Refund Deductions for Payroll

Recommendations and Strategies

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2014

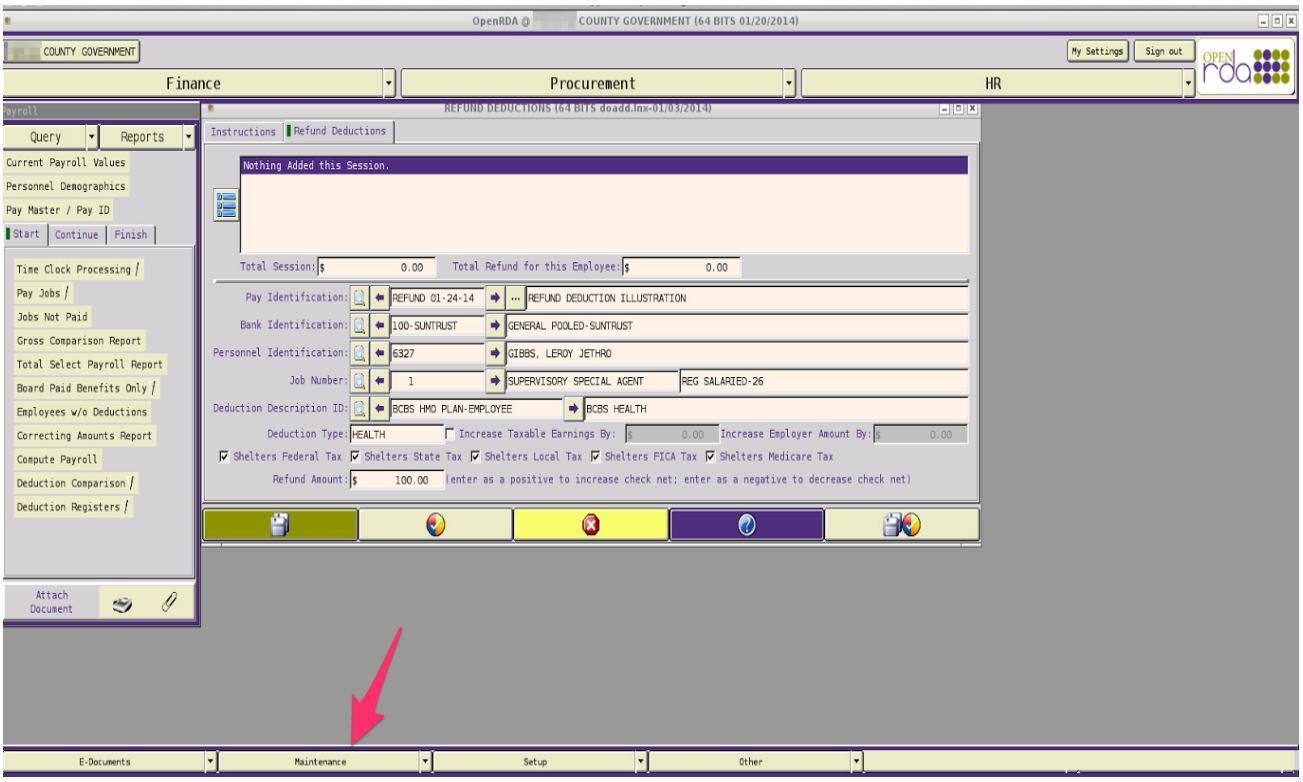
***Refunding deductions to employees? How do you do this in OpenRDA and what do you need to know about the deduction? The easiest method, of course, is to handle this with the next payroll using the correcting amount field in the employee's deduction master. The reason this is the easiest is that the taxable earnings are automatically adjusted (i.e., increased) if the deduction being refunded was done on a tax-sheltering basis. But, what if the amount is such that it would be a hardship for the employee (if you waited until the next payroll) or what if the employee is no longer a current employee?*--from Bringing You Flowers** - June 4, 2014 blog posting.

OpenRDA's Refund Deduction process (a standard feature for Enterprise customers; optional for 101 customers) is a stream-lined process that allows you to refund a deduction at any time regardless of whether the refund is for a current employee or former employee, active job or inactive job. This process is accessed via Maintenance from the Resource Bar.

As indicated on the Instructions tab of the Refund Deductions process, refunds are by check only and are done via a pay identification . The employee being issued a refund cannot be receiving any other pay for this pay identification. When the deduction being refunded was a pre-tax deduction, the tax deductions must also be adjusted which is easy to do with this process. For example, if you are refunding $100 from a Section 125 (Cafeteria Plan) deduction, you would also **increase** Federal, State, FICA, Medicare, FICA-Match, and Medicare-Match deduction earnings. You would also **decrease** the refund by the employee's portion of FICA and Medicare. Additionally, you would increase the employer's FICA-Match and Medicare-Match deduction amounts so that those amounts get expensed and flow over into vendor withholding. Although a refund check will generate to the employee, the only expenditures for this refund pay identification are for any matching FICA and Medicare deductions. You'll see this on the distribution report. Below are illustrations for a refund of a health insurance deduction (that was done on a pre-tax basis).

