

## **SR 81712**

**Created: October 27, 2006**

**Revised: October 27, 2006**

### **SR81712 Requirements**

IR 457 requirements for W-2 reporting

#### **Objective:**

Add two new data elements to record dollar amounts on the employee's data base record for W-2 reporting of nonqualified plans under IR Code Section 457.

#### **Requested by:**

FMgmt-Payroll Coordination

#### **Analyst:**

Kathy Henmi

#### **Cycle Dates(s):**

These changes must be implemented in time for campuses to process dollar balance adjustments prior to tax reporting for calendar year 2006.

#### **Overview:**

Some departments at various campuses have negotiated nonqualified deferred compensation plans with employees. These are plans under which the employee has a legally binding right to compensation for services that is payable at a later date. The University must report these plans as required by the IRS. PPS must be modified in order to record dollar amounts on the employee's EDB record in order to report on the employee's W-2 form and on the W-2 file that is sent to SSA and the IRS.

**INTERNAL REVENUE NQP 457 CHANGES FOR 2006 W-2 REPORTING  
ATTACHMENT TO SERVICE REQUEST 81712  
FINAL  
October 27, 2006**

**I. INTRODUCTION**

A nonqualified deferred compensation plan is any plan under which an employee has a legally enforceable right to compensation for services that is payable in a later year. Nonqualified plans can be in the form of an employment contract, recruitment incentives, annuities (not part of the University's regular retirement plans), loan forgiveness, etc.

Current law, under Internal Revenue Code Section 457, states that certain deferred compensation plans are immediately taxed when no longer subject to a risk of forfeiture. Recently, a new law, Code Section 409A, has made additional changes to the rules regarding nonqualified plans. Section 409A adds another layer of regulations on top of Section 457. However, the IRS has extended the transition relief for 409A compliance through 2007. Only Code Section 457 reporting requirements will be addressed in this document.

To prepare for the 2006 W-2 tax year, additional data elements are needed for Internal Revenue Code Section 457 reporting requirements. Any modifications to the W-2 process will be addressed in the year-end W-2 requirements for 2006 reporting.

**II. NONQUALIFIED DEFERRED COMPENSATION PLANS  
(NQP)**

Establish the following data elements to record dollar amounts on the employee's EDB record. See Attachments 1 and 2 for sample data element definitions.

1. Form W-2 Box 11 – Nonqualified Plans
2. Nonqualified Plan Section 457 Distributions or Contributions

Campuses will update these data elements by processing dollar balance adjustments. It will be the responsibility of the Office of General Counsel to review employee agreements and to provide the data to the Payroll Office for each affected employee. Dollar amounts that are reported on the employee's W-2 form in box 11 may or may not be recorded on the file that is sent to the Social Security Administration (SSA) since each individual's contract or agreement may

vary. During calendar year-end maintenance, these data elements must be zeroed out as with other data elements.

### **III. ONLINE**

The new data elements for the nonqualified plans will only be displayed on the Summary of Current EDB Balance screen (INBI) screen along with the other employee data base balances. See Attachment 3. If the new NQP reporting affects several employees, the balances will be added to the IBAL screen at a later date.

### **VII. IMPLEMENTATION**

These changes must be implemented in time for campuses to process dollar balance adjustments prior to tax reporting for calendar year 2006.

***System Number:***

***User Access Name:***

***Programming Name:***

***Revision Date:***

***Comments***

Location(s):

***Name: NONQUALIFIED PLANS***

***Type: NUMERIC***

***Length: 9***

***Format***

nnnnnnn.nn

***General Description***

The total dollar amount of all nonqualified plans reported on an employee's Form W-2 in Box 11. Amounts are for prior year deferrals that are reported as taxable income in the current year.

