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SR82515 Requirements
Add 409A Income and Deferrals and Unsubstantiated HCRA Claims to EDB

Objective:

Modifications are needed so that IRC Section 409A Plan income and deferrals and reimbursements for unsubstantiated medical expenses under the Health Care Reimbursement Account (HCRA) plan can be entered into the Employee Database. This is in preparation for adding these items to W-2 processing for the 2009 tax year.

Project Type:

This is an enhancement to PPS.

Requested by:

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Analyst:

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Requirements analyst: Beth Burkart, IR&C

Urgency:

Date Mandated. These modifications impact the W-2s for the 2009 tax year.

Target Processing Deadline:

These changes should be implemented by the beginning of the third quarter of '09, as that is when locations would like to be able to start entering the HCRA imputed income amounts into Payroll.

Statement of Business Need:

IRC Section 409A:

Form W-2 reporting requirements regarding IRC Section 409A, "Inclusion in gross income of deferred compensation under nonqualified deferred compensation plans," are effective for tax years beginning on or after January 1, 2009. 409A requires that, unless certain conditions are met, compensation deferred under certain nonqualified compensation plans must be included in income and reported on Forms W-2 beginning in 2009.

Compensation reportable under IRC Section 409A must be reported in Box 12, Form W-2, using codes Y and/or Z as specified by the IRS. Compensation deferred under a 409A Plan that meets all IRS requirements should be reported on Form W-2, Box 12, Code Y. These deferrals reported under Code Y are not includable in gross income since the compensation deferred is in compliance with 409A regulations. According to recent IRS Notice 2008-115, it is not necessary to show 409A deferrals in Box 12, Code Y, for tax year 2009. However, this SR requests that Code Y in Box 12 be established in PPS for use in future years.

Deferred compensation includable in income under 409A because of non-compliance with 409A rules must be reported beginning in tax year 2009 in Box 12, Code Z. When a deferred compensation plan is identified as one which could be subject to 409A rules, the agreement should be referred to the local Office of General Counsel. Any amounts reported in Box 12, Code Z, would be at the direction of the Office of General Counsel. Local payroll offices would then process transactions on the ETDA – DA Dollar Balance Adjustments screen in PPS.

PPS modifications are needed so that reportable deferrals under 409A can be recorded in the employee's EDB record and reported on the 2009 Form W-2.

Health Care Reimbursement Account ("HCRA").

PPS modifications are also needed so that 2007 and/or 2008 unsubstantiated medical expense claim reimbursements administered by SHPS can be recorded in the EDB as taxable income to the employee in 2009 and reported on Forms W-2.

In preparation for adding these new items to the W-2 processing, corresponding data elements must be established in the EDB.

Background:

IRC Section 409A:

The American Jobs Creation Act of 2004 added IRC section 409A, which provides that all amounts deferred under a nonqualified deferred compensation plan ("NQDC") are included in gross income to the extent not subject to a substantial risk of forfeiture and not previously included in gross income, unless certain requirements are met. Among these requirements are rules regarding distribution, acceleration of benefit and election requirements that the beneficiary must meet and that the Plan must operate under.

An NQDC is any plan that provides for the deferral of compensation other than a qualified retirement plan, tax-deferred annuity, or eligible deferred compensation plan such as IRC Sec. 457(b) and 403(b) Plans. Examples of deferred compensation plans that could be subject to IRC Sec. 409A are certain severance agreements, delayed retirement bonuses and long term incentive pay plans.

HCRA Unsubstantiated Claims:

Under the 2007/2008 HCRA Plan, employees could set aside a portion of their income on a pre-tax basis for qualifying medical expenses. Employees could use a special debit card to charge medical expenses, which would then be verified as qualifying by the third party administrator, SHPS. The University paid all debit card charges to SHPS.

There were a number of unsubstantiated claims from the HCRA 2007 and 2008 plan years. These unsubstantiated claims are regarded as debts owed to the University and, in accordance with IRC Section 61, debts forgiven by the lender (the University) are taken into income by the debtor (employee) in the year in which the debt is forgiven. Unsubstantiated claims for 2007 and/or 2008 must be included on the 2009 Form W-2, the year in which the debts were forgiven.

Release 1738 (W-2 Processing for 2006, 12/15/06) established filler balances for future use as EDB5559-EDB5569. Three of these balance fields can be used for the new elements requested in this SR.

Current Process:

Locations do not currently have a way of entering, storing or viewing 409A income, 409A deferrals, or unsubstantiated HCRA claim amounts.

Proposed Process:

Data elements will need to be set up to hold the dollar amounts that will be entered by the campus Payroll Offices for the 409A income, 409A deferrals, and HCRA amounts. A future service request will be prepared for the changes to W-2 processing, as the entire scope of the business needs related to the actual W-2 processing will not be known until later in the year. Data element set-up is being requested separately at this time to allow locations to begin entering their data earlier in the year.

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System Requirements:

1.0 Overview of Modifications

Three new EDB dollar balance elements should be established, similar to the EDB5557 element that was set up for non-qualifying plan 457 distribution and contribution. It is suggested that EDB5559, EDB5560, and EDB5561, which were set up for future use in R1745, be employed.

The only CICS screen that will be impacted is the INBI “Summary of Current EDB Balance” screen, which must be modified to include these new elements.

The only impact to EDB Maintenance is in the area of Year End Maintenance.