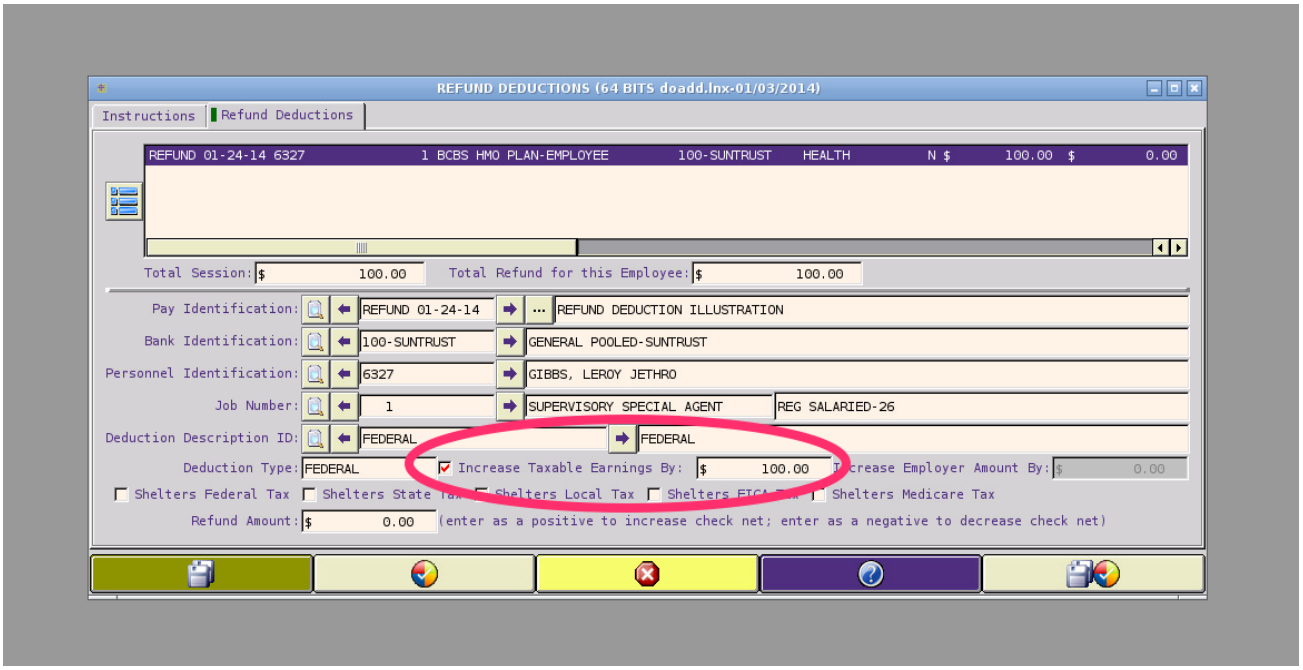
In Illustration 1, below, $100 is entered as the Refund Amount for the Health Insurance deduction.

Illustration 1.



