Lesson 11: Arrearages

Scenario

In this lesson, the SHARP trainer, Hall, will show the newly hired Payroll Processor, Kelly, how to maintain arrearages in SHARP.



Hall



Kelly

Lesson Objectives

After completing this lesson, you will be able to:

- Understand the purpose of arrearages
- Learn different types of arrearages and their tax treatment
- Monitor arrears balances using reports
- View an employee's arrears balances by deduction code
- Set up a maximum arrears payback deduction
- Process personal reimbursements

Lesson 11: Arrearages

Lesson Topics

In this lesson you will learn about the following topics. Click **Home** (at the lower left corner) at any time to return to this menu. Click each topic name to navigate to that topic.



Causes of Arrearages

An arrearage occurs when an employee owes the State of Kansas for an earnings overpayment, certain missed deductions, or does not have sufficient gross to allow certain deductions.

An arrearage can be created in either the on-cycle or the off-cycle process. It can also be created by centrally entered adjustments or agency adjustments.

Two Types of Arrearages

Due to differences in tax treatment, there are two types of arrearages in SHARP, represented by two deduction codes: ADVNCE and ADJUST.

If the arrearage is created as a result of an advanced earnings (ADV) to allow certain deductions to be taken, it will show as deduction code ADVNCE in the Arrears Balances page. The ADV earnings will display on the Paycheck Earnings page and be added to the employee's **before tax earnings**.

If the arrearage is the result of a paycheck adjustment (ADJ), the arrearage will display under deduction code ADJUST in the Arrears Balances page and as ADJ on the employee's Paycheck Earnings page. **This type of arrearage transactions will not impact taxes**.

Centrally processed adjustment, depending on the nature of the transaction, can use either ADV or ADJ to set up the arrearage.

Arrearages Created in the Advance of Earnings (ADV) Process - 1

In the advance of earnings (ADV) process, if an employee does not have sufficient gross to allow medical, dental, or vision insurance, flexible spending accounts (FSA), health savings account (HSA), legislative KPERS, legislative KPERS buyback, or optional group life insurance deductions, the system will automatically increase the employee's earnings to cover the deductions. The advance of earnings will show as ADV on the employee's Paycheck Earnings and is added to total gross and to the taxable gross. **The arrearage balance for the deduction code ADVNCE is also increased by the advanced amount**.

The "advance" of earnings will not be considered compensation for purposes of benefits, i.e., retirement, state leave assessment, or workers compensation.

❑ Arrearages Created in the Advance of Earnings (ADV) Process - 2

When the arrearage is collected, the taxable grosses and the arrearage balance for the deduction code ADVNCE will be reduced by the amount of arrearage payback. **The amount of ADV will be equal to the total of the before-tax deductions not taken or 1.41 times the amount of the after-tax deductions not taken.**

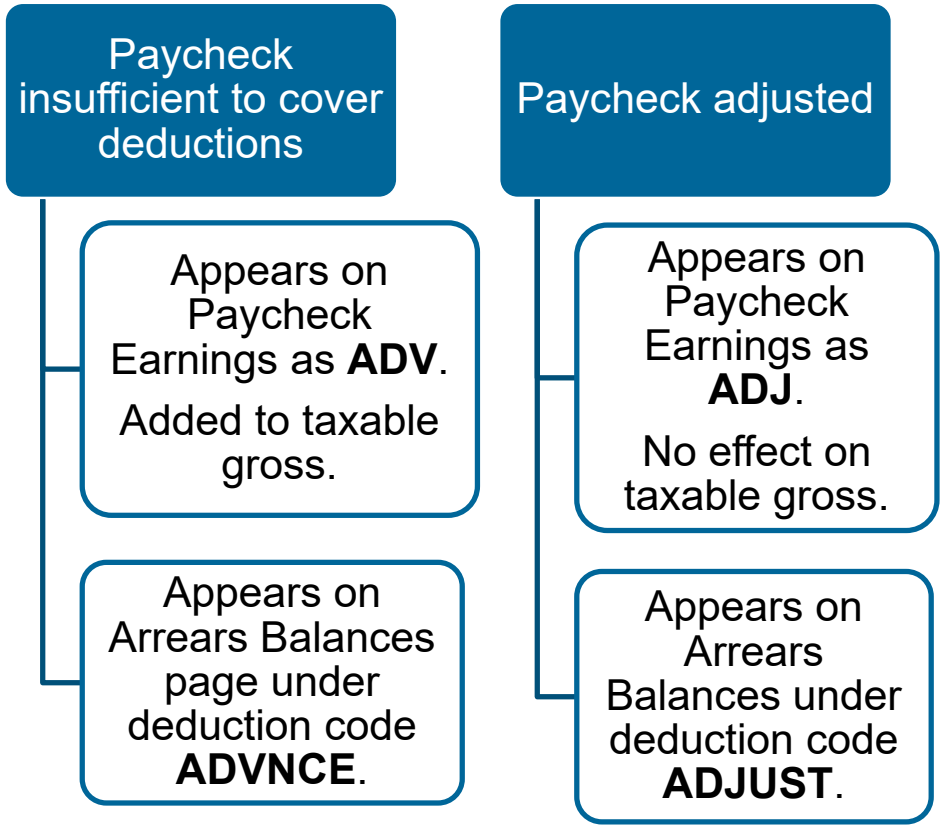
Deductions NOT Included in the Advance of Earnings (ADV) Process

