000 limit will apply to the first person listed on the bond.
- If the two spouses each purchase savings bonds through different employers, the \$5,000 limit applies to the primary owner for the total bond purchases.
- If the employee purchases bonds for separate grandchildren or children and puts their names as the first person on the bonds, each has a \$5,000 limit.

During the payroll runs, OSPA will edit for SVNN deductions that will exceed the \$5,000 maximum for the year. If an employee has a P070 SVNN deduction that has exceeded \$5,000 year-to-date, the E120-042A, E120-052A, E122-042A, E122-046A, E122-056A Payroll Exception reports will display the message "8625-SVNN YTD AMOUNT EXCEEDS MAX." If your agency has an employee with this message:

- Confirm that the purchases for the **primary owner** will exceed \$5,000 in the year
- If they will, work with the employee to reduce the P070 deduction or change the P080 purchases

See <http://www.treasurydirect.gov/indiv/research/faq/annualpurchaselimitchangeqa.htm> for additional information.

Social Security Wage Base Limit – The wage base limit is the maximum wage that is subject to social security taxes. For 2009, the limit is \$106,800. Once an employee has the maximum wage in the year, OSPS will not calculate social security taxes on the employee's wages for the rest of the year.

OVERPAYMENTS

If the employee will not repay all or part of an overpayment in the same year that the overpayment occurred, the amount still owed is taxable to the employee for that year. This is because the employee received and had use of those funds during the year.

The timing and circumstances of the repayment dictate how to handle the overpayment at yearend.

Net Pay Negative in December – If an employee has an overpayment and repays it in the December payroll run, we will not do a corrected W-2 for either tax year.

During a regular payroll run:

- If an employee has a net pay negative from a prior pay period **AND**
- The employee has wages for the current pay period,
- OSPA will deduct the net pay negative from the current month's pay

If the employee has a net pay negative from a prior pay period and December wages that will cover it, allow OSPA to make the normal deduction.

Bargaining agreements and OAM 45.50.00 PO and PR describe circumstances where the employee may repay the net pay negative over time. If the employee has a repayment plan or does not have enough wages to cover the net pay negative in December, reverse the entries that created the negative that remains after the November pay period. Work with your agency's accounting staff to set-up an account receivable for that amount.

CAUTION: If you let the negative roll over into the next year, the employee's W-2 for that year will be understated.

The employee's W-2 will include the amount the employee has not repaid. Request a corrected W-2 (W-2c) when the employee has repaid the remaining amount.

Overpayment will cross tax years:

- Reimburse the joint payroll account for the amount the employee has not repaid
- Have your agency's accounting office set-up an A/R to collect the overpayment from the employee

When the employee has repaid the full amount, request a corrected W-2 for the year in which the overpayment occurred. The OSPS Accountant will request a refund of social security and Medicare taxes on behalf of the agency. The employee is not entitled to file an amended return (Form 1040X) to recover the income tax on these wages. Instead, the employee may be entitled to a deduction (or credit in some cases) for the repaid wages on his or her income tax return for the year of repayment. See Recommended Practice, Taxes, Corrected W-2 (W-2c).

Do not make negative P050 entries to correct prior year overpayments; prior year negative P050 entries will understate wages for the current tax year. Instead, ask your agency's accounting staff to set-up an A/R and request a corrected W-2 when the employee repays the A/R.

TAXES

Earned Income Credit (Form W-5) -- A Form W-5 claiming an earned income credit is valid for one calendar year. To continue to receive the earned income credit in the next year, an employee must file a new Form W-5 by January 1. OSPS will distribute the EICRPT Yearly Earned Income Credit for Tax Year YYYY report after October Run 1. The report lists employees who have received an earned income credit in the current year. If you do not receive a new W-5 by January 1 of the new tax year, change the EIC CD to N on the P010 effective for the January pay period.

Exemption from Withholding (Form W-4) -- A Form W-4 claiming exemption from withholding is valid for one calendar year. To continue to be exempt from withholding in the next year, an employee

must file a new Form W-4 by February 15. OSPA prints the E370-06-1 Income Tax Exemptions report each calendar quarter (see the OSPS Processing Calendar). The report lists employees claiming exemption from withholding or more than 10 withholding allowances. For year-end, use the report to identify employees who need to submit a new W-4.

If you do not receive a new W-4 by February 15 for an employee who has claimed exemption from withholding, change the employee's withholding on the P010 prior to the cut-off for February run 1 final. Use the withholding on the employee's most recent W-4 that does not claim an exemption or enter the default values of STAT S and EXEM 00.

If you receive a new W-4 that claims exemption from withholding, send a copy to the OSPS Accountant.

See Recommended Practices, Taxes, Withholding.

Expense Reimbursements – OAM 50.10.00 PO and PR Education Assistance Payments require that OSPA agencies reimburse employees for taxable education expenses through OSPA. They may also choose to reimburse non-taxable education expenses through OSPA.

OAM 50.20.00 PO and PR Moving Expenses require that agencies make all agreed upon reimbursements for employee moving expenses through OSPA, whether taxable or non-taxable.

