

**Modifications to the
Tax Treaty Limit**

Service Request # 14890

**Office of the President
University of California
Payroll Coordination
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Attachments:

Attachment 1- Report of Employees Who Have Exceeded the Tax Treaty Limit

I. Purpose

The purpose of this document is to request modifications to the current process that limits tax treaty benefits to nonresident alien students or trainees.

II. Overview

Nonresident alien students or trainees from countries with which the United States (U.S.) has a tax treaty agreement can exclude some or all of their income from Federal income tax withholding under the terms of the student and trainee tax treaty agreements between the U.S. and their country of residence. These tax treaty agreements are limited to specific dollar amounts per calendar year.

III. Current Process

Nonresident alien students or trainees while exempt from Federal income tax withholding under a tax treaty agreement are classified on the Employee Data Base (EDB) with Citizenship Status Code value¹ "E" or "F" (EDB 0109) and a value other than blank in EDB 1174 (Tax Treaty Limit). The Tax Treaty Limit contains the maximum amount of income that can be exempt from Federal tax withholding under the provisions of a country's tax treaty agreement for students or trainees.

Currently, the monthly maintenance process does not enforce the tax treaty dollar limit; it allows the specified tax treaty dollar limit in EDB 1174 to be exceeded. In the monthly maintenance process when the tax treaty dollar limit is reached the entire check is handled as exempt, which allows the tax treaty gross EDB 5537 to be in excess of the specified tax treaty dollar limit. However, in the next monthly maintenance process, the individual's Citizenship Status Code value is changed to "N" or "A" and the marital status is changed to "S" (single) with one allowance and Federal withholding taxes are taken.

The non-enforcement of the tax treaty limit in the monthly maintenance process causes the employee to have an amount in excess of the tax treaty limit to be reported on his or her Form 1042-S or campuses must process transactions to remove the amount in excess of the tax treaty dollar limit.

IV. Requested Change

The compute process should be modified so that once an employee's specified tax treaty dollar limit has been achieved within a compute process, no further tax treaty exemption should be allowed for the balance of the current calendar year and any amount of income that exceeds the specified tax treaty dollar limit should be subject to Federal tax withholding.

Currently, the PPS converts the citizenship status code value to "N" or "A", marital status to "S" with one allowance for Federal tax withholding in the monthly maintenance process after the tax treaty dollar limit has been achieved. The PPS monthly maintenance process should continue to convert these individuals after the tax treaty dollar limit has been achieved.

V. On-line Screens

No change to the On-line Entry/Update screens.

¹ E= Nonresident Alien, wages not subject to Federal income tax withholding and FICA withholding; income reported on Form 1042-S.

F = Resident Alien for Federal income tax purposes, wages subject to FICA withholding but not subject to Federal income tax withholding; income reported on Form 1042-S.

N= Nonresident Alien, wages subject to withholding tax; income reported on Form W-2.

A= Nonresident Alien from Canada, Japan, Mexico or South Korea.

VII. One-Time Program

A one-time program should be developed that will compare the Tax Treaty Limit (EDB 1174) with the Tax Treaty Gross YTD (EDB 5537) for employees with a Citizenship Status Code value “E” or “F”. If the value in the Tax Treaty Gross YTD exceeds the value in the Tax Treaty Limit, a “DA” transaction should be created with an amount equal to the difference between the Tax Treaty Gross YTD amount and the Tax Treaty Limit. The report should display the following information:

<u>Description</u>	<u>Data Element Number</u>
Employee I.D. Number	
Employee Name	0105
Home Department Number	0114
Tax Treaty Gross YTD	5537
Tax Treaty Limit	1174
DA Transaction Amount	
Citizenship Status Code	0109
Tax Treaty Income Code	1170
Tax Treaty Article Number	1173
Country of Residency	0143
Employment Status	0144
Employee Count	

This report should be sorted in alphabetical sequence by employee name. Attachment 1 contains a sample copy of the report.

Please note: All employee records reflecting a value other than blank in DE 1174 should be selected irrespective of their Employment Status Code DE 0144 i.e., regardless of whether the employee is active, on leave with pay, on leave without pay, separated, or inactive.

VII. History

There are no changes to History.

VIII. Employee Documents

There are no changes to the IDOCs.

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Attachment 1

Standard University Heading
Student Employees With Differences between the
Tax Treaty Gross YTD and the Tax Treaty Limit

Employee ID Number	Employee Name	Home Department Number	Tax Treaty Gross YTD	Tax Treaty Income Limit	DA Amount	Income Code Cntry Res	Citzn	Emp Stat
02228888	Hamada, Susie	433875	3500.00	3000.00	500.00	19/CH	N	Act
000059912	Lee, Carol	578433	5200.00	5000.00	200.00	19/JA	N	Act
000050021	Swartz, Allen	678344	6000.00	5000.00	1000.00	19/GE	N	Sep

Total Number of Employees Reported: 3