NO advance of earnings or arrearages will be created by the system for deductions calculated as a percentage of gross, such a KPERS, TSA, or VTSA in the on-cycle or the off-cycle payroll. No arrearages will be established for United Way, organizational dues, deferred compensation, parking, tax withholding, Voluntary Supplemental Insurance, Long Term Care Insurance or garnishment deductions not taken due to insufficient net pay. Employees will be responsible for arranging payment with the organizations involved with these deductions.

❑ Arrearages Created In The Paycheck Adjustment (ADJ) Process

In the paycheck adjustment (ADJ) process, an arrearage will occur if the net pay calculated on the adjustment check is determined to be less than the net pay on the original check. This can occur from reduced earnings, increased taxes, or increased deductions. The difference in net pay between the original paycheck and adjusted paycheck will show as ADJ on the employee's earnings, **and an arrearage will be created under the deduction code ADJUST**. When the arrearage is collected, the arrearage balance under the deduction code ADJUST will be reduced. **There is no effect on taxable gross when the earnings code ADJ or deduction code ADJUST is used.**

When Arrearages Are Created



When Arrearages Are Collected

ADVNCE deduction code

- Appears on paycheck as **ADVNCE** in Paycheck Deductions.
  Will reduce taxable gross.
- Will reduce the EE's deduction code **ADVNCE** arrears balance.

ADJUST deduction code

- Appears on paycheck as **ADJUST** in Paycheck Deductions.
  No effect on taxable gross.
- Will reduce the EE's deduction code **ADJUST** arrears balance.

Monitoring Arrears Balances - 1

It is very important that agencies review their arrearage balances on SHARP reports and take the appropriate action to resolve the debt in an expedient manner. Informational Circular No. 00-P-020 and 14-P-026 found at https://www.admin.ks.gov/resources/informational-circulars detail the policies and procedures for handling salary overpayments and uncollectible arrearages.

Two reports are available for download from the agency's MVS mailbox:

The **PAY007**, Deduction in Arrears report, is run **after every off-cycle**. This report lists the arrears balance by employee for every employee in the agency with an arrears balance in SHARP. You can view the PAY007 report details at https://admin.ks.gov/docs/default-source/payroll/sharp-9.2/PAY007.pdf.

Monitoring Arrears Balances - 2

The **PAY008**, Deductions Not Taken report, details located at https://admin.ks.gov/docs/default-source/payroll/sharp-9.2/PAY008.pdf, is generated **after every on-cycle pre-calculation, and final calculation.** This report lists employees who have had deductions omitted from a particular pay period. Agencies should monitor the on-cycle pre-calculation report to determine which, if any, deductions were not taken from the employee's paycheck if there is an existing arrearage balance. Arrears balances will appear on the report. However, the arrears balance will not yet be reduced by any arrears collections on the employee's current check.

Agencies should especially note if the report includes deductions which trigger the advance earnings process (GHI, FSA, HSA, Legislative KPERS, Legislative KPERS buyback, and OGL). The report could include these deductions in two instances: 1) if there is a tax garnishment, or 2) when the employee's earnings are not sufficient to allow both the federal/state additional withholding and the deduction being advanced to be taken.

Monitoring Arrears Balances - 3

Agencies have access to a couple queries that will help them monitor Advanced Earnings and arrearage collection deductions during the on-cycle pay calculation. The queries can be used in conjunction with the PAY007 and PAY008 to monitor arrearages. These queries run against only the on-cycle paychecks.

“Checks with ADV Earnings” will show any of the agency’s employees who have that earnings code on their paycheck. Any questions regarding the amount or validity of the advance should be directed to the Office of Accounts and Reports, Payroll Services Section.