To include taxable expense reimbursements on the employee's Form W-2 for the correct year, you must enter them on the P050 Gross Pay Adjustments prior to November run 2 of that year.

See Recommended Practice, Taxes, Expense Reimbursements and Fringe Benefits. If you have questions on a particular situation, please call or e-mail OSPS.

Foreign Nationals – Ask any employees who are foreign nationals and who are not legal permanent residents to re-submit the following forms at the beginning of each calendar year:

- OSPS Form 99.01 Determination of Foreign National's Residency with supporting documentation
- If a non-resident alien exempt from income tax withholding under a tax treaty, IRS Form 8233 Exemption from Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual
- If a resident alien exempt from income tax withholding because of a tax treaty, IRS Form W-9 Request for Taxpayer Identification Number and Certification
- If exempt from social security and Medicare taxes because of a Totalization Agreement, Certificate of Coverage from home country

See Recommended Practices, Taxes, Foreign Nationals.

State-Owned Vehicle -- If an employee has the use of a state vehicle and the use of the vehicle is a taxable fringe benefit under OAM 50.30.00 PO and PR Fringe Benefits – Vehicles, the value of that use must be included on the employee's W-2. You may defer reporting the use of the vehicle for November and December to the next tax year. Enter all other months on the P050 prior to November run 2 of each year.

See Recommended Practice, Taxes, Expense Reimbursements and Fringe Benefits. If you have questions on a particular situation, please call or e-mail OSPS.

Exceptions

TROUBLESHOOTING

SUPPORTING DOCUMENTATION / FORMS

IRS Forms, available on the IRS web site, <http://www.irs.gov/>

- Form 8233 Exemption from Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual
- Form W-4 Employee Withholding Allowance Certificate
- Form W-5 Earned Income Credit Advance Payment Certificate
- Form W-9 Request for Taxpayer Identification Number and Certification

OSPS Forms, available on the OSPS web site, <http://oregon.gov/DAS/SCD/OSPS/form.shtml>

- Form 99.01 Determination of Foreign National's Residency
- Form 99.10 Reverse Employee Check
- Request for Corrected W-2 (W-2c)

RESOURCES

IRS Publications, available on the IRS web site, <http://www.irs.gov/>

- Publication 15 (Circular E) Employer's Tax Guide
- Publication 15-A Employer's Supplemental Tax Guide
- Publication 15-B Employer's Tax Guide to Fringe Benefits
- Publication 463 Travel, Entertainment, Gift, and Car Expenses
- Publication 521 Moving Expenses
- Publication 970 Tax Benefits for Education
- Public Employer Tax Guide
- FSLG Taxable Fringe Benefit Guide

Oregon Accounting Manual, http://oregon.gov/DAS/SCD/SARS/oam_toc.shtml

- 40.10.00 PO General Business Travel Expense Rules
- 45.40.00 PO Payment of Employee Expenses through OSPA
- 50.10.00 PO and 50.10.00 PR Education Assistance Payments
- 50.20.00 PO and 50.20.00 PR Moving Expenses
- 50.30.00 PO and 50.30.00 PR Fringe Benefits -- Vehicles

Statewide Human Resource Rules and Policies, <http://oregon.gov/DAS/HR/rules.shtml>

- 40.055.10 Current Employee Relocation
- 40.055.20 New Employee Relocation

OSPA Reference Manual, <http://oregon.gov/DAS/SCD/OSPS/referencemanual.shtml>

- Entry Guide, Leave, Pay Off
- Recommended Practice, Manual Checks

- Recommended Practice, Separating Employees
- Recommended Practice, Taxes, Corrected W-2 (W-2c)
- Recommended Practice, Taxes, Expense Reimbursements and Fringe Benefits
- Recommended Practice, Taxes, Foreign Nationals
- Recommended Practice, Taxes, Withholding
- Recommended Practice, Transferring Employees
- Report Descriptions, EICRPT Earned Income Credit Report YYYY
- Report Descriptions, E370-06-1 Income Tax Exemptions
- Report Descriptions, XREF68N Employees with Negative Amount(s) Listed
- Report Descriptions, B850-01 Nov or Dec Pay Reported in Two Tax Years
- Report Descriptions, E120-052A, E120-042A Payroll Exception Report
- Report Descriptions, E357-030 Separated Employees with Net Pay Positive Adj
- Report Descriptions, E492 Terminated Employees Having Leave Balances
- Screen Descriptions, P010
- Screen Descriptions, P370

Flowcharts for year-end processes (available only at year-end),
<http://www.oregon.gov/DAS/SCD/OSPS/yearend.shtml>

REPORTS

See Report Descriptions in the Reference Manual for more information on these reports.

ANLDEC Deceased Employees Agency Summary – OSPA prints this report after November and December final run 1. It lists any agency employees who have passed away during the calendar year. See Recommended Practices, Deceased Employees.

XREF68N Employees with Negative Amount(s) Listed – The XREF68N lists year-to-date negatives. Each payroll run, review all of the columns on the report. Correct any year-to-date negative amount(s) that would prevent printing of the W-2. If you do not make the correction by December run 2, the employee will not receive a W-2. If you do not know if a negative YTD amount will prevent production of the W-2 or you need assistance in making the correction, please call or e-mail OSPS.

