

Department of Accounts

Payroll Bulletin

Calendar Year 2023

November 3, 2023

Volume 2023-07

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

- ✓ **Unadjudicated Flex Account Claims**
- ✓ **CYE Training**
- ✓ **2023 W2 Distribution Forms**

The Payroll Bulletin is published periodically to provide CIPPS agencies guidance regarding Commonwealth payroll operations. If you have any questions about the bulletin, please email payroll@doa.virginia.gov

State Payroll Operations

Director	Cathy C. McGill
Assistant Director	Carmelita Holmes

Unadjudicated Flex Account Claims

Documentation According to IRS guidelines (Revenue Ruling 2003-43, 2006-69), all debit card transactions for medical reimbursement claims must be validated. The TPA is permitted, under the IRS guidelines, to automatically validate (auto-adjudicate) certain transactions. If the TPA cannot auto-adjudicate card transactions, the TPA requests supporting documentation from the employee. If documentation is not received, then the outstanding transaction amounts must be reported to the Internal Revenue Service (IRS) as income on the employee's W-2 form and are subject to all applicable employment taxes (including federal and state income tax withholding and FICA).

In the past W-2Cs were necessary for employees with cafeteria plan adjustments and no other pay in the current calendar year. However, IRS guidance in the General Instructions for Forms W-2 and W-3 (2023) allows employers to report "as wages for income tax withholding and employment tax purposes on the employee's Form W-2 (or W-2C) for the employee's taxable year in which, or with which, ends the cafeteria plan year in which the correction is made." These adjustments are for the Commonwealth's cafeteria plan year that ended June 30, 2023; therefore, taxable wages for 2023 will be increased and W-2Cs for 2022 should be unnecessary.

Reporting Deadline

SPO will provide details to affected agencies in the SPO to Agency folders in SPO SharePoint sometime next week for **processing in the 12/1 pay date. Agencies must enter SPOT transactions for processing unadjudicated amounts for all employees on or before the 11/22, 8 am SPOT deadline. Update Paysheet requests to increase employer FICA for terminated employees and the Balance Adjustment requests to move the tax from the employer balance to the employee balance must also be submitted on or before 8:00 am on 11/22.** Do not hold them until the Update Paysheet deadline. See below for additional information on uncollected FICA.

HCM SPOT Batches

Agencies should use earnings code, UNA – Un-Adjudicated Flex, to update the taxable wages for the amount reported by the Flex Program TPA as un-adjudicated. SPOT Earnings batches should be entered with "A" (annualized) taxing; "1" tax period; and "0" for separate check. Make sure you do NOT treat this as a separate check. Please submit an Update Paysheet form to override the FIT/SIT taxes in the event the taxes due result in NO NET PAY to the employee. FICA taxes cannot be overridden.

Active and Terminated Employees

SPOT transactions must be entered for all active and terminated employees with undocumented Flex claims.

Unadjudicated Flex Account Claims, continued

Corrections

Corrections Employees who dispute the adjustments should be directed to the DHRM Office of Health Benefits (OHB@dhrm.Virginia.gov). Changes to the amounts reported must first be approved by Office of Health Benefits before adjustments to reduce the taxable pay (UNA) are entered. If entered prior to the final pay cert for the calendar year, the FICA taxes will be refunded to the employee. Changes not approved prior to certification of the last payroll for 2023 should be requested during the CYE reconciliation process.

Uncollected FICA

Employer-Paid FICA Employees receiving no other pay when the unadjudicated adjustment is made will have uncollected FICA. HCM does not add the employee amount to the total due to the IRS so agencies will need to submit Update Paysheet Requests for those employees with uncollected FICA. Please increase the amount of the employer's OASDI/HI tax to cover what is due from the employee. It is the agency's responsibility to contact the employee to request 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 must pay on the employee's behalf, thus creating additional taxable income and on and on. (See IRS Publication 15-A, Section 7.)

If collection is not possible or is deemed administratively burdensome, the agency must include the amount of the employee-tax paid by the agency in the employee's taxable wages using the method explained below. Agencies must submit an Update Paysheet Request to add the employee share of FICA to the employer bucket on the payline for payment to IRS. A Balance Adjustment to then transfer the employee share from the employer balance back to the employee balance must also be submitted. **Both documents should be submitted prior to 8 am on 11/22.**

All necessary adjustments must be processed in a timely manner for the taxes to be remitted to the IRS by the Department of Accounts. Failure to process these transactions will require payment of the taxes to the IRS via EFTPS at CYE. If payment is made through EFTPS, DOA will process the Cardinal transactions to create the payments and charge the agency. Copies of the transactions will be provided to the affected agency.