“Checks with ADVNCE/ADJUST Deds” show the agency’s employees who have an arrearage collection on their on-cycle paycheck. This should be monitored to determine if the amount collected is too large, causing a hardship for the employee. If so, then the agency should enter a Maximum Arrears Payback. If the deduction can be collected in its entirety, then no

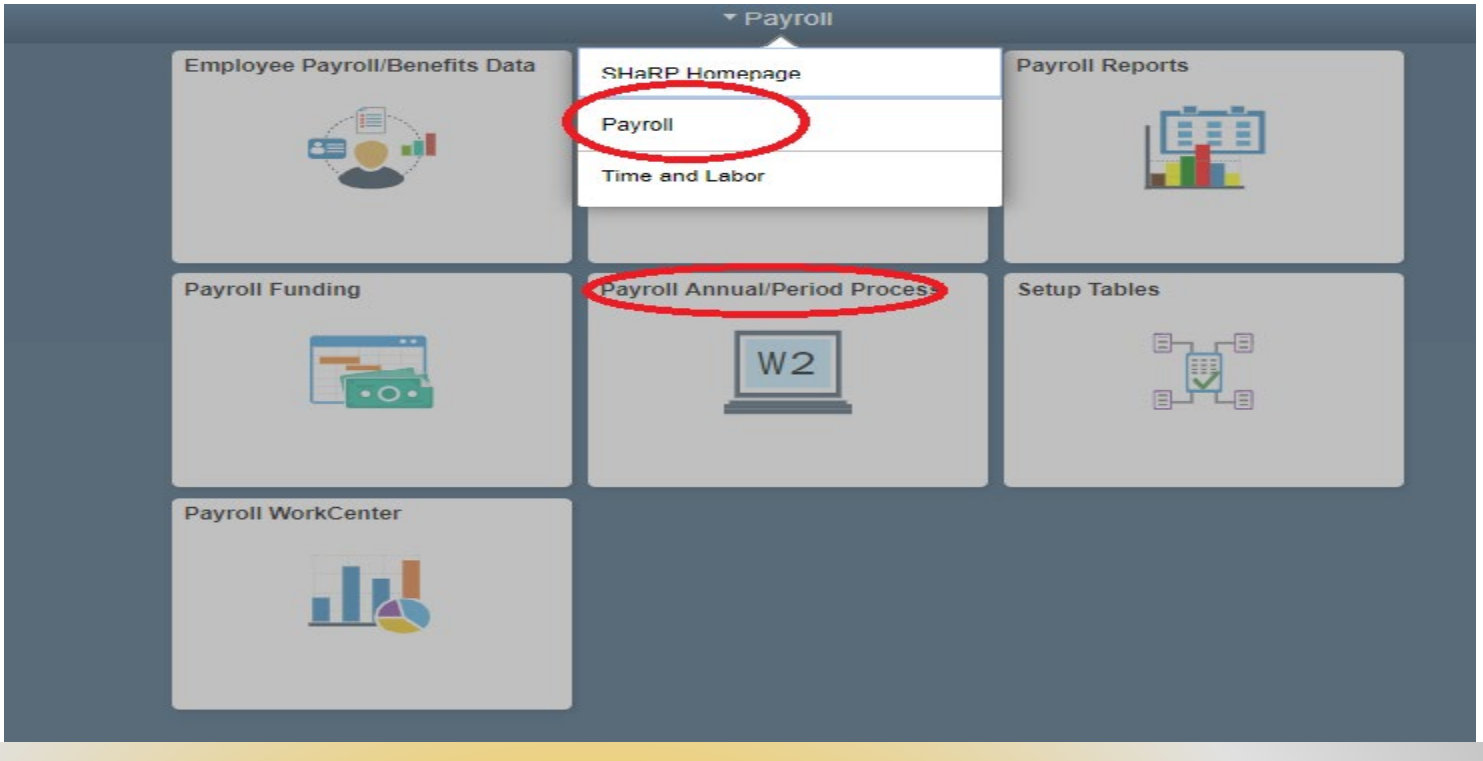
Monitoring Arrears Balances - 4

further action would be needed from the agency.

The Office of Accounts and Reports, Payroll Services Section, will monitor these arrearage queries during the on-cycle calculations. Agencies will be notified if any action on their part is needed. If problems still occur after final pay calculation, the agency will be notified of any adjustments to be processed to correct deductions.

