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Re:	Release:	1525
	Service Request:	14890
	Error Reports:	None
	Programs:	PPNETCLC, PPP400, PPOT1525
	Copymembers:	None
	Include Members:	PPPV400B
	DDL Members:	PPPV400B
	Bind Members:	None
	CICS Maps:	None
	Forms:	None
	Table Updates:	None
	Urgency:	Urgent (See Timing of Installation)

## **Service Request 14890**

Nonresident alien students or trainees exempt from Federal income tax withholding under a tax treaty agreement are classified on the EDB with Citizenship Status Code of "E" or "F" (EDB 0109). When the Tax Treaty Limit (EDB 1174) is not zero, it identifies the maximum amount of income that can be exempt from Federal tax withholding under the treaty provisions.

Currently, the payroll compute process does not enforce the tax treaty dollar limit during the month that the limit is exceeded. This allows the YTD 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. Therefore, on subsequent payments, Federal withholding taxes are taken.

The non-enforcement of the tax treaty limit during the month it is exceeded causes the employee to have an amount in excess of the tax treaty limit to be reported on his or her Form 1042-S (unless campuses process transactions to remove the amount in excess of the treaty limit).

Service Request 14890 requires that during a payroll compute process, if an employee's specified tax treaty dollar limit has been achieved, no further tax treaty exemption should be allowed and the amount of payment which exceeds the limit should be subject to Federal tax withholding.

Note that the changes in this release will cause the compute process to temporarily treat the employee's Citizenship Status as though it were an "N" or "A" for that portion of earnings which exceed the limit. There are no release changes to the normal monthly process which converts the affected employee's Citizenship Status value to "N" or "A" and the Federal Marital Status to "S" with one allowance after the tax treaty limit has been met (i.e., monthly maintenance will continue to convert those individuals who have achieved the limit).

Also included in this release is a one-time program, **PPOT1525**, which will identify those employees who have previously exceeded the limit. When the Tax Treaty YTD Gross does exceed the Tax Treaty Limit, PPOT1525 will issue two adjustment (“DA”) transactions. The first adjustment transaction will reduce the YTD Tax Treaty Gross by the overage amount so that the YTD value will no longer exceed the limit. The second adjustment transaction will increase the YTD FWT Gross by the overage amount for proper W2 reporting. Note that the DA adjustment file is in Employee ID order and each of the two adjustments for an individual is maintained as a separate transaction in order to expedite manual edit, if necessary.

## **Programs**

### **PPP400**

Program PPP400 and related called modules perform Gross-to-Net deduction/contribution derivations and create the Final PAR for subsequent pay issuance.

Note that for Citizenship Status “E” or “F” employees, PPP390 does not develop Federal Withholding Tax (FWT) Gross since they are exempt from Federal W2 reporting as long as they remain under the Tax Treaty Limit. Currently, the YTD Tax Treaty Gross is incremented by the unadjusted PAR State Gross in PPP390 and then passed to program PPP400. At the close of PPP400’s Gross-to-Net processing for the individual, this updated YTD amount is then reduced by eligible GTN reductions.

As per this release, the factoring of the YTD Tax Treaty Gross by eligible reductions has been removed from PPP400 and instead, placed in one of its called modules, PPNETCLC.

### **PPNETCLC**

Module PPNETCLC is called by PPP400 to develop deduction amounts which require special procedures or calculations.

When PPNETCLC is called to develop the Federal Withholding Tax (FWT) deduction via setup/call to PPFEDTAX, a new release process will be invoked as follows when the Citizenship Status is either “E” or “F”.

The YTD Tax Treaty Gross (incremented in PPP390 by the PAR State Gross and factored by Domestic Partner Imputed income by prior deduction handling) will be reduced by the total applicable GTN Reductions (this includes applicable Domestic Partner TIP reduction). If the resulting YTD Tax Treaty Gross exceeds the Tax Treaty Limit:

1. The amount which exceeds the limit **or** the PAR State Gross (adjusted by reductions), whichever is less, will be used to set the Overage Amount.
2. The Overage Amount will be subtracted from the YTD Tax Treaty Gross.
3. The PAR FWT Gross (normally zero for these employees) will be set to the value of the Overage Amount.
4. The interface to the FWT Tax Calculation module (PPFEDTAX) will be reset to include the newly established FWT Gross and additionally, the tax interface Citizenship Status value will be changed to “N” or “A” (as applicable) and the interface Marital Status will be set to “S” (single) with one allowance.

The net effect is that the YTD Tax Treaty Gross will be held at the prescribed Tax Treaty Limit and the employee will have FWT tax withheld based on earnings which exceed this limit. Additionally, the PAR FWT Gross will reflect the earnings overage as will the YTD FWT Gross maintained on the EDB and used for tax reporting.

Note that the amount which exceeds the year-to-date limit will only be reduced up to the amount of the current PAR earnings (factored by eligible reductions). That is, if the YTD Tax Treaty Gross was over the limit prior to the release installation, it will continue to be over the limit by this amount until adjustment is made.

### **PPOT1525**

PPOT1525 will select and report all EDB employees who have a non-zero Tax Treaty Limit value regardless of their current Citizenship Status Code value. This detail report is produced in Employee Name order. For these employees, the one-time program will compare the limit to the YTD Tax Treaty Gross. If the YTD Tax Treaty Gross exceeds the value of the Tax Treaty

Limit, a "DA" transaction applicable to YTD FWT Gross (DE 5502) will be created for the amount of the difference (therefore, earnings over the maximum will be reported a FWT Gross). Additionally, a second "DA" transaction applicable to YTD Tax Treaty Gross (5537) will be issued in order to reduce the Tax Treaty Gross down to the limit (i.e. this adjustment amount contains a negative sign).

When entered into a subsequent compute process, these adjustments will cause the YTD Tax Treaty Gross to be reduced to the prescribed limit. The printed PPOT1525 detail report will display employee information related to all those selected and all those being issued an adjustment (see Service Request 14890).

### **Include and DDL Members**

#### **PPPV400B**

This Include member and DDL member contain COBOL definitions and DB2 columns for the program specific view PPPV400B\_PAY used by various compute and rush check programs to access the PPPPAY table. The pre-existing PPPPAY table columns Citizen Status and Country of Origin have been added to this view.

### **Test Plan**

A complete test plan is provided with this release. Campuses are encouraged to use the base system test materials, as well as performing any other desired local tests.

### **Installation Instructions**

Installation instructions are provided in a separate document.

### **Timing of Installation**

This release is urgent. It corrects a problem associated with tax withholding and reporting so timely installation is recommended in order to reduce calendar year-end adjustment and collection. This release is not dependent of on the installation of other releases and may be installed at any time during the process month.

As usual, campuses are encouraged to install this release in as timely a fashion as possible and in the normal numeric sequence.

Please address questions or comments via electronic mail to Jim.Tuohig@ucop.edu or call (510) 987-0741.

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