

**EARNED INCOME CREDIT (EIC)
ADVANCE PAYMENT**

**ATTACHMENT TO SERVICE REQUEST
14863**

**University of California
Office of the President
Payroll Coordination
February 5, 2002
(Attachments rev 2/13/02)
(Attachment 1 rev 2/21/02)**

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1. INTRODUCTION

The Economic Growth and Tax Revenue Reconciliation Act of 2001 (EGTRRA) provided for an increase of the income levels for married couples filing jointly, beginning in 2002, who are eligible to claim the EIC advance payment. The Internal Revenue Service (IRS) issued the 2002 EIC tables in early December 2001. These tables are currently being utilized by the Payroll/Personnel System (PPS). However, the IRS subsequently withdrew the EIC tables and reissued them in a different format since the adjusted credit for a spouse not filing a Form W-5 certificate is to be applied through payroll.

2. CURRENT PROCESS

Upon receipt of Form W-5, the user enters a value of 1.00 (single or married/spouse not filing W-5) or 2.00 (married with spouse also filing W-5) on the employee's EDB record for EIC (ETAX online screen). Gross-to-Net (GTN) #099-EIC Tax-Pay is automatically set up on the employee's record with a G-balance. During each compute, Federal taxes are calculated and deducted based on the employee's W-4 allowances. Then, the program accesses the EIC tables and calculates the amount of EIC to pay the employee. The payment amount is then stored as quarter-to-date (QTD) and year-to-date (YTD) balances on the employee's deduction table.

2.1 Year-End Process

W-2

When the W-2 program is run at the end of the year, an edit is performed for the maximum amount an employer can pay for EIC. If the employee's YTD EIC balance is over this amount, the program only reports the maximum amount and issues a message: 60-128 TAX EXTRACT: EIC OVER MAXIMUM OF xxxx.xx, REDUCED TO xxxx.xx. By the time these edit reports are produced, it is too late to make any adjustments to the amount paid to the employee. Circular E states that an employer cannot pay over the stated amount for the year.

Calendar Year-End Maintenance

The value of 1.00 or 2.00 for Gross-to-Net #099 on the employee's EDB record is cleared at the end of the calendar year because the employee must file a new W-5 form each year, if eligible.

3. REQUIRED CHANGES

In addition to a third section of the EIC table being added to include a spouse not filing a W-5 certificate, Circular E states that an employer cannot make advance EIC payments over a certain dollar amount. This restriction should be automated so that no manual adjustments at the end of the year are required. Also, an employer cannot make any EIC payments to an employee who earns more than the stated earnings amount for the calendar year. This earnings amount also changes each year. Currently, there are no edits or automatic enforcement of the earnings amount.

On the EIC table there is a field "% of Excess" (field 20-22). This field stores a percentage (xx.x) that is used in the calculation of EIC. The third line contains a rate that has been truncated because the field is too small (09.5). The IRS rate contains three digits to the right of the decimal (9.588).

In order to be in compliance with Internal Revenue requirements, the following changes are required:

- 1) In the EIC Table (Table #16), a third set of rates must be added for an employee who is married and whose spouse IS NOT filing a W-5 Certificate;
- 2) The EIC calculation process must be modified so that a cap is placed on the maximum amount that an employer can pay an employee for EIC (for 2002 this amount is \$1503);
- 3) The calculation process should utilize the employee's YTD Federal Taxable Withholding Gross (EDB 5502) and stop EIC payments when the earnings amount is reached before the annual maximum payment amount is reached (for 2002 these amounts are \$29,201 - single, \$30,201 - married).
- 4) In addition to the new set of rates, the EIC table must be increased to accommodate the IRS rate of 9.588. That is, the percent of excess rate must be modified to contain three digits to the right of the decimal (xx.xxx).

4. CONTROL TABLE CHANGES

4.1. System Parameters Table (Table 01)

a. EIC CAP

If an employee receives more than the maximum amount, during W-2 processing, only the maximum amount is reported. In order to use this cap during each compute, it is suggested that the limit be placed on the System Parameters Table so that it can be easily updated. The limit for 2002 is \$1503.

