



# OVERPAYMENT/CLAIM PROCESS

## JOB AID PY-8

PY

The purpose of this job aid is to explain the overpayment/claim process.

An overpayment claim occurs when there are not enough new earnings in an employee's current payroll to recoup all of the overpayment from prior payroll period(s). Payroll automatically generates WT/561(Claim) to create a receivable in OSC's general ledger and reduce the agency's salary expenses. The OSC Claims staff clears the claim to reverse the receivable from OSC's general ledger and charge the agency for the overpaid wages. It is then up to the agency to pursue collecting the overpayment from the employee(s).

Each agency is responsible for adhering to OSC's Statewide Accounts Receivable Program policies for reporting and collecting accounts receivables.

Article 3H.

Overpayments of State Funds.

§ 143-64.80. Overpayments of State funds to persons in State-supported positions; recoupment required.

(a) An overpayment of State funds to any person in a State-funded position, whether in the form of salary or otherwise, shall be recouped by the entity that made the overpayment and, to the extent allowed by law, the amount of the overpayment may be offset against the net wages of the person receiving the overpayment.

(b) No State department, agency, or institution, or other State-funded entity may forgive repayment of an overpayment of State funds, but shall have a duty to pursue the repayment of State funds by all lawful means available, including the filing of a civil action in the General Court of Justice. (2003-263, s. 1.)

<https://www.ncosc.gov/state-agency-resources/statewide-accounts-receivable-program>

OSC Claims staff clears overpayment claims after each payroll finalizes. Terminated employees' claims are cleared first, followed by employees on Leave of Absence (LOA). Employees in an Active Status are cleared only upon request from the agency.

Agencies can view the claims clearing entry on the Off-Cycle Workbench. Claims clearing entries are identified as a BONUS PAYMENT, which is pay type A.

Reason	Amount	Crcy	Payroll period	SeqN...	Pay...
	1,589.60	USD	03/01/2013 - 03/31/2013	01243	
Bonus payment	0.00	USD	03/06/2013	00999	A
	0.00	USD	02/01/2013 - 02/28/2013	00998	
	310.67	USD	01/01/2013 - 01/31/2013	00988	
	1,712.88		12/01/2012 - 12/31/2012	00976	

A Bonus Payment indicates the overpayment expense has been charged back to the agency's budget. The cost distribution on the position is used to generate the expense posting to the agency's general ledger. This entry does NOT change the employee's pay.

## **Notifying the Employee**

The OSC Claims staff sends a notification letter to the agency payroll contact as claims are cleared. This letter is intended for the **agency use only** and should not be forwarded to the employee without additional agency instructions. Suggested topics for an agency specific employee letter include:

- Explanation of how the overpayment occurred
- Repayment instructions
- Installment agreement information
- Consequences of failure to make repayment
- Interest and penalties that may be assessed by the agency
- Agency contact for questions and concerns **(This should not be BEST.)**

For employees who repay the entire claim amount in the same calendar year that the claim occurred, OSC is allowed to reduce the employee's taxable wages for that year and recalculate tax withholding amounts. Therefore, the employee repays the overpayment Net, federal and state taxes, and any deductions.

OSC sets the date by which repayment must be received for it to be posted through the payroll system in the current year. This date is listed on OSC notification letter. If the claim repayment is received after this date, it is processed in the following calendar year. The employee must repay the Gross amount because tax laws prohibit OSC from processing tax withholding refunds through payroll for prior years. In this case, IRS guidelines require the overpaid wages to be included in the employee's W-2.

OSC also uses any refund of the employee's 6% retirement deduction from ORBIT to reduce the overpayment amount.

An example of an OSC notification letter is on the last page of this document.

## **Collecting from the Employee**

It is the Agency's responsibility to ensure the money due is collected and remitted to OSC for processing.

