

Bowling Green State University
BG@100 Action Item
ESC Submission: 10/13/2005

Identification Information:

<i>Reference Number</i>	HCM-A023
<i>Functional Area</i>	Payroll Department
<i>Title</i>	Annual Tax Calculation for Contract Employees
<i>ESC Submission</i>	10/13/2005 updated:11/10/2005
<i>ESC Decision Requested By</i>	11/14/2005

Issue Description:

The PeopleSoft payroll system calculates Federal Withholding taxes (FWT) for employees paid by contracts that last for less than one year by multiplying their monthly pay amount by the amount of months in their contract to get their "annual salary". This calculated "annual salary" is then used to determine which tax bracket the employee is in and selects the corresponding percentage for calculating the FWT. For employees on one semester contracts, the calculated annual salary usually places them in a low tax bracket. If they have multiple contracts throughout the year, their taxes would most likely be under withheld because the system is calculating each contract amount separately and using a lower tax percentage. These employees may owe additional taxes at the end of the year when filing their W-2. There is a regulatory requirement to withhold taxes for employees, under withholding would not be meeting this obligation.

Background Information:

The legacy system calculates tax withholdings using an annualized earnings method, as does the PeopleSoft system when not using the Contract Pay feature. This will affect Faculty, Continuing Education Instructors, Graduate Assistants, and other Contract employees in a negative way because they may have their taxes under withheld for the year. The system could be forced to calculate the annual salary by multiplying the monthly pay amount by 12 months instead of the number of months in the contract. This would place them at a higher tax bracket and lessen the impact of under withholding taxes. There is a field on the employee's pay sheet that can be updated to force this calculation.

Additional Research:

Ohio State University is not using Contract Pay in PeopleSoft; it was not developed enough in Version 8.0. They are upgrading to Version 8.9, but they are not looking at this process in the scope of their project.

Houston Community College uses a change in the program to calculate the tax withholding on an annualized basis.

Contacted the Internal Revenue Service through their 1-800 numbers for businesses with questions and presented the PeopleSoft tax calculation method to them. While this is unofficial, the IRS Agent comment was that it is the employee's responsibility to have enough tax withheld for their circumstances by filing W-4's to accomplish this.

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From the Higher Education Users Group (HEUG) web site, under an Issue for Annualized Taxes for Contract Pay Employees, I contacted Pat Hanson, University of North Dakota, who utilizes Contract Pay processing for their employees. Response was:
 "We did not modify the program – we pretty much have a vanilla implementation. I have attached the notice that we sent out to our employees (on 4/15/2005). Although all employees were notified, I am not looking forward to the end of our first calendar year with PeopleSoft and the response during tax season from our employees that did not heed our warnings".

Alternatives:

Alternative #1: Use as delivered.

Alternative #2: Create a SQR program that will update this field for all contract employees. This program would have to be run each payroll cycle after the pay sheets are created.

Alternative #3: The payroll department would have to update this field for all employees being paid by a contract for less than 12 months. This would have to be done for each employee's pay sheet every payroll cycle that they are paid using the contract pay feature.

The following table shows the pros and cons for the alternatives identified above.

#	Alternative	Pros	Cons	Notes
1	Use as delivered	<ul style="list-style-type: none"> No customization required. 	<ul style="list-style-type: none"> Need to educate employees on determining tax status and allowances for W-4. Employees have a difficult time filling out the form now and we do not want to be liable for "tax advice" when assisting them. Public relations situation when employees owe taxes at year end and fault BGSU for not withholding enough. 	Number of employees in contract pay: 250 Faculty 9 pays 236 Faculty – Fall 1,366 GA's 185 STU RA's 92 Cont Education 45 NSLA – salary 27 Admin. 9 or 10 pay Total 2,201 employees

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The following table shows the pros and cons for the alternatives identified above.

#	Alternative	Pros	Cons	Notes
2	Create SQR that will automatically update the pay sheets for all contract employees each payroll cycle.	<ul style="list-style-type: none"> Completely automates process and requires no manual effort. 	<ul style="list-style-type: none"> PeopleSoft software needs to be customized. 	Staff on 9 and 10 month contracts may have excess pay withheld due to the method used to annualize.
3	Payroll Department manually updates pay sheet.	<ul style="list-style-type: none"> No customization required. 	<ul style="list-style-type: none"> Labor intensive manual effort required for all payroll cycles. Must create a query to identify the contract employees. 	There are a large number of employees in this contract pay category.

Costs - Alternative #1: Time and resources to develop an education program for employees.

Costs - Alternative #2:

Estimated Hours for Original Implementation	40 Hours	
Estimated Cost for Original Implementation	\$ 6,000	
Estimated Hours per Each Upgrade	10 Hours	
Estimated Cost per Each Upgrade	\$ 1,500	

Costs - Alternative #3: Labor and time needed to track contract pay employees and adjust individual pay sheets.

Schedule Considerations:

The time and resources needed to develop the SQR to modify the program.

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Recommendation:

Alternative # 2 – This will lessen the negative impact of employees having their taxes under withheld. The automation of this process eliminates the manual effort that would be required each monthly payroll cycle.

Recommendation Supported By:

Name	Project Role
Larry Smith	Payroll Manager
Mike Failor	Technical Lead
James Stainbrook	Director of Financial Accounting
Gaylyn Finn	Assoc. VP of Finance, Treasurer

ESC Decision:

Vote:

Chris Dalton – For alternative #1
Linda Dobb - For alternative #1
Bahram Hatefi - Absent
Ron Lancaster - For alternative #1
Bruce Petryshak - For alternative #1
Gaylyn Finn - For alternative #1

ESC Decision Date: November 14, 2005