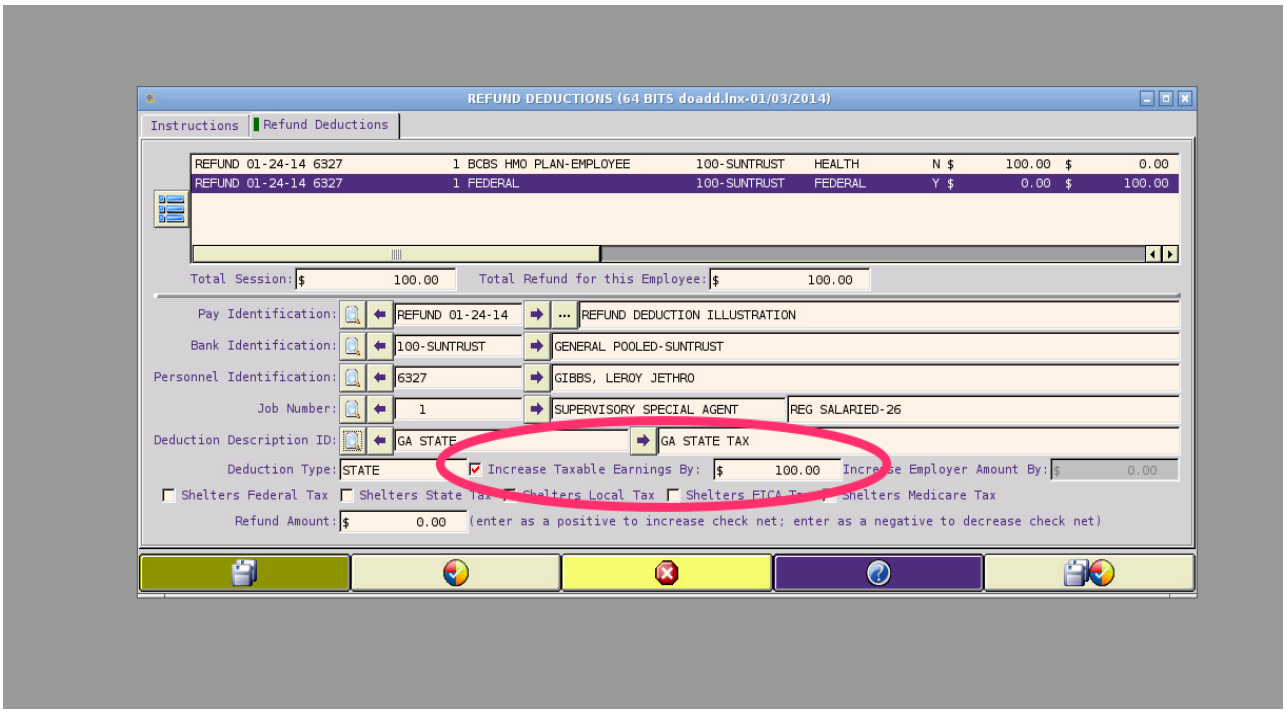
In Illustration 2, below, Federal taxable earnings are increased by $100; the refund amount is not affected.

Illustration 2.



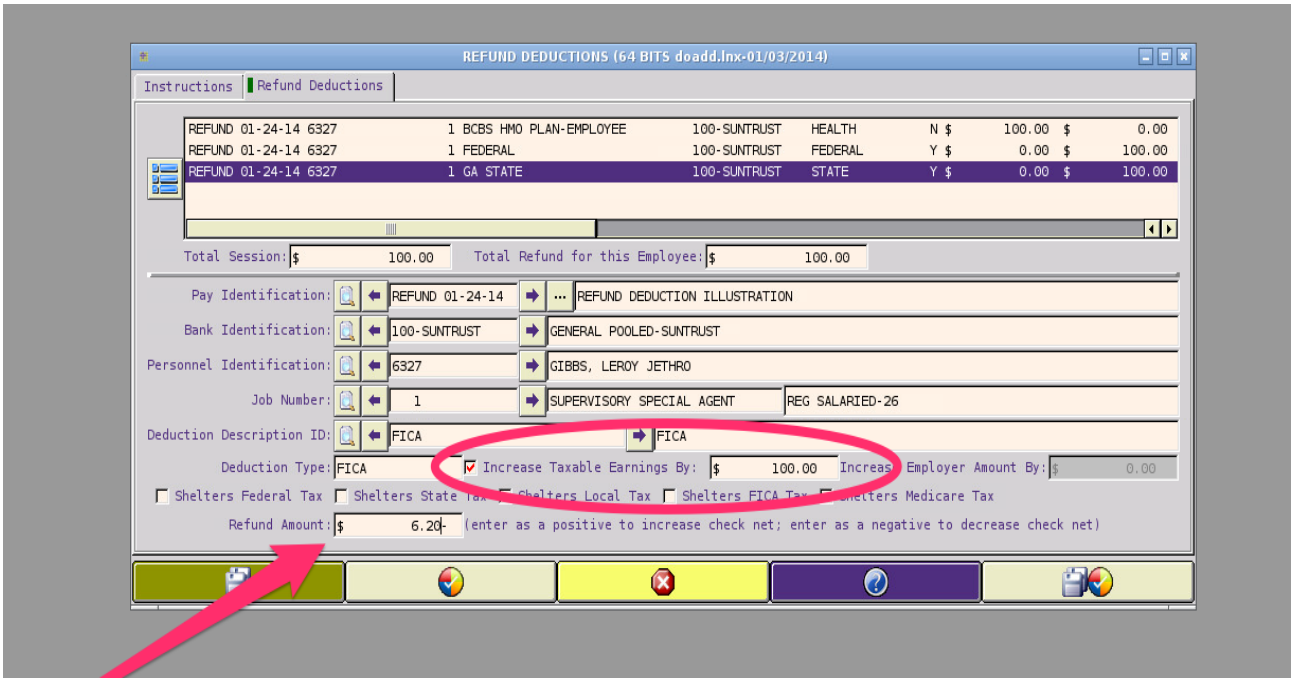
In Illustration 3, below, State taxable earnings are increased by $100.

Illustration 3.