Calculations for EPT, Employer-Paid Tax

General guidelines to increase 2023 Taxable Wages for non-cash taxable fringe benefit adjustments when there will be no further pay in 2023 or uncollected FICA remains uncollected:

1. Calculate the "Grossed Up" unadjudicated amount (UNA) by dividing the amount of the unadjudicated amount by .9235
2. The amount of the unadjudicated taxable adjustment has already been entered using the UNA earnings code in a SPOT batch.
3. Enter the difference between the grossed-up amount and the actual amount of the unadjudicated adjustment in an earnings SPOT with code EPT.

If the employee repays the agency for the taxes paid on their behalf by the agency, the amount of the repayment is based **only** on the original uncollected FICA amount. If the repayment is received prior to the end of regular processing for 2023, a SPOT transaction to back-out EPT is performed. If the repayment is received after final regular processing for 2023 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 2023.

Uncollected FICA, continued

Employer-paid Tax Example Example 1: An unadjudicated flex adjustment (UNA) has been processed in HCM to increase employee's 2023 taxable wages by \$713.86. Additionally, an Update Paysheet request was submitted to increase the amount of the employer-paid FICA to cover the uncollected (not the amount based on the "grossed up" amount) FICA taxes and the Balance Adjustment was submitted to move the employer-paid FICA from ER to EE. However, nothing has been entered to record the taxable income generated by taxes paid for the employee by the employer. Therefore, the amount of EPT, Employer Paid Tax, must be determined and an additional SPOT transaction for the grossed up taxes not previously processed must be entered.

- a. SPOT transaction for UNA in the amount of 713.86 is entered in HCM
- b. $713.86 * .0765 = 54.61$; 54.61 submitted on Update Paysheet Request with 88.52 (EE+ER) "override" in OASDI/Disability ER and 20.70 "override" in FICA Med Hospital Ins ER. Balance Adjustment to reduce 44.26 in OASDI/Disability ER and increase 44.26 OASDI/Disability EE and reduce 10.35 in FICA Med Hospital Ins ER and increase 10.35 in FICA Med Hospital Ins EE has also been submitted.
- c. 713.86 (UNA) divided by $.9235 = 772.99$ (grossed up amount)
- d. 772.99 minus 713.86 (UNA) = 59.13 (value of employer paid tax)
- e. 59.13 is entered in SPOT using EPT earnings code
- f. $59.13 - 54.61$ (44.26 and 10.35 already entered Update Paysheet) = 4.52
- g. OASDI tax: 59.13 multiplied by $.062 = 3.67$
HI tax: 59.13 multiplied by $.0145 = .86$
Combined total of OASDI/HI: $3.67 + .85 = 4.52$
- h. Submit Update Paysheet Request to override OASDI/Disability ER for 7.34 and 1.70 override for FICA Med Hospital Ins ER. Submit Balance Adjustment to move from ER to EE.

Note: Remember that the amount of FICA repayment from the employee would be determined using the original tax rates (713.86 multiplied by $.0765 = 54.61$).

FICA Gross Up A spreadsheet to calculate the grossed up amount of FICA has been provided on the DOA Forms web page in the HCM Forms section: FICA Gross-Up for Terminated Employees

The spreadsheet includes instructions for entering the information in HCM. Timing is critical to ensure taxes are processed and applied correctly.

Calendar Year End Training

November 29, 9 am – 3 pm State Payroll Operations will conduct an in-person Calendar Year End Training session in Conference Room B, Monroe Building, 101 N 14th ST, Richmond, VA on Wednesday, November 29 from 9 am – 3 pm. To register, please send an email to payroll@doa.virginia.gov no later than Monday, November 27, and reference CYE Training in the subject line. Include your name, phone number and agency name. An agenda will be provided later.

2023 W2 Distribution Form

Due 11/15 Please complete and return all W2 Distribution forms for 2023 to payroll@doa.virginia.gov no later than close of business, Wednesday, November 15. The form is available on the DOA Payroll Operations Forms page under the Quarterly Reconciliation section.