***Code Interpretation***

N/A

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***System Number:***

***User Access Name: xxxx***

***Programming Name:***

***Revision Date:***

***Comments***

Location(s):

Programming Name:

***Name: NONQUALIFIED PLAN 457 DISTRIBUTIONS AND CONTRIBUTIONS***

***Type: NUMERIC***

***Length: 9***

***Format***

nnnnnnn.nn

***General Description***

Total dollar amount of an employee's nonqualified 457 plan distributions and contributions reportable on the W-2 file that is sent to the Social Security Administration and the Internal Revenue Service.

***Code Interpretation***

PPINBI0-I0911		EDB Inquiry		07/18/06 14:05:20			
05/25/06 08:19:50		Summary of Current EDB Balance		Userid: PAYUSR1			
ID: 000050002 Name: POWERS,VITO							
Hm Dept: 804918 CHAN OFFICE		Emplmt Status: A Pri Pay: MO		Page 3 of 5			
Elemnt	Y/Q	Description	Amount	Elemnt	Y/Q	Description	Amount
5168		HR CAR ELIG DEC	48.00	5185		VACTN HRS BAL	223.49
5186		SICK LV HRS BAL	642.96	5501		TOTAL GROSS YTD	49,280.00-
5502		FWT GROSS YTD	51,801.32-	5503		OASDI GROSS YTD	50,883.12-
5505		RETR GROSS YTD	720.00	5506		SWT GROSS YTD	51,801.32-
5507		NON-TAX GRS YTD	2,521.32	5510		MEDICR GRS YTD	50,883.12-
5511		1MTH DCP RATE	2.00	5513		CAL YTD REG PAY	720.00
5514		2MTH DCP RATE	2.00	5515		3MTH DCP RATE	2.00
5518		EXECLIFE INCOME	729.24	5521		1MO OLD RTR GRS	9,381.75
5522		2MO OLD RTR GRS	9,381.75	5523		3MO OLD RTR GRS	9,395.25
5524		4MO OLD RTR GRS	9,408.75	5526		1MO OLD RED AMT	950.00
5527		2MO OLD RED AMT	950.00	5528		3MO OLD RED AMT	950.00
xxxx		NQP W2 BOX 11	xx,xxx.xx	xxxx		457 NQP DST/CNT	xx,xxx.xx
===>							
F: 1-Help		2-Browse		3-PrevMenu		4-Print	
F:		9-MainMenu		12-Exit			

PPINBI0-I0911		EDB Inquiry		09/01/06 14:49:17			
08/18/06 06:38:14		Summary of Current EDB Balance		Userid: PAYUSR1			
ID: 000050002 Name: POWERS,VITO							
Hm Dept: 804918 CHAN OFFICE		Emplmt Status: A Pri Pay: MO		Page 4 of 5			
Elemnt	Y/Q	Description	Amount	Elemnt	Y/Q	Description	Amount
5529		4MO OLD RED AMT	950.00	5531		1MO OLD RTR RTE	2.00
5532		2MO OLD RTR RTE	2.00	5533		3MO OLD RTR RTE	2.00
5534		4MO OLD RTR RTE	2.00	5536		LAST MN RTN 15	6.00
5542		4MTH DCP RATE	2.00	008	U	YTD 403B	20,000.00
010	Y	ADDL FED TAX	900.00-	013	Y	OASDI	4,745.57-
012	Y	CA STATE TAX	3,870.69	214	Y	DCP GIC	1,560.00-
202	Y	GUAR INS-NTD	880.00-	157	Y	S LEGALCARE	83.60-
050	Y	SUPPL LIFE	2,782.70-	040	Y	AD&D INSUR	13.20-
014	Y	FEDERAL TAX	14,125.24-	009	Y	MEDICARE	1,109.85-
391	Y	SS ICCF DED	2,800.00-	398	U	YTD 457B	20,000.00
011	Y	ADDL CAL TAX	660.00	008	Y	YTD 403B	3,500.00
Next Func:            ID:            Name:            SSN:							
===>							
F: 1-Help		2-Browse		3-PrevMenu		4-Print	
F: 7-Backward		8-Forward		9-MainMenu		12-Exit	