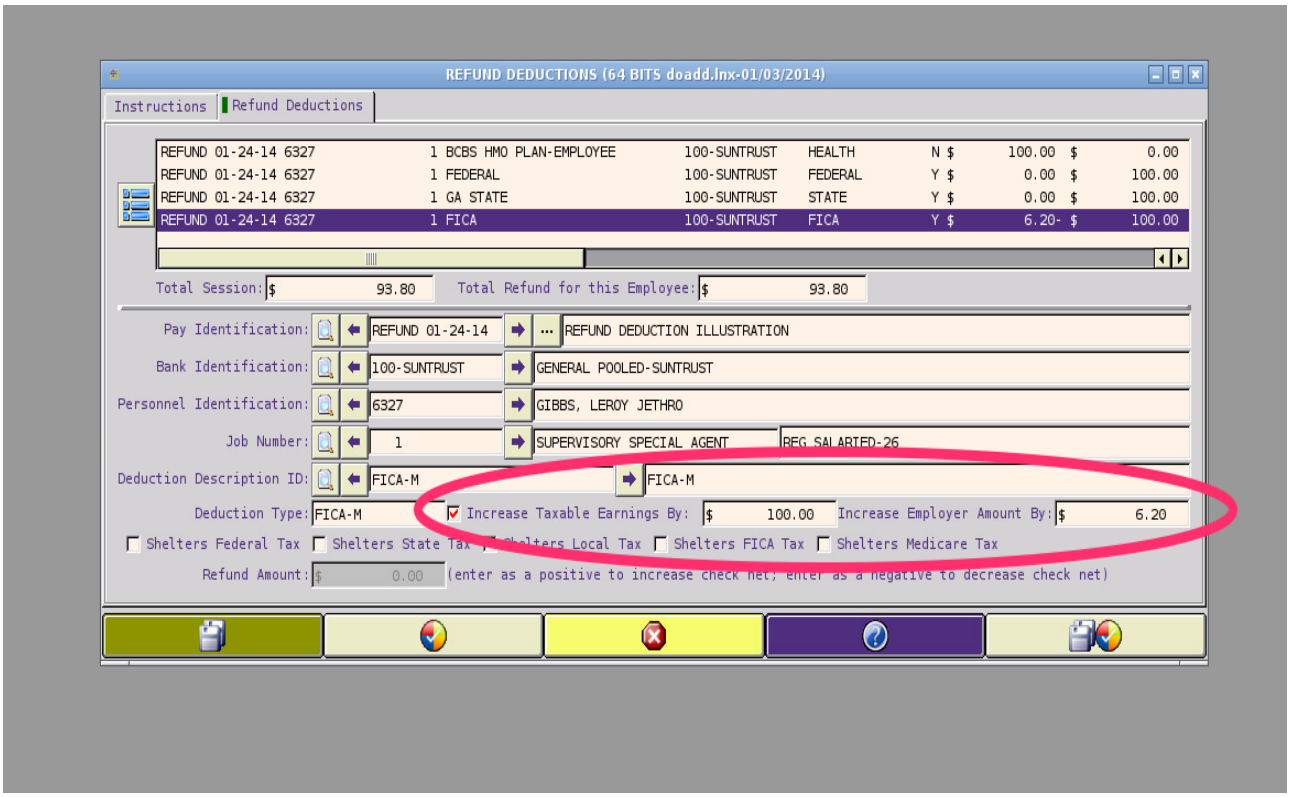
In Illustration 4, below, FICA earnings are increased by $100 and the refund is reduced by $6.20 (the amount is entered as a negative).

Illustration 4.



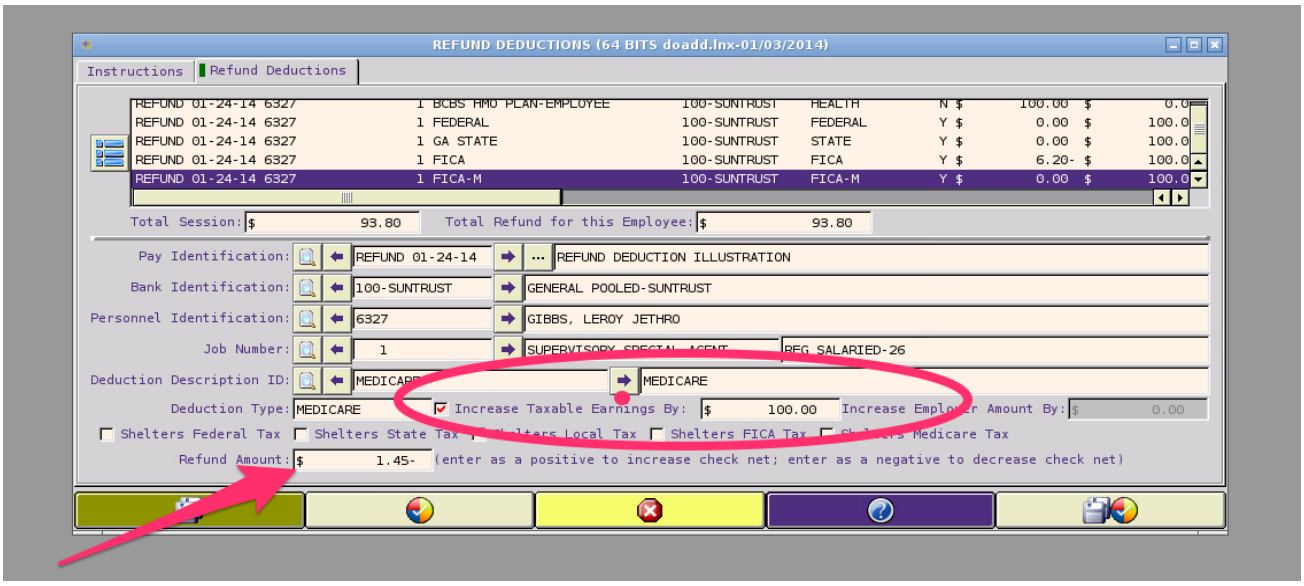
In Illustration 5, below, the taxable earnings for the employer-paid FICA-M deduction are increased by $100 and its deduction amount is increased by $6.20.