Changes to the printed W-2, the online W-2, the W-2 file to the SSA/IRS, and the tax reports are not being requested at this time. They will be requested in another Service Request to be submitted later in the year.

No one-time processes are needed. There is no impact to the Compute process, Distribution of Expense, Consolidated Billing, Self-Billing or Forms. No changes to Corporate Interface files are required at this time. These elements do not need to be captured for history. There is no impact to Web EDB Inquiry.

2.0 Control Table Updates

Only the Data Element Table is impacted by these changes. See section 3.0 for specifics.

3.0 EDB Data Elements

W-2 reporting requirements for the 2009 tax year require the creation of the following new data elements:

- Deferrals under a section 409A nonqualified deferred compensation plan (Attachment A)
- Income under section 409A on a nonqualified deferred compensation plan. (Attachment B)
- Imputed income for unsubstantiated HCRA claims for 2007 and/or 2008 tax year (Attachment C)

A group of dollar balance elements was previously established for future use. It is suggested that three of these dollar balance elements be used as follows:

Data Element	Name	Definition
EDB5559	409A Deferrals	Deferrals under a section 409A nonqualified deferred compensation plan (Y)
EDB5560	409A Income	Income under section 409A on a nonqualified deferred compensation plan (Z)
EDB5561	HCRA Uns Claims	Imputed income for unsubstantiated HCRA claims for 2007 and/or 2008 tax year

4.0 Screen Modifications

The INBI screen is the only CICS screen that is impacted. No changes to CICS help screens are needed. Testing should be performed to make sure these amounts can be entered on the ETDA – DA Dollar Balance Adjustments screen in PPS.

4.1 Online Payroll Personnel System (CICS)

4.1.1 INBI (Summary of Current EDB Balance)

The new amounts should be included on the INBI screen. See Attachment D.

5.0 EDB Maintenance

The only change to EDB maintenance is in the area of Year End Maintenance. There are no changes to edits or derivations, or to daily, monthly, or quarterly maintenance. There are no changes to the process that handles transactions from UCOP.

5.1 Periodic Maintenance

Only the Year End Maintenance process will be impacted.

5.1.1 Year End Maintenance

The balance for these new elements (EDB5559, EDB5560, and EDB5561) should be cleared out in year-end maintenance.

Attachment A – Data Dictionary Entry EDB5559

System Number: EDB5559

User Access Name: EDB5559-4

Programming Name: YTD_409A_DEFERRALS in PPPPCM

Revision Date: PUBL. MM/DD/YY

Comments

Source(s):
Use(s):
Location(s):

Name: DEFERRALS UNDER A SECTION 409A NQDC PLAN

Type: NUMERIC

Length: 9

Format

nnnnnnn.nn

General Description

Deferrals under Section 409A Nonqualified Deferred Compensation Plan (CODE Y).

Code Interpretation

N/A

Attachment B – Data Dictionary Entry EDB5560

System Number: EDB5560

User Access Name: EDB5560-2

Programming Name: YTD_409A_INCOME in PPPPCM

Revision Date: PUBL. MM/DD/YY

Comments

Source(s):

Use(s):

Location(s):

Name: INCOME UNDER A SECTION 409A NQDC PLAN

Type: NUMERIC

Length: 9

Format

nnnnnnn.nn

General Description

Income under Section 409A Nonqualified Deferred Compensation Plan (CODE Z).

Code Interpretation

N/A

Attachment C – Data Dictionary Entry EDB5561

System Number: EDB5561

User Access Name: EDB5561-3

Programming Name: YTD_HCRA_UNCLAIMS in PPPPCM

Revision Date: PUBL. MM/DD/YY

Comments

Source(s):

Use(s):

Location(s):

Name: UNSUBSTANTIATED HCRA CLAIMS

Type: NUMERIC

Length: 9

Format

nnnnnnn.nn

General Description

Imputed Income for Unsubstantiated HCRA Claims.

Code Interpretation

N/A

Attachment D - INBI CICS Screen

PPINBIO-I0911		EDB Inquiry		03/18/09 11:30:34			
03/05/09 11:04:46		Summary of Current EDB Balance		Userid: PAYEEB			
ID: 333333039 Name: AARDVARK, FRANCIS		Hm Dept: 804918 CHAN OFFICE		Emplmt Status: N Pri Pay: MO Page 3 of 4			
Elemnt	Y/Q	Description	Amount	Elemnt	Y/Q	Description	Amount
5515		3MTH DCP RATE	2.00	5516		UI GROSS QTD	3,000.00
5521		1MO OLD RTR GRS	3,000.00	5522		2MO OLD RTR GRS	3,000.00
5523		3MO OLD RTR GRS	3,000.00	5524		4MO OLD RTR GRS	3,000.00
5526		1MO OLD RED AMT	950.00	5527		2MO OLD RED AMT	950.00
5528		3MO OLD RED AMT	950.00	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	12.00	5542		4MTH DCP RATE	2.00
5543		FYTD-RET-GROSS	18,000.00	5545		FYTD-FWT-GROSS	17,754.00
5547		SWT GROSS QTD	2,959.00	5560		409A INCOME	16,500.00
5559		409A DEFERRALS	43.50	5561		HCRA UNS CLAIMS	43.50

Next Func:	ID:	Name:	SSN:
===>			
F: 1-Help	2-Browse	3-PrevMenu	4-Print
F: 7-Backward	8-Forward	9-MainMenu	12-Exit