Viewing Arrears Balance Details Online - 1

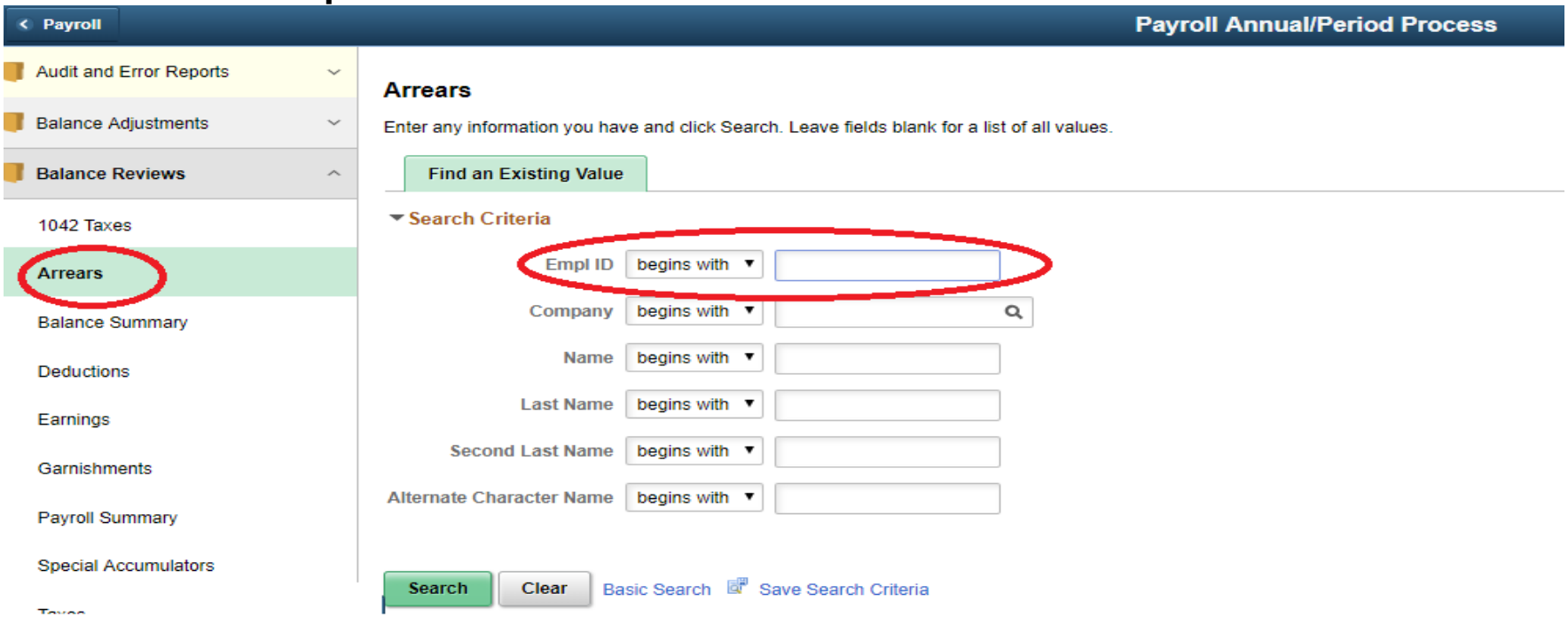
You can view an employee's arrears balance by deduction code or check if any adjustments are made to the arrears balance online New Location: **SHaRP Homepage** click the drop down arrow select **Payroll** Homepage**,** click **Payroll Annual/Period Process** tile**> Balance Review> Arrears**



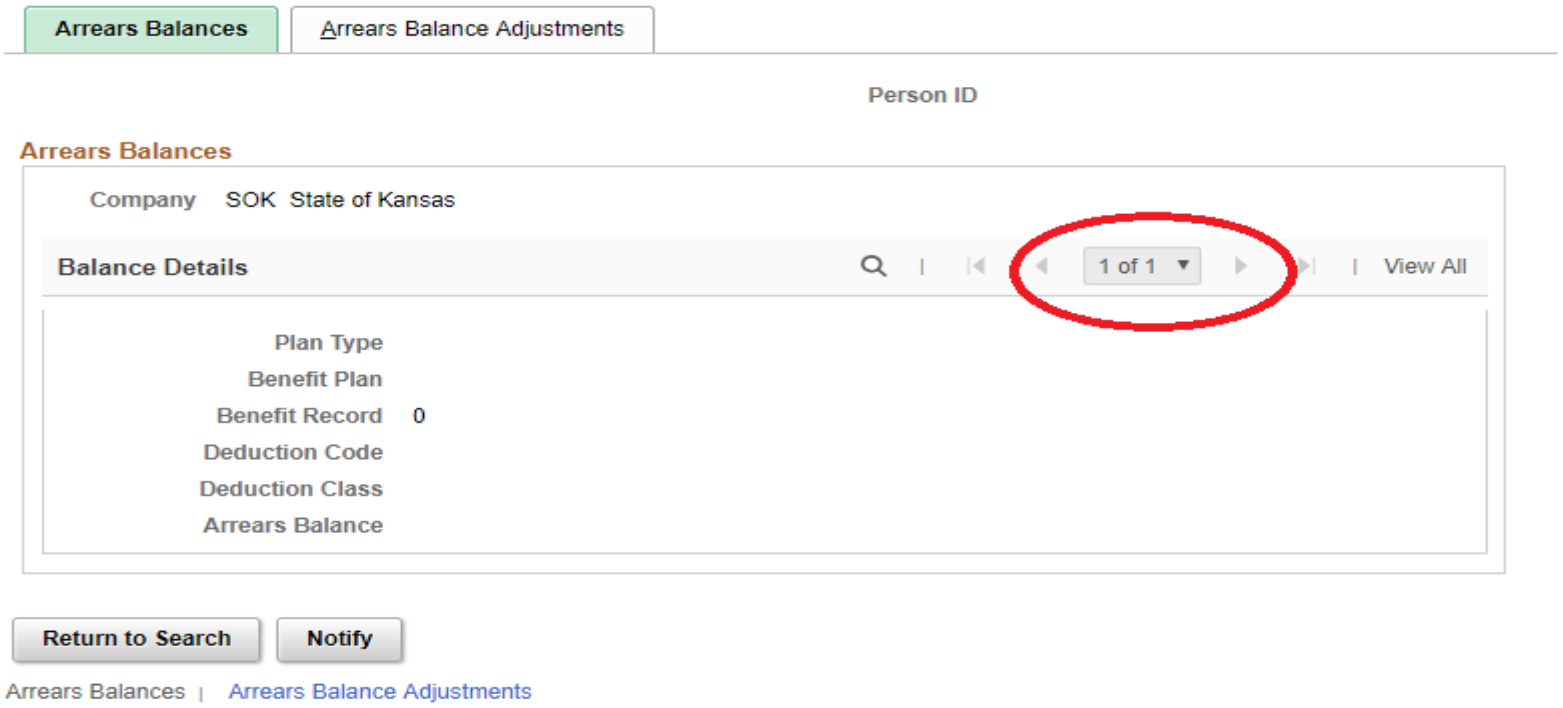
Viewing Arrears Balance Details Online - 1 Cont.