Illustration 5.



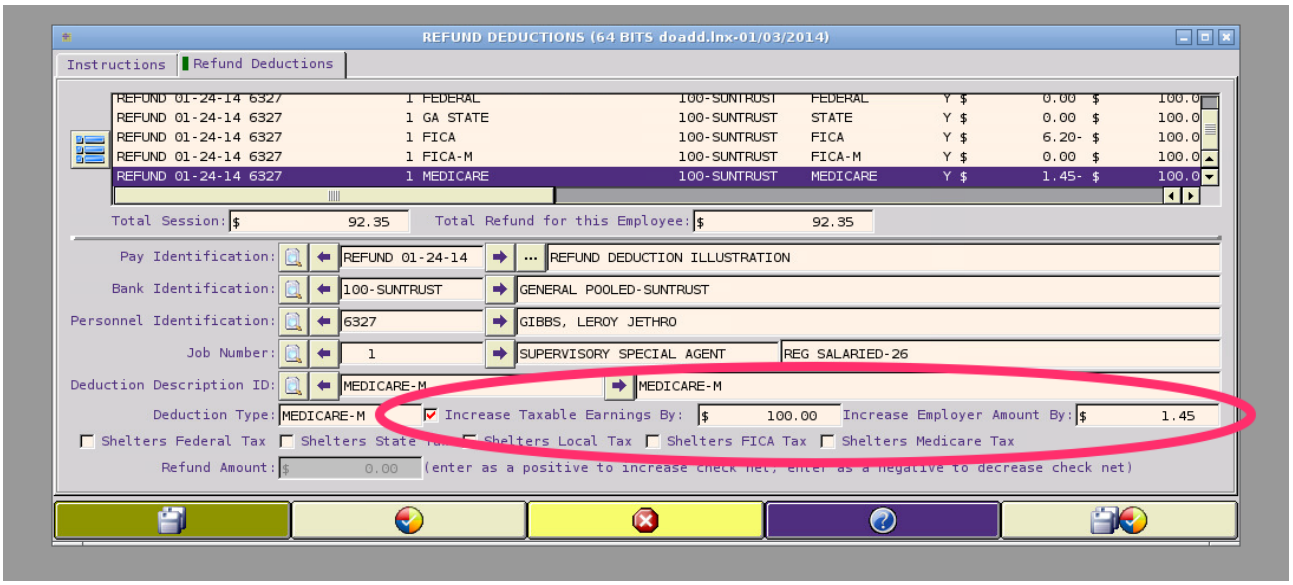
In Illustration 6, below, the taxable earnings for Medicare are increased by $100 and the refund is reduced by $1.45 (negative amount).

Illustration 6.



In Illustration 7, below, the taxable earnings for the employer-paid MEDICARE-M deduction are increased by $100 and its deduction amount is increased by $1.45.

Illustration 7.



Please note that the Refund Deductions process is the equivalent of Compute Payroll. Therefore, this step is not necessary and is skipped. From the Start tab on Payroll's taskbar, run the **Deduction Register**.

Illustration 8, below, is the Deduction Register for this sample Refund Payroll. Since it is sorted by Who Pays, it is easy to see that the amount of the refund to the employee will be $92.35 ($100 less employee share of FICA and Medicare) and that the increase to employer-paid expense will be $7.65. Once flags are set on the Deduction Register (to indicate that the compute has been completed, the next step is Make Transactions (on the Continue tab of the taskbar).

Illustration 8.