It may be necessary to maintain two parameters, one for the "old year" and one for the "new year" so that current (new year) processing can continue while running the W-2 (old year) process.

b. Taxable Salary Limits

Every year the IRS establishes two earnings limits that an employee's income must not exceed in order to be eligible to file for or to receive EIC payments. For 2002 these limits are:

1) \$29,201 = single, head of household, widow(er)
GTN 099 = 1.00

2) \$30,201 = married, filing jointly
GTN 099 = 2.00 or 3.00

(Note: an employee who is married but not filing jointly is ineligible to receive advance EIC.)

It is suggested that these values also be added to the System Parameters Table so that they can be easily updated. The program can then access these dollar amounts when determining whether or not the employee is eligible to receive an

EIC payment.

4.2. Gross-to-Net Table (Table 02)

For GTN number 099, a third value (3.00) must be added to identify the new EIC rates needed to calculate the payment for spouses who do not file a Form W-5.

4.3. Advance EIC Payments Table (Table 16)

a. In order to calculate an EIC payment for employees who claim Married with Spouse Not Filing a W-5, a third section must be added to the EIC Table. See Attachment 1 for a sample copy of the revised UPAY 667 form.

This third section should be set up in the same manner as the others. It will be used to store different rates that are applicable to the new category.

b. Percent of Excess Field

This field needs to be expanded to three decimal places so that the full IRS rate of 9.588 can be entered and utilized in the calculation.

This percentage is used to offset the EIC payment for wages in excess of the salary limits.

5. EMPLOYEE DATA BASE

No changes are required.

6. COMPUTE

6.1 Earnings Limit

The EIC calculation must check the YTD Federal Taxable Withholding Gross (EDB 5502) first, to determine whether or not the employee is eligible to receive EIC payments. If the employee's federal taxable gross (added to current pay) will equal or go over the earnings limit, then no payment is to be generated.

Add the current month's FWT gross to the YTD FWT gross. If the new YTD balance equals or is greater than the limit associated with the employee's value of 1.00, 2.00, or 3.00, then no EIC payment is to be generated. Otherwise, calculate the EIC payment.

For example:

EIC Status	=		1.00
Earnings Limit	=	\$ 29,201	
FWT YTD	=	\$ 28,700	
Current FWT gross	=	\$ 1,000	
Total FWT	=	\$ 29,700	> \$29,201

DO NOT CALCULATE EIC PAYMENT

6.2 Payment Cap

After the earnings limit is checked, the employee's GTN #099 YTD balance should be reviewed. Calculate the EIC payment for the current pay. If the total amount, when added to the YTD balance, is less than the maximum payment cap (as established on the System Parameters Table), then generate the EIC payment.

If the GTN #099 YTD balance is greater than the maximum payment cap, then pay the difference up to the cap amount (\$1503 for 2002).

For example:

2002 Cap	=	\$1503
#099 YTD	=	\$1405
Current EIC payment	=	\$ 125
Total	=	\$1530
Less 2002 cap	=	<\$1503>
EIC payment amount	=	\$ 27

If the GTN #099 YTD balance is at the maximum amount, do not calculate an EIC payment.

No automatic retroactive adjustments are required for employees who have already filed a W-5 form for 2002 and whose payments were based on the old EIC tables prior to implementation of these requirements.

6.3 Rush Check Process

The rush check process should be modified to include these changes to the EIC process.

7. ONLINE SCREENS

7.1. EIC

The screens should be modified to group the EIC information and Other State information as shown below. The EIC YTD Payments should be updated automatically after each compute with the GTN #099 YTD balance. The earnings limit should also be displayed depending on the value of the employee's EIC status. The two fields are not updatable by the user and are for display purposes only.