Payroll Annual/Period Process tile**> Balance Review> Arrears** page on the left side navigation

Search Criteria Empl ID

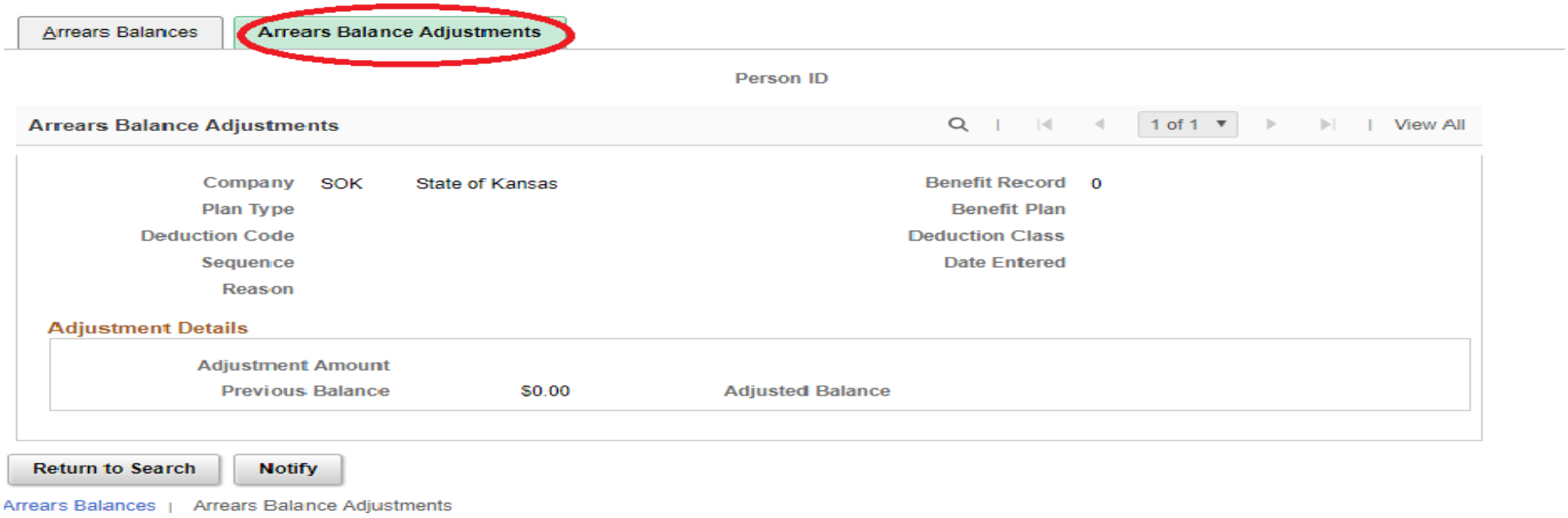


Viewing Arrears Balance Details Online - 2



If the employee has more than one arrears deduction code, click the arrow button to view additional rows or view all.

Viewing Arrears Balance Details Online - 3



Arrears Balance Adjustments tab to access that page. **Warning:** The Arrears Balances should never be adjusted to correct or delete an arrearage balance that is the result of an incorrect adjustment. If an adjustment is processed that sets up an erroneous balance, you must send Form DA-180 to the Payroll Services to assist you with the necessary correction.