PAYROLL - DEDREGISTER - Deduction Register - Adobe Reader

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COUNTY GOVERNMENT
DEDUCTION REGISTER FOR PAY IDENTIFICATION REFUND 01-24-14
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Page: 1
Date: 01/24/14
Time: 16:36:23

Last Name, First, Middle	Personnel ID		Gross	Amount	Sheltered	Source	User
Who Pays: EMPLOYEE PAID							
Deduction Desc. Identification: BCBS HMO PLAN-EMPLOYEE (BCBS HEALTH)							
GIBBS, LEROY JETHRO	6327		$ 0.00	$ 100.00-	$ 0.00		pdf
Total BCBS HMO PLAN-EMPLOYEE	# Employees	1	$ 0.00	$ 100.00-	$ 0.00		
Deduction Desc. Identification: FEDERAL (FEDERAL)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 0.00	$ 100.00-		pdf
Total FEDERAL	# Employees	1	$ 100.00	$ 0.00	$ 100.00-		
Deduction Desc. Identification: FICA (FICA)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 6.20	$ 100.00-		pdf
Total FICA	# Employees	1	$ 100.00	$ 6.20	$ 100.00-		
Deduction Desc. Identification: GA STATE (GA STATE TAX)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 0.00	$ 100.00-		pdf
Total GA STATE	# Employees	1	$ 100.00	$ 0.00	$ 100.00-		
Deduction Desc. Identification: MEDICARE (MEDICARE)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 1.45	$ 100.00-		pdf
Total MEDICARE	# Employees	1	$ 100.00	$ 1.45	$ 100.00-		
Total Who Pays: EMPLOYEE PAID			$ 400.00	$ 92.35-	$ 400.00-		
Who Pays: EMPLOYER PAID							
Deduction Desc. Identification: FICA-M (FICA-M)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 6.20	$ 100.00-		pdf
Total FICA-M	# Employees	1	$ 100.00	$ 6.20	$ 100.00-		
Deduction Desc. Identification: MEDICARE-M (MEDICARE-M)							
GIBBS, LEROY JETHRO	6327		$ 100.00	$ 1.45	$ 100.00-		pdf
Total MEDICARE-M	# Employees	1	$ 100.00	$ 1.45	$ 100.00-		
Total Who Pays: EMPLOYER PAID			$ 200.00	$ 7.65	$ 200.00-		
		Total:	$ 600.00	$ 84.70-	$ 600.00-		

* = Not Verified

Illustration 9, below, for the Make Transactions Audit Trail, indicates that $7.65 will be expensed.

Illustration 9.

PAYROLL - PAYMTSA-MENU - Make Transactions Audit Trail by Location ID - Adobe Reader

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COUNTY GOVERNMENT

MAKE TRANSACTIONS AUDIT TRAIL SORTED BY LOCATION AND DEDUCTION DESCRIPTION ID

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PAGE: 1
DATE:01/24/14
TIME:19:58:00

Personnel Name / ID / Deduction ID	Job#	Personnel ID / GrossID	Ac#	DT	Expenditure Account Code	Debit	Credit	PDT	Paya/Liab	Cash	Amount
Pay ID: REFUND 01-24-14 Pay Date: 01/31/2014 Fiscal Year-Mo.: 2014 - 1 (JANUARY) REFUND DEDUCTION ILLUSTRATION											
Pay Location ID: 01-5											
GIBBS, LEROY JETHRO 6327		1 REG SALARIED-26	1	0	100-1545-51.1100	100-16.100	100-11.111	0	100-12.120	100-11.111 $	92.35
BCBS HMO PLAN-EMPLOYEE		GIBBS, LEROY JETHR 6327	Y	1 0	100-1545-51.1100	100-16.100	100-11.111	0	100-12.130	100-11.111 $	100.00-
FICA		GIBBS, LEROY JETHR 6327	Y	1 0	100-1545-51.1100	100-16.100	100-11.111	0	100-12.130	100-11.111 $	6.20
FICA-M		GIBBS, LEROY JETHR 6327	N	1 0	100-1545-51.2200	100-16.100	100-11.111	0	100-12.140	100-11.111 $	6.20
MEDICARE		GIBBS, LEROY JETHR 6327	Y	1 0	100-1545-51.1100	100-16.100	100-11.111	0	100-12.130	100-11.111 $	1.45
MEDICARE-M		GIBBS, LEROY JETHR 6327	N	1 0	100-1545-51.2300	100-16.100	100-11.111	0	100-12.140	100-11.111 $	1.45
										TOTAL LOCATION 01-5	$ 7.65

11.00 x 8.50 in

A check number should be assigned, followed by printing and archiving the check. From the Finish tab of the taskbar, the Distribution, Update Bank Reconciliation, Clear Checks, and Update History should be completed for this refund payroll. The Make Transactions process causes the deduction amounts to automatically add to the Amount field in the Deduction Accounts. This will, in turn, cause the vendor withholding payment for the Health deduction (which in this example was a refund to the employee of $100) to be automatically reduced by $100. Because this was a pre-tax deduction, the amounts withheld from the refund for FICA and Medicare as well as the amounts for the employer matching amounts will cause additional amounts to be owed/paid to the withholding tax vendor.