Overpayments can be repaid to the agency by these three methods:

- (1) The employee receives additional earnings, payouts, or deduction refunds which the payroll system automatically applies towards the overpayment balance.  
**Note:** Short-term disability payments are excluded from being used to repay regular salary overpayments (payments that were received under regular payroll processing) unless the employee gives OSC written permission. STD overpayments (overpayment of the STD benefit) deductions do not require approval.
- (2) The employee provides a check or money order payable to the agency for the full overpayment amount. OSC does not accept partial payments from the agency.
- (3) The agency agrees to an installment repayment plan with the employee. OSC is not a party to the installment agreement. The agency should provide the employee with a statement at least annually of payments received and the remaining balance.

- a. For an active employee or an employee returning to active status, the agency **can** transfer the payment via NCFS for the FULL amount due on behalf of the employee. This prevents the payroll system from automatically applying the employee's next paycheck to the overpayment balance. The agency then uses the Agency Check Deduction(26AC) code to collect from the employee's future pay checks based on the installment agreement.
- b. Terminated employees or inactive employees with no earnings should pay the agency directly based on the installment agreement. Once the full amount has been received, the agency remits a transfer in NCFS to Office of State Controller. OSC does not accept partial payments.  
**Note:** If an employee is reinstated to a different agency before the overpayment is repaid in full, payroll will apply future earnings at the new agency to the overpayment balance automatically. The agency holding a partial repayment amount from an installment agreement must refund the employee any amount over collected.

Best practice is the agency should contact OSC to verify the current repayment balance before sending payment.

### **Posting the Repayment**

Once full repayment is received at OSC, the OSC Claims team adjusts the employee's taxable wages. If the repayment is for a current year claim, the employee's current year taxable wages are reduced. This reduction is reflected in the employee's W-2.

If the repayment is for a prior year, a prior year dated manual entry is made in the payroll system. This prior year entry generates a W-2 Correction (W-2C) form for the applicable tax year (up to three years from current tax year). The W-2 C updates only the employee's Social Security and Medicare taxable wages. The employee's federal and state taxable wages for the prior year do not change.

OSC prints W-2Cs three times annually. The W-2C is mailed to the most current address on record for the employee in the payroll system.

Applying the repayment in the payroll system generates General Ledger entries to reduce the agency salary expenses and applicable employer matching costs.

### **Tax References**

Employees repaying an overpayment often ask OSC for information about reporting the overpayment on their tax returns. While OSC cannot give tax advice, the following paragraph is from **IRS Publication 15 Employer's Tax Guide**:

**Employee reporting of repayment:** The wages paid in error in the prior year remain taxable to the employee for that year. This is because the employee received and had use of those funds during that year. The employee is not entitled to file an amended return (Form 1040X) to recover the income tax on these wages. Instead, the employee is 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.

**IRS Publication 525 Taxable and Nontaxable Income** gives instructions to determine the deduction or credit amount and how to include it on a tax return. Employees should consult their tax professional for assistance.

**Example of OSC's claims notification letter to the agency payroll contact:**

	Date
<b>Agency</b>	
Attention:	Agency Payroll Contact
	Address
	City, State Zip
RE: Employee Name	Employee Number
Action (Separation or Leave of Absence)	
OVERPAYMENT OF WAGES	
	Year overpayment occurred:
<p>A claim has been identified for the above-named employee. Since the employee is not active, this claim cannot be resolved through normal payroll deductions. Should the employee receive any type of earnings this letter becomes null and void.</p>	
<p>If the payment is received this calendar year, taxable wages are reduced and any credits will be used to reduce the amount owed.</p>	
<b>Gross Overpayment Amount</b>	\$188.36
Increased by prepaid garnishment:	\$ -
Reduced if paid current year:	Deduction credits: \$ 11.30
	Credits to taxable <u>\$ 14.41</u>
<b>Total due if paid by: mm/dd/yy</b>	wages: <u><b>\$ 162.65</b></u>
<b>Gross Overpayment Amount</b>	\$188.36
Increased by prepaid garnishment:	\$ -
Reduced if paid current year:	Deduction Credits: \$ 11.30
<b>Total due if paid by: mm/dd/yy</b>	<u><b>\$ 177.06</b></u>
<p>Agencies please make payments to the Office of the State Controller, via <b>NCFS</b> for the <u><b>FULL</b></u> amount due.</p>	
<p>***Employees should not send payments to the Office of the State Controller***</p>	