Arrears Payback Overview

All arrearage related transactions will be treated as "current year". Employees will not be issued a Form W-2C, Statement of Corrected Earnings, when arrearages are established or refunds are issued for deductions which should have occurred in a prior calendar year. Therefore, it is imperative that agencies ensure that all balances are collected by the end of the calendar year.

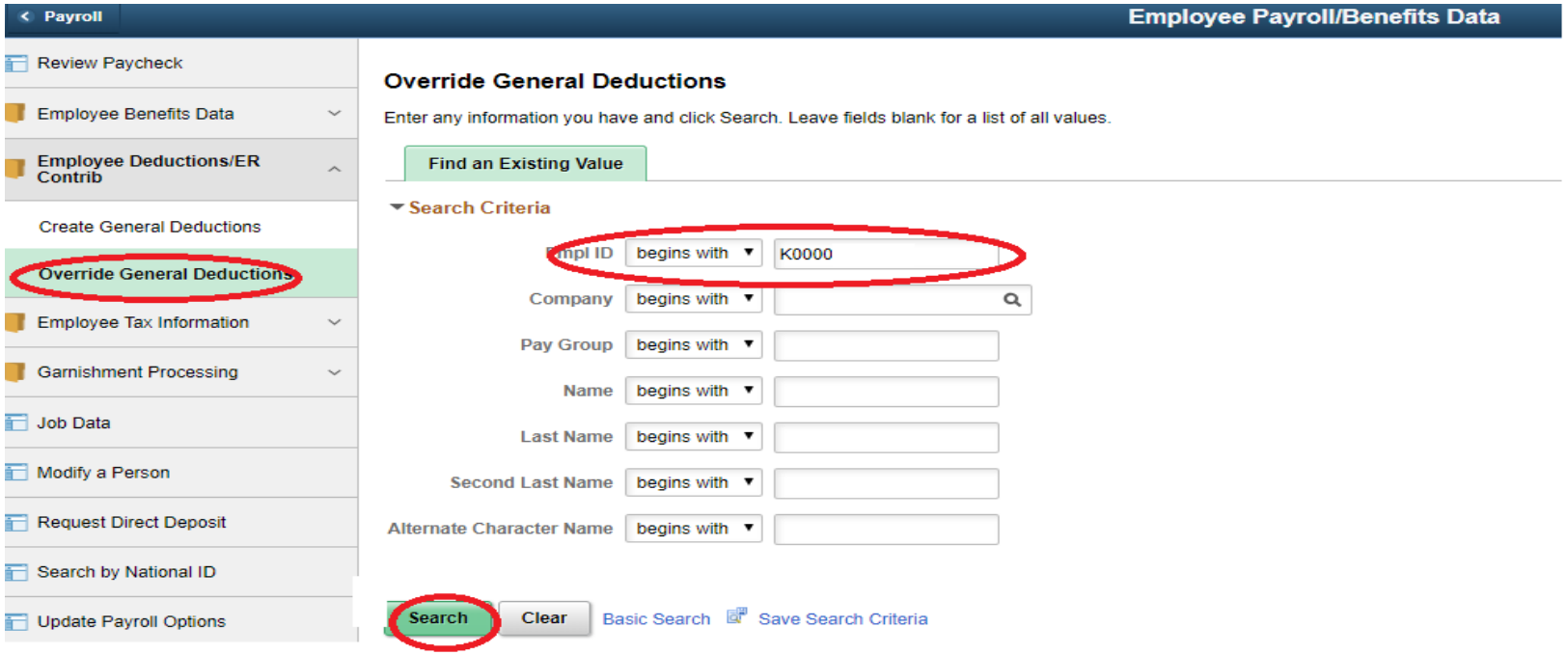
The entire arrears balance will be collected from the employee's next paycheck unless a maximum arrears payback is established to specify the maximum amount per pay period to collect on the arrearage. If the arrearage amount is significant and a Maximum Arrears Payback Schedule is necessary, you should complete Form DA-179, Arrears Payback Schedule, for your agency's payroll documentation, then set up the maximum arrears payback schedule using the procedures to be discussed next. Form DA-179 can be found at https://www.admin.ks.gov/resources/document-center.

Setting Up A Maximum Arrears Payback - 1

The maximum arrears payback should be entered before final pay confirmation of the first on-cycle or supplemental paycheck being issued to the employee following the payroll run which established the arrearage obligation. If the maximum arrears payback is entered after the first pay calculation, you must first change the employee's tax data.
New Location: **SHaRP Homepage** click the drop down arrow to select the **Payroll** Homepage**.** Then click the **Employee Payroll/Benefits Data** tile**>Employee Tax Information> Update Employee Tax Data** using a future effective date, then immediately go back and delete the row, in order for SHARP to pick up the payback schedule.

