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SR82649 Requirements
Taxation of Health Care Reimbursement Account (“HCRA”) Imputed Income for Tax Year 2009

Objective:

To provide an automated method using PPS for taxation of OASDI and Medicare taxes on HCRA imputed income for those applicable employees currently on the EDB. HCRA Imputed Income for purged employees will be handled manually by the campus.

Project Type:

This is an enhancement to PPS.

Requested by:

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Analyst:

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Urgency:

Not Urgent.

Implementation Deadline:

These modifications must be implemented in time for campuses to include HCRA imputed income in a primary pay cycle in 2009. This proposed process in this SR also affects 2009 Forms W-2. The target deadline is October 1, 2009.

Statement of Business Need:

The Federal Insurance Contribution Act requires employers to withhold OASDI and Medicare taxes from employee wages. The imputed income for unsubstantiated HCRA claims is considered wages for purposes of OASDI and Medicare withholding. In addition, if OASDI and Medicare taxes are due on wages paid, both the employee and employer portion must be remitted to the Internal Revenue Service by the employer in a timely manner whether or not employee portions are withheld.

Background:

Under the 2007 HCRA Plan, employees could set aside a portion of their income on a pre-tax basis for qualifying medical expenses. Employees used a special debit card to charge medical expenses, which were then verified as qualifying expenses by the third party administrator, SHPS. There were a number of unsubstantiated claims from the HCRA 2007 plan year and these must be taken into income by the employee in tax year 2009.

In preparation for the current request, Release 1874 (08/09) established data element EDB5561 for storing the HCRA unsubstantiated claim dollar amount for applicable employees.

Current Process:

None.

Proposed Process:

Payroll Coordination will provide a fixed format input file for each campus containing employees with HCRA imputed income values. This file will be used in conjunction with the EDB to generate various "DA," or Dollar Balance Adjustments and create output files.

For **all** employees currently on the EDB:

- Dollar balance adjustment transactions should be created to load the HCRA value in the input file into the Unsubstantiated HCRA Claims balance (EDB5561).
- Dollar balance adjustment transactions should be created to add the HCRA value in the input file to the existing OASDI YTD Gross if the employee is subject to OASDI.
- Dollar balance adjustment transactions should be created to add the HCRA value in the input file to the existing Medicare YTD Gross if the employee is subject to Medicare.

Based on the proposed process, the HCRA value will be added to OASDI and Medicare Gross Earnings YTD buckets as appropriate when the transactions are processed during a pay compute.

For employees with current earnings, the OASDI and Medicare taxes will be automatically computed and deducted during the normal payroll process in a primary pay cycle in 2009. For others, the taxation process will be manual. Output files containing employees **not** on the EDB and employees on the EDB should be produced to assist with this manual processing. For employees on the EDB, the employment status code will be included so that those employees not on pay status can be identified and taxed manually.

Note: The imputed income and OASDI and Medicare taxes will be shown on the 2009 Form W-2 in the appropriate boxes during the normal Form W-2 PPS process.

Inputs:

A campus-specific fixed length flat file containing the Employee ID, Employee First Name, Employee Last Name, Address , Employment Status Code and amount of HCRA imputed income will be provided to each campus by Payroll Coordination to serve as input for this special process.

Outputs:

The process that creates the DA transactions should produce two tab-delimited files:

- Employees currently on the EDB
 - Employee ID
 - Employee name
 - Home Department Code
 - HCRA value from the file
 - Employment Status Code
 - FICA Eligibility Code
 - OASDI YTD Gross
 - Employee Level WOS Indicator
- Employees **not** currently on the EDB:
 - For employees on the input file who do not match up on the EDB, or who do not meet the minimum data requirement, list Employee ID, Employee Name, Employee Address, HCRA Value and Employment Status Code.

Processing Considerations:

This data needs to be in the database prior to W-2 processing for the 2009 tax year.

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System Requirements:

1.0 Overview of Modifications

This is a request for a one-time process that will generate transactions for the purpose of adding to the following balances:

- EDB5561 (Unsubstantiated HCRA Claims)
- EDB5503 (OASDI YTD Gross)
- EDB5510 (Medicare YTD Gross)

In addition, output reports are needed as follows:

- Employees who are not on the EDB.
- Employees who are on the EDB.

The input to the special processes will be a fixed-length file provided to the campuses by Payroll Coordination.