Illustration 10 is the first page of the distribution and depicts the expense. Illustration 11 is the second page of the distribution and depicts the balance sheet activity. Note that expenditure control is $7.65.

Illustration 10.

PAYROLL - PAYDIST - Payroll Distribution - Adobe Reader

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MORGAN COUNTY GOVERNMENT
PAYROLL DISTRIBUTION REPORT for PAY ID: REFUND 01-24-14
Fiscal Year-Mo.: 2014-1 (JANUARY)
EXECUTED BY: pdf

Page: 1
Date: 01/24/14
Time: 20:00:43

EXPENDITURES				AMOUNT
FUND: 100 GENERAL FUND				
100-1545-51.1100	SALARIES AND WAGES-REGULAR EMPLOYEES			
6327	LEROY JETHRO GIBBS	1	0	$ 0.00
	TOTAL ACCOUNT CODE: 100-1545-51.1100			$ 0.00
100-1545-51.2200	EMPLOYEE BENEFITS-SOCIAL SECURITY (FIC			
6327	LEROY JETHRO GIBBS	1	0	$ 6.20
	TOTAL ACCOUNT CODE: 100-1545-51.2200			$ 6.20
100-1545-51.2300	EMPLOYEE BENEFITS-MEDICARE			
6327	LEROY JETHRO GIBBS	1	0	$ 1.45
	TOTAL ACCOUNT CODE: 100-1545-51.2300			$ 1.45
	TOTAL FUND: 100 GENERAL FUND			$ 7.65
TOTAL EXPENDITURES				$ 7.65

Illustration 11.

PAYROLL - PAYDIST - Payroll Distribution - Adobe Reader

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COUNTY GOVERNMENT
PAYROLL DISTRIBUTION REPORT for PAY ID: REFUND 01-24-14
Fiscal Year-Mo.: 2014-1 (JANUARY)
EXECUTED BY: pdf

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Date: 01/24/14
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BALANCE SHEET		DEBIT	CREDIT
100-11.1110	OPERATING CASH-GENERAL FUND-POOLED	$ 7.65	$ 7.65
100-12.1200	SALARIES AND WAGES PAYABLE	$ 0.00	$ 92.35
100-12.1300	PAYROLL DEDUCTIONS PAYABLE	$ 0.00	$ 92.35-
100-12.1400	EMPLOYER'S SHARE OF EMPLOYEE BENEFITS	$ 0.00	$ 7.65
100-16.1000	EXPENDITURE CONTROL	$ 7.65	$ 0.00
	TOTAL 100 GENERAL FUND	$ [illegible]	$ 15.30
TOTAL BALANCE SHEET		$ 15.30	$ 15.30

To recap, these are the steps to process a refund in OpenRDA using the Refund Deduction process:

1. Create a pay identification (when creating the pay identification, the calendar period and refund check date should follow when you plan to report the change to taxable earnings on form 941 and W2; if the deduction being refunded was on an after-tax basis, the calendar period should follow the date of the refund check; the fiscal period would normally follow the date of the refund check; when creating a pay identification, the pay type is normally set to REGULAR but any pay type can be used as the pay type doesn't impact the refund deductions process).
2. Use the Refund Deduction process (from Maintenance on the Resource Bar) to enter the refund amounts (and the employee and employer tax deductions if the refund is a deduction that was done on a pre-tax basis). If the deduction refunded only sheltered federal (and state) earnings, tax would not normally be withheld from the refund unless the amount of the refund is significant (if so, you can consult with the employee to see what percent to withhold for federal and state taxes). You cannot use the refund deduction process to adjust employer-paid deductions other than FICA-M and Medicare-M (use the Board-Paid Benefits Only process in a separate payroll to adjust employer-paid deductions).
3. Run the Deduction Register (sorted by Who Pays) from the Refunds menu (this same process report is also on the Start tab); review the report; set flags to indicate that the compute is completed.
4. Make Transactions from the Continue tab (and set flags for the Make Transactions Audit Trail unless these flags are automatically set based on your setup; if you do not see this audit trail on the Continue tab, it is not applicable).
5. From the Continue tab, Set Check Numbers (refunds are by check only; please see step 1 as to check dates); Print the Check Register; Print the Check; Archive the Check.
6. Complete Distribution, Update Bank Reconciliation, Clear Checks, and Update Payroll History from the Finish tab.
7. If you are responsible for Post Activity process, this step can also be competed at this time.
8. If the deduction being refunded was a pre-tax deduction, you may need to remit withholding tax payments within three days. If so, access the Vendor Withholding taskbar and process payment (vouchers) for the tax deductions.