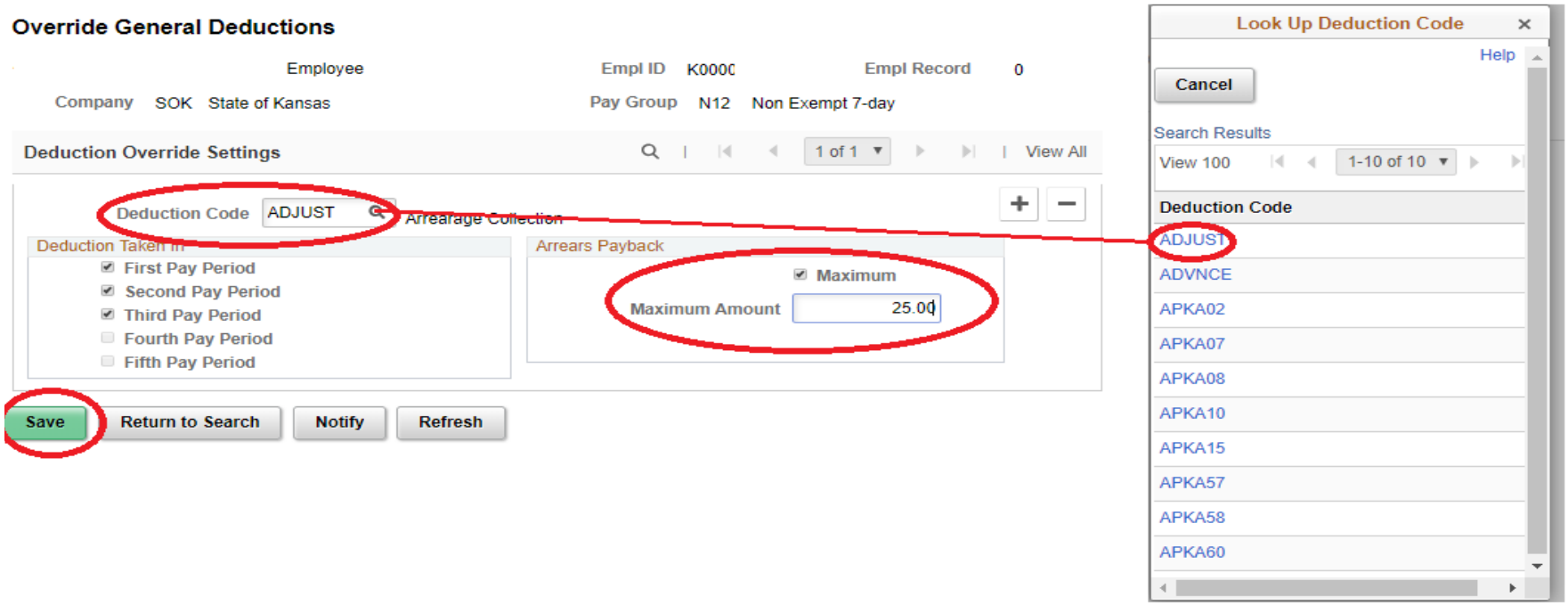
Maximum arrears paybacks are entered on the Override General Deductions page.
New Location: **SHaRP Homepage** click the drop down arrow to select the **Payroll** Homepage**.** Then click on the **Employee Payroll/Benefits Data** tile**>Employee Deduction/ER Contrib>Override General Deductions**

Setting Up A Maximum Arrears Payback - 2



Click on the drop down arrow under Employee Deductions/ER Contrib folder, select Override General Deductions.
Enter Criteria Emp ID, click Search

Setting Up A Maximum Arrears Payback - 2



The maximum arrears payback, either ADVNCE or ADJUST, must be entered separately for each deduction code. Enter the **Deduction Code**, check on the **Maximum** box, enter the **Maximum Amount** to be deducted from each paycheck for the arrears payback, then click on **Save**.