If the value of the EIC Status =

1.00 - then the Earnings Limit should be updated with \$29,201 (System Parameter #xxx)

2.00 - then the Earnings Limit should be updated with \$30,201 (System Parameter #xxx)

3.00 - then the Earnings Limit should be updated with \$30,201 (System Parameter #xxx)

7.2. Out-of-State

To provide clarity, the word "Current" should be added to the label: Other State Gross Name (EDB 0186) on both the ITAX and ETAX screens.

Current ITAX screen:

```

PPITAX0-I1379          EDB Inquiry          01/04/02 08:06:52
12/21/01 10:39:47      W-4/DE4 Tax Withholding      Userid: PAYUSR1
ID: 000000001 Name: PRESIDENT,EXEC          SSN: 552-14-2011
Hm Dept: 804918 CHAN OFFICE      Emplmt Status: A Pri Pay: MO
Federal
  Marital Status      : M          Tax Processor ID :
  Personal Allowances : 015       W-4 Process Date :
  Maximum Withholding : 999       DE4 Process Date :
California
  Marital Status      : M
  Personal Allowances : 003
  Itemized Deductions : 012
  Maximum Withholding : 999
Addl Fed Tax Withholding :          Addl Fed Nonres Alien Tax :
Addl CA Tax Withholding :
Other State Tax CA Res  :          Other State Gross Name:
Other State Gross Name 1 :        Other State Gross Name 2:      3:
Earned Income Credit Status: 1.00 Other Local Tax Ind:
SSN: 552142011
Next Func:      ID:          Name:          SSN:

===>
F: 1-Help      2-Browse      3-PrevMenu    4-Print
F:              9-MainMenu          12-Exit
  
```

Revised ITAX screen:

```

PPITAX0-I1379          EDB Inquiry          01/08/02 10:21:21
12/21/01 10:39:47      W-4/DE4 Tax Withholding      Userid: PAYUSR1
ID: 000000001 Name: PRESIDENT,EXEC          SSN: 552-14-2011 Pri Pay: MO

Federal
  Marital Status      : M          Tax Processor ID :
  Personal Allowances : 015       W-4 Process Date :
  Maximum Withholding : 999       DE4 Process Date :
California
  Marital Status      : M
  Personal Allowances : 003
  Itemized Deductions : 012
  Maximum Withholding : 999
Addl Fed Tax Withholding :          Other State Tax CA Res :
Addl CA Tax Withholding :          Current OS Gross Name :
Addl Fed Nonrs Alien Tax :          Other State Gross Name 1:
Other State Gross Name 2:
Other State Gross Name 3:
Other Local Tax Ind :

SSN: 552142011
Next Func:      ID:          Name:          SSN:

===>
F: 1-Help      3-PrevMenu    4-Print      5-Update
F:              9-Jump          12-Exit
  
```

Current ETAX screen:

```

PPETAX0-E1379          EDB Entry/Update          01/04/02 10:29:16
12/21/01 10:39:47      Tax Information          Userid: PAYUSR1
ID: 000000001 Name: PRESIDENT,EXEC          SSN: 552-14-2011 Pri Pay: MO

Federal
  Marital Status      : M          Tax Processor ID :
  Personal Allowances : 015       W-4 Process Date :
  Maximum Withholding : 999       DE4 Process Date :
California
  Marital Status      : M
  Personal Allowances : 003
  Itemized Deductions : 012
  Maximum Withholding : 999
Addl Fed Tax Withholding :          Addl Fed Nonres Alien Tax :
Addl CA Tax Withholding :
Other State Tax CA Res :          Other State Gross Name:
Other State Gross Name 1 :        Other State Gross Name 2:      3:
Earned Income Credit Status: 1.00 Other Local Tax Ind:
SSN: 552142011
Next Func:          ID:          Name:          SSN:

===>
F: 1-Help          3-PrevMenu  4-Print    5-Update
F:                9-Jump      12-Exit