The only caveat for the above is if the payroll vendor issued a refund check to the organization. When a refund check is issued to the organization, the check should be entered and deposited as a financial receipt (via the Financial Management module). The account type is balance sheet (as this is **not** revenue), with cash debited and the applicable liability code credited (the liability code for the deduction description is contained in the Deduction Account). Should this be the case, while you are in the deduction description's Deduction Account ascertaining the liability code to use for the receipt, you should go ahead and adjust the Deduction Account for the amount refunded by the payroll vendor (as the next payment to the vendor **should not** be reduced by the refund to the employee). For example, if the amount field currently shows zero ($0), enter a positive $100 in the amount field.

Contrast the above steps with those required when you do **not** have the **Refund Deductions** software bundle and it isn't possible/feasible to handle the refund via the next payroll (using negative adjustment or correcting amount). To wit:

1. Review the deduction to be refunded to confirm its pre-tax status (along with which deductions it shelters). Also, review the deduction account for each of these to ascertain the liability code as you'll need this information in steps 3, 4, and 5.
2. From the Vendor Payments module, create a vendor master for the employee (if one doesn't already exist) or have the AP staff do this for you.
3. Enter a **balance sheet** voucher to the employee for the refund (adjusting the amount as necessary if

the deduction being refunded was done on a pre-tax basis); depending on the liability codes for the deductions, you may need to enter several balance sheet vouchers so that the correct codes for your organization are impacted. The deduction refunded should be a positive amount; amounts for the employee's tax deductions that reduce the refund should be entered as negative amounts (alternatively, if one liability code, a lump sum amount can be entered in one voucher). Complete the processes for the refund check through the Vendor Payments module.

4. If the refunded deduction impacted the employer share of FICA and Medicare, enter the expense via journal entries in the Financial Management module (expenditure type; the credit code should be the applicable payroll liability code for these deductions). Process the journal entries (verification, distribution, and post activity).
5. Access the Deduction Accounts for the affected Deduction Descriptions and modify the amount field (based on the refund check and the journal entries). Note that if the payroll vendor issued a refund check to the organization, that refund check should be entered as a balance sheet receipt (debiting cash and debiting the liability code used in the vendor payments voucher from step 3) and the deduction account for the deduction being refunded should not be adjusted (as that would cause the next payment to the payroll vendor to be reduced).
6. Create vendor withholding vouchers as necessary for the tax deductions involved with the refund.
7. In Payroll, go to the Pay Master / Pay ID and locate the original pay master(s) in which the deduction to refund was withheld. Make a note of the Deduction Gross (from the Deduction Pay Master) as well as the Pay Identification, Calendar Year, Calendar Month, Fiscal Year, and Fiscal Month.
8. From the Adjustments menu in Payroll module (via Maintenance on the Resource Bar), access the Change Payroll Deduction Earnings / Amounts. Enter the Employee, Job Number, and Deduction Description ID (the deduction being refunded). Enter the Deduction Gross (as noted in step 8) and Deduction Amount with negative sign. Do **not** use the Adjust Gross in Pay Master. Use the same calendar and fiscal period as ascertained in step 8. If the deduction being refunded was not done on a pre-tax basis, this is the last step. If it was done on a pre-tax basis, proceed to step 10.
9. Select the Federal tax deduction. Do **not** use the Adjust Gross in Pay Master option **unless** the calendar period and fiscal period entered is the same as those in the original payroll **and** no federal tax was withheld from the refund. The fiscal period would normally follow the date of the check. The calendar period should be the period this adjustment will be included on form 941. The Adjustment to Gross should be the amount of the deduction being refunded (as a positive); no amount should be entered in the adjustment amount field (unless the refund check to the employee was reduced for a federal tax withheld amount; if so, the adjustment amount would be entered for that amount as a positive); adjustment to sheltered should be entered as a negative.
10. Follow step 10 for the State tax deduction. Do **not** use the Adjust Gross in Pay Master option **unless** the calendar period and fiscal period entered is the same as those in the original payroll **and** no state tax was withheld from the refund.
11. If the deduction being refunded sheltered FICA and Medicare, follow step 10 for the FICA tax deduction and for the Medicare tax deduction; do enter the adjustment amount (as a positive). Do **not** use the Adjust Gross in Pay Master.
12. Repeat step 12 for the FICA-M and Medicare-M deductions. Do **not** use the Adjust Gross in Pay Master. Please note that these two employer-paid deductions can also be adjusted using the Board-Paid Benefits bundle (should your organization have it).

Because the pay masters involved with the above adjustments will not reflect these changes/edits, the reports that compare deduction pay masters to deduction calendar masters will reflect discrepancies. Unfortunately, without the refund deductions bundle, this cannot be prevented.