Modifications to the following areas are involved:

- Control Table Updates: No impact
- EDB Data Elements: No impact
- CICS Modifications: No impact
- Web Modifications: No impact
- One-time Processes: A one-time process will be needed to create output files and generate dollar balance adjustment transactions to be processed in a Payroll compute.
- EDB Maintenance: No impact
- History Process: No impact
- Compute Process: No impact
- Distribution of Expense: No impact
- Consolidated Billing and Self-Billing: No impact
- Interface Files: No impact
- Forms: No impact
- Other Processes: No impact
- Reporting and Notification: No impact

2.0 One-time Processes

The input to this process is a fixed-length file containing identifying employee information and the HCRA amount. Payroll Coordination or HR will provide campus-specific files to the locations for this purpose.

The following groups of employees in the input file have been identified for the purpose of this process:

- Employees on the EDB
 - Processing will vary based on FICA Eligibility code (E: Eligible for OASDI and Medicare deductions, M: Eligible for Medicare deductions, and N: Not eligible for either OASDI or Medicare deductions).
- Employees **not** on the EDB
 - This group of employees should include both employees who are truly not found on the EDB and those who are found but have a Minimum Record Flag (EDB0145) of “1,” indicating that there is insufficient information to establish the employee's pay record.
 - For this group of employees, a file will be produced so that locations can process them manually.

The goals of this process are to:

- Produce “DA” (dollar balance adjustment) transactions to add to the HCRA unsubstantiated claim balance and the YTD OASDI and Medicare grosses.
- Produce output files as follows:
 - Employees not on the EDB or with Minimum Record Flag of “1”
 - Employees on the EDB (regardless of pay status)

2.1 Process Description

A campus-specific fixed length file containing the following fields will be provided to the campuses by Payroll Coordination:

- Employee ID
- Employee First Name
- Employee Last Name
- Employee Address
- Employment Status Code
- HCRA imputed income dollar amount

See Attachment A for the input file layout. Note that the DA transaction creation process only needs Employee ID and HCRA amount, but other fields are being provided in the event that the employee is no longer on the EDB and has to be handled manually.

PPS should read the input file and produce DA transactions and the reports described in the “Outputs” section below.

Refer to UPAY 649 for the format of the DA transaction.

For each employee on the EDB (as defined in section 2.0), DA (dollar balance adjustment) transactions should be created according to the following grid:

FICA Eligibility Code (EDB0120)	Create DA trans to update EDB5561 – HCRA Unsubst. Claims?	Create DA trans to add to EDB5503, OASDI YTD Gross? *	Create DA trans to add to EDB5510, Medicare YTD Gross?
E	Y	Y	Y
M	Y	N	Y
N	Y	N	N

It is expected that all DA (Dollar Balance Adjustment) transactions will be processed in a special supplemental compute and taxes will be taken in a subsequent pay compute.

* OASDI limit: It is essential that, when the DA transactions are processed, the processing take into account the limit on the YTD OASDI Gross (EDB5503). This should be validated with testing to make sure that the limit is not exceeded for these employees.

2.2 Outputs (files or reports)

In addition to the DA transactions, this process should generate tab-delimited files to assist with manual processing that will be needed for employees who are no longer on the EDB and those who are not currently on pay status.

2.2.1 Files

The following files should be produced:

- Employees not on the EDB. See Attachment B for the suggested file layout.
- Employees on the EDB. See Attachment C for the suggested file layout.

Attachment A – Input File Layout

1-9	Employee ID
10-39	Employee First Name
40- 69	Employee Last Name
70-99	Employee Address (permanent Line 1)
100-129	Employee Address (permanent Line 2)
130-159	Employee City
160-161	Employee State
162-166	Employee Zip
167	Employment Status Code
168-174	HCRA imputed income dollar amount (9999.99)

Attachment B – Output File: Employees not on the EDB

- Employee ID (from input file)
- Employee First Name (from input file)
- Employee Last Name (from input file)
- Employee Address (from input file)
- HCRA value (from input file)
- Employment Status Code (from input file)

Attachment C – Output File: Employees on the EDB

- Employee ID
- Employee First Name (EDB0250)
- Employee Last Name (EDB0252)
- Home Dept Code (EDB0114)
- HCRA value (from input file)
- Employment Status Code (EDB0144)
- FICA Eligibility Code (EDB0120)
- OASDI YTD Gross (EDB5503)
- Employee Level WOS Indicator (EDB0778)