```

Revised ETAX screen:

```

PPETAX0-E1379          EDB Entry/Update          12/28/01 10:30:59
11/27/01 12:44:10      Tax Information          Userid: PAYUSR1
ID: 000000001 Name: PRESIDENT,EXEC          SSN: 552-14-2011 Pri Pay: MO

Federal
  Marital Status      : M          Tax Processor ID : PPS10/22/01PAYUSR1
  Personal Allowances : 015       W-4 Process Date :
  Maximum Withholding : 999       DE4 Process Date : 10/22/01
California
  Marital Status      : M          Earned Income Credit Stat: 1.00
  Personal Allowances : 003       EIC YTD Payments      : xxxx.xx
  Itemized Deductions : 012       Earnings Limit        : xxx,xxx
  Maximum Withholding : 999
Addl Fed Tax Withholding :          Other State Tax CA Res :
Addl CA Tax Withholding :          Current OS Gross Name :
Addl Fed Nonrs Alien Tax :          Other State Gross Name 1:
Other State Gross Name 2:
Other State Gross Name 3:
Other Local Tax Ind :

SSN: 552142011
Next Func:          ID:          Name:          SSN:

===>
F: 1-Help          3-PrevMenu  4-Print    5-Update
F:                9-Jump      12-Exit

```

7.3 Help Text

The following field level help text should be provided as follows:

- a. Earned Income Credit Stat (EDB6099)

1.00 - Employee is eligible for and electing advance payment of Earned Income Credit, has no other certificates in effect with any other current employer, and is either single, head of household, or qualifying widow(er); the lower earnings limit is applied.

2.00 - Employee is eligible for and electing advance payment of Earned Income Credit, has no other certificates in effect with any other current employer, is married, and spouse **IS** filing an Earned Income Credit Advance Payment Certificate; the higher earnings limit is applied.

3.00 - Employee is eligible for and electing advance payment of Earned Income Credit, has no other certificates in effect with any other current employer, is married, and spouse **IS NOT** filing an Earned Income Credit Advance Payment Certificate; the higher earnings limit is applied.

b. EIC YTD Payments

The year-to-date value for GTN 099 - EIC-Tax Pay.

c. Earnings Limit

The earnings limit associated with System Parameter xxx for GTN 099 value = 1.00, or the earnings limit associated with System Parameter xxx for GTN 099 value = 2.00 or 3.00.

7.4 Web Modifications

Equivalent modifications will be specified for the web EDB inquiry screen in a separate document.

8. FORM CHANGES

8.1 FORM W-5

The input section of the 2002 version of the Form W-5 will be modified as follows:

Form W-5 Department of the Treasury Internal Revenue Service		Earned Income Credit Advance Payment Certificate				OMB No. 1545-1342 2002
NAME (LAST, FIRST, MIDDLE)			SOCIAL SECURITY NO.	BIRTHDATE MO / DY / YR	CAMPUS	
(1-2) X1	EMPLOYEE ID NO. (4-12)	DATE (13-18) MO / DY / YR	ELEM NO. (19-23) 6099G	SCHED CD (28-30) .00		
NOTE: If you get advance payments of the earned income credit for 2002, you must file a 2002 Federal income tax return. To get advance payments, you must have a qualifying child and your filing status must be any status except married filing a separate return.						
1 I expect to have a qualifying child and be able to claim the earned income credit for 2002, I do not have another Form W-5 in effect with any other current employer, and I choose to get advance EIC payments					YES	NO
2 Check the box that shows your expected filing status for 2002:						
Single, head of household, or qualifying widow(er)		Married filing jointly		Married, NOT filing jointly		
3 Check the box that shows your Form W-5 status for 2002:						
(1.00)	Single, head of household, or qualifying widow(er)	(2.00)	Married, both filing Form W-5	(3.00)	Married, spouse NOT filing Form W-5	

The new value of 3.00 will be entered in the Schedule Code field (position 28-30) on the form.

8.2 ADVANCE EIC PAYMENTS TABLES - UPAY 667

See Attachment 1 for a sample copy of the revised form and Section 4.3 for discussion.