E820-1 Gross Pay Adjustments Outdated, E820-2 Gross Pay Adjustments Beginning after Outdate, E820-3 Duplicate Gross Pay Adjustments – OSPS distributes these reports whenever OSPS runs the automated process to outdate specific kinds of P050 entries. You will receive them after OSPA outdates the DPT/DPN entries in October. See Notes, Automatic Outdates.

E370-06-1 Income Tax Exemptions – The report lists employees who have FEDERAL STAT = N on the P010. These employees must submit a new IRS Form W-4 Employee's Withholding Allowance Certificate by February 15 each year. You will receive the report each calendar quarter. If you do not receive a new W-4 by February 15, change the employee's withholding on the P010. See Notes, Taxes, Exemption from Withholding, and Recommended Practices, Taxes, Withholding.

E560-04-01 List of In/Outdated Deductions – OSPS will distribute this report whenever OSPA automatically outdates a specific deduction type on the P070. See Notes, Automatic Outdates.

B850-01 Nov or Dec Pay Reported in Two Tax Years – OSPA will generate this report when an employee's November or December pay processed in two different tax years. See Notes, Dates, P010.

Work the report as soon as you receive it. It will identify potential overpayments. You may need to request a corrected W-2 if you do not correct the duplicate entries prior to December run two final.

E120-052A, E120-042A Payroll Exception Report – As with other payroll runs, thoroughly review the November and December exception reports, both preliminary and final.

For example, look for:

- Any 1150 "fatal" errors. Correct the errors to prevent OSPA from removing the employee's November or December wages from the year's income.
- 8625-SVNN YTD AMOUNT EXCEEDS MAX for employees who may exceed the maximum of \$5,000 bond purchase per year. See Notes, Maximum Amounts, Savings Bonds above.
- 8625-DEFCOMP YTD WILL BE EXCEEDED SOON, 8625-DEFCOMP YTD REDUCE MONTHLY DED, 8625-YTD AMOUNT EXCEEDS MAXIMUM, or 8625-YTD AMT WILL EXCEED MAX NEXT MONTH. See Notes, Maximum Amounts, Oregon Savings Growth Plan above.
- 8625-YTD AMT WILL EXCEED MAX NEXT MONTH and 8625-YTD REDUCE MONTHLY DED AMOUNT. See Notes, Maximum Amounts, PEBB Flexible Spending Accounts above.
- Employees who have net pay negatives that will cross tax year(s). See Notes, Overpayments.

If you have questions or problems with your exception reports, call or e-mail OSPS.

E357-030 Separated Employees with Net Pay Positive Adj – The report lists employees who have a SEPARATION DT/REASON on the P030 Job Status Data and a positive adjustment to their income that is <\$10.00.

If the adjustment amount is between \$1.00 and 9.99 or there are not current FINAL CHECK ISSUED and FINAL CHECK PERIOD ENDING dates on the P010, either request a manual check or that OSPS adjust taxable income and withholding on the P060 Tax/OPE Adjustments on File. Make the request prior to December run 2.

E492 Terminated Employees Having Leave Balances – The report lists terminated employees who have either a positive or a negative balance for leave types CT, LA, ML, PB, PR, SL, or VA.

If the employee has a positive VA or CT leave balance and is eligible for a pay-off, make the P050 entries prior to November run 2. If you are unable to enter P050 adjustments due to separation, see Notes, Separated Employees above. Your agency may have the policy of writing off fractional balances.

A negative balance for VA, SL or CT may indicate a miscalculation or data entry error in the processing of the final paycheck. You may have overpaid the employee. If the negative balance is significant, recover this overpayment. If the balance is very small, your agency policy may allow you to adjust the balance to zero. See Notes, Overpayments.

E381-30-2 W-2 Distribution List – OSPS distributes this report after Publishing and Distribution, Department of Administrative Services, distributes employee W-2's. It lists the W-2's sent to your agency for distribution to employees. If an employee, who worked for more than one agency during the year, is not on the list, ask the employee to check with the other agency.

EICRPT Yearly Earned Income Credit for Tax Year YYYY – This report lists employees who have EIC CD = J, M, or S on the P010 Withholding Data / Locator Data. The employee must submit a new IRS Form W-5 Earned Income Credit Advance Payment Certificate by January 1 each calendar year. OSPS will distribute the report after October run 1. Use it to identify employees who need to submit a new form. If you do not receive a new form by January 1, change the EIC CD to N on the P010. See Notes, Taxes, Earned Income Credit.

ATTACHMENTS

REVISION HISTORY

Date	Rev. No.	Modification
11/01/07	1.0	Original
11/09/07	1.1	Clarification of timeline and responsibilities
12/04/07	1.2	Add deferred comp to December separations
04/01/08	1.3	WR #3249 XREF68N rename; various clarifications from OSPS e-News issues
10/30/08	1.4	2008 year-end changes
09/23/09	1.5	WR #3346, SVNN maximum edits on exception reports; WR #3395, P190 / P010 year-end dates; 2009 year-end changes