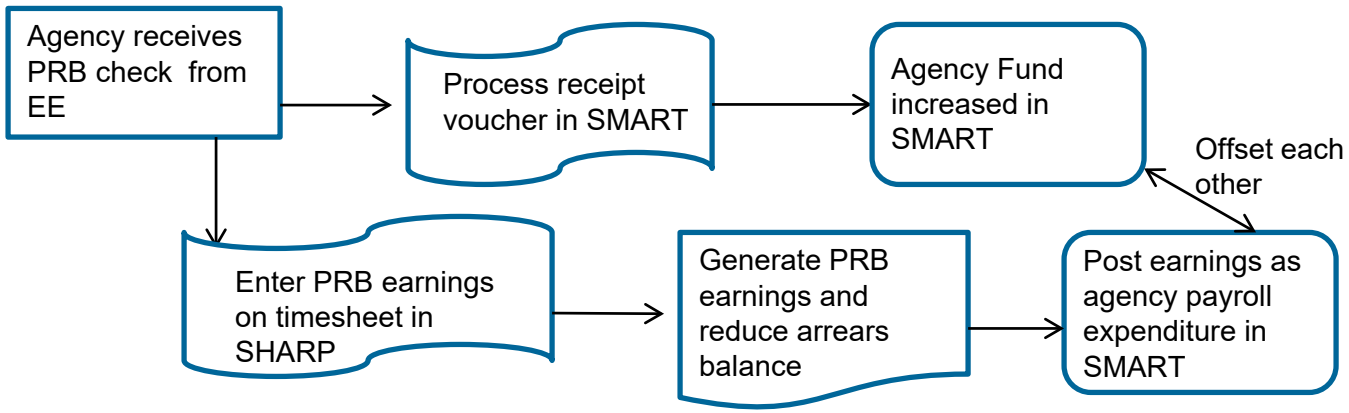
Processing Personal Reimbursements - 1

The method of processing personal reimbursements for both the ADJUST and ADVNCE deduction codes is through the timesheets using the following steps:

1. Deposit the monies into the agency fund from which the employee's pay was funded by preparing a receipt voucher in SMART. The coding for the receipt should be the agency fund used for the employee's paycheck, the expenditure account code used for regular earnings (i.e., 510100 or 511100), and a negative dollar amount.
2. Enter the reimbursement amount using PRB earnings code on the timesheet in SHARP.
3. Verify paycheck information during the preliminary payroll calculations for employees who have the "**PRB**" earnings code and arrearage collections identified as deduction code "ADVNCE" or "ADJUST", for the same dollar amount.

Processing Personal Reimbursements - 2

Following is the flow chart of the personal reimbursement process.



Processing Personal Reimbursements - 3

It is critical that the agency enters the personal reimbursement on the timesheet for the first on-cycle or supplemental paycheck being issued to the employee following the payroll run which established the arrearage obligation. In doing so, the personal reimbursement and arrearage collection will be offset on the same paycheck and will not result in an increase or decrease in net pay for the employee. If the personal reimbursement is not entered timely, the arrearage will be collected from the employee's paycheck and the agency will have to refund the personal reimbursement to the employee on a SMART payment voucher.

If a personal reimbursement is collected when there will be no future checks for the employee, the agency should send a completed form DA-180, SHARP Paycheck Reversal/Adjustment/ Supplemental with a copy of SMART receipt Voucher, to Payroll Services. Form DA-180 can be found at https://www.admin.ks.gov/resources/document-center.

Lesson Checkpoint

Now is your opportunity to ensure that you are learning the course material. After you read the question, make your selection, then compare your response to the correct answer provided at the bottom of the page.

Lesson Checkpoint 1



Which of the following deductions will automatically trigger the arrearage process when an employee does not have sufficient net pay to allow certain deductions and their corresponding employer contributions to be taken?

A) Organizational dues, savings bonds, United Way and deferred compensation.

B) Group health insurance, flexible spending accounts, legislative KPERS, Legislative buyback, and optional group life insurance.

C) None of the above.

The correct answer is B. GHI, FSA, legislative KPERS, legislative buy back, and optional group life insurance will trigger the arrearage process.

Lesson Checkpoint 2



To avoid having the entire arrearage taken out of the employee's next paycheck, a maximum arrears payback must be entered:

A) after final pay confirmation of the first on-cycle or supplemental paycheck being issued to the employee following the payroll run which established the arrearage obligation.

B) after the paysheet creation of the first on-cycle or supplemental paycheck being issued to the employee following the payroll run which established the arrearage obligation.

C) before the final pay confirmation of the first on-cycle or supplemental paycheck being issued to the employee following the payroll run which established the arrearage obligation.

The correct answer is C. The maximum arrears payback must be entered before the employee's next on-cycle or supplemental check is generated.

Lesson Checkpoint 3



Where is a maximum arrears payback entered?

A) The Override General Deductions page

B) The Create General Deductions page

C) The Adjust Arrears Balance page

The correct answer is A. Maximum arrears paybacks are entered on the Override General Deductions page.

Lesson 11: Arrearages

Lesson Summary



Due to differences in tax treatment, arrearages in SHARP are represented by two deduction codes: ADVNCE and ADJUST. The ADJUST type will not impact taxes.



Maximum arrears payback schedule can be set up so that the system will not attempt to collect the entire arrearage from the employee's next paycheck.



Agencies should monitor arrearages using the PAY007, Deduction in Arrears report, and the PAY008, Deductions Not Taken report.

In this lesson, I walked you through two types of arrearages, how to monitor arrears balances, and the arrearage collection procedures. On the left are some key concepts discussed in this lesson.



Lesson Completion

Congratulations! You have finished the lesson.