9. REPORTS

PPP0116 Advance EIC Payment report will need to be modified to include the third section of the table. See Attachment 2 for a sample copy of the report.

10. YEAR-END PROCESSES

10.1 W-2 Process

Edit message 60-128 "TAX EXTRACT: EIC OVER MAXIMUM OF xxxx.xx, REDUCED TO xxxx.xx" should continue to be issued in the event an adjustment is made such that the total payment exceeds the cap amount. The payment cap can be retrieved from the "old year" value on the System Parameters Table.

PAYROLL/PERSONNEL
ADVANCE EIC PAYMENTS TABLES
UPAY 667 (Rx/xx)

Per Type Codes
M - Monthly
S - Semi-Monthly
B - Biweekly

SINGLE/HEAD OF HOUSEHOLD

A/D	TBL NO.	PER TYPE	LINE ID	SALARY LIMIT	PAYMENT AMOUNT		%OF EXCESS	EIC IND
1	2-3	4	5-7	8-12	13-19		20-24	25
	16		S 01	. . . .	. . . .	.	. . . .
	16		S 02	. . . .	. . . .	.	. . . .
	16		S 03	. . . .	. . . .	.	. . . .
	16		S 04	. . . .	. . . .	.	. . . .
	16		S 05	. . . .	. . . .	.	. . . .
	16		S 06	. . . .	. . . .	.	. . . .

MARRIED/SPOUSE NOT FILING W-5

A/D	TBL NO.	PER TYPE	LINE ID	SALARY LIMIT	PAYMENT AMOUNT		%OF EXCESS	EIC IND
1	2-3	4	5-7	8-12	13-19		20-24	25
	16		N01	. . . .	. . . .	.	. . . .
	16		N02	. . . .	. . . .	.	. . . .
	16		N03	. . . .	. . . .	.	. . . .
	16		N04	. . . .	. . . .	.	. . . .
	16		N05	. . . .	. . . .	.	. . . .
	16		N06	. . . .	. . . .	.	. . . .

MARRIED/BOTH SPOUSES FILING W-5

A/D	TBL NO.	PER TYPE	LINE ID	SALARY LIMIT	PAYMENT AMOUNT		%OF EXCESS	EIC IND
1	2-3	4	5-7	8-12	13-19		20-24	25
	16		M 01	. . . .	. . . .	.	. . . .
	16		M 02	. . . .	. . . .	.	. . . .
	16		M 03	. . . .	. . . .	.	. . . .
	16		M 04	. . . .	. . . .	.	. . . .
	16		M 05	. . . .	. . . .	.	. . . .
	16		M 06	. . . .	. . . .	.	. . . .

PREPARED BY _____ DATE _____

AUTHORIZED BY _____ DATE _____

RETN: Accounting: 0-2 years

(revised 2/13/02)

ATTACHMENT 2

PPP0116/PPP010 /
RETN: SEE RPTS DISP SCHEDULE/DIST.
TABLE MAINTENANCE DATE 01/31/02

UNIVERSITY OF CALIFORNIA-SYSTEMWIDE
CONTROL FILE MAINTENANCE
ADVANCE E.I.C. PAYMENTS (16)

PAGE NO. 0001
RUN DATE 01/31/02

PAYROLL PERIOD	MARITAL STATUS	NUMBER	LINE LIMIT	SALARY	PAYMENT AMOUNT	PERCENT OF EXCESS
BIWEEKLY	SINGLE/HEAD OF HSHLD	01		0	0.00	20.400
			02	283	58.00	00.000
			03	520	58.00	LESS 09.588 OF EXCESS
BIWEEKLY	MARRIED BOTH SPOUSES FILING	01		0	0.00	20.400
			02	141	29.00	00.000
			03	260	29.00	LESS 09.588 OF EXCESS
BIWEEKLY	MARRIED, SPOUSE NOT FILING	01		0	0.00	20.400
			02	283	58.00	00.000
			03	558	58.00	LESS 09.588 OF EXCESS