

## **RECOVERY OF WAGES PROCEDURES**

Payroll check or direct deposit payments [to an employee's bank account] may occur as a result of reporting errors. When errors are identified, agencies must determine if the overpayment can be recovered in a subsequent pay cycle. If not, the agency must recover the funds directly from the employee. In addition, the agency must determine the type of recovery.

### **Recovery Categories**

There are two (2) recovery categories: **Full Pay** and **Partial Pay**. Full Pay is defined as an employee being overpaid for an entire pay that they were not entitled. Partial Pay is defined as an employee being entitled to a portion of their pay, but not the entire amount.

There are two (2) subcategories: **Gross Recovery** and **Net Recovery**. Gross Recovery refers to a recovery of the total overpayment before taxes. Net Recovery refers to a recovery of the total overpayment less the applicable taxes [i.e. Federal, State, and/or FICA]. Agencies should only use the Net Recovery method when dealing with Full Pays. (See NOTE section for additional information)

### **Full Pay**

When an agency discovers that an employee was not entitled to the entire pay, they must recover the net amount of the Full Pay. When the agency collects the net amount on a Full Pay recovery, Central Payroll Bureau will attempt to recover the deductions from each vendor [that was paid as a result of the erroneous overpayment]. The vendor(s) in turn will attempt to recover the funds directly from the employee's account. (See NOTE section for additional information)

### **Partial Pay**

When an agency discovers that an employee was entitled to a portion of their pay, they are encouraged to recover the net amount of the Partial Pay. Central Payroll Bureau strongly advises agencies to recover the net amount because it reduces the financial hardship on the employee. (See NOTE section for additional information)

### **Gross Recovery**

If an agency chooses the gross recovery method, they must collect the total overpayment before taxes. Central Payroll Bureau will process a separate FICA refund check payable to the employee and the corresponding credit to the agency (if applicable). If the agency desires to be credited for unemployment insurance subsidy, they must provide the calculated subsidy amount using the appropriate fiscal year fringe rate as provided in the Employer Paid Fringe Benefits packet. All subsidies will be credited to the agency via R\*STARS interface process.

### **Net Recovery**

If an agency chooses the net recovery method, they must collect the overpayment less the applicable taxes. The calculated taxes on the overpayment must be reported on the Payroll Recovery Form [i.e. Federal, State, and/or FICA]. Again, agencies desiring to receive credit for unemployment insurance subsidy must provide the calculated subsidy amount using the appropriate fiscal year fringe rate as provided in the Employer Paid Fringe Benefits packet. All taxes and subsidies will be credited via R\*STARS interface process. (See NOTE section for additional information)

### **What Next?**

After the agency recovers the funds from the employee, they must deposit the funds into their bank account. Next, the agency must process the appropriate R\*STARS deposit transaction. Finally, the agency must complete a Payroll Recovery Form to be submitted to Central Payroll Bureau for employee record updating. (See Instructions section for completing the Payroll Recovery Form)

- **NOTE: Deduction Overdeferral.** If an employee is overpaid and deductions are withheld as a result of the overpayment, please contact Central Payroll Bureau for recovery options.
  
- **NOTE: Deferred Compensation.** If an employee is overpaid in error and the overpayment supports a supplemental retirement annuity contribution (SRA), the agency must notify Central Payroll Bureau for recovery options [i.e. 401(k), 457, 403(b), etc.].

- **NOTE: Padded Taxes.** Padded taxes refer to the additional set amount that the employee elects to have withheld from each paycheck to be forwarded to the appropriate taxing authorities [i.e. Internal Revenue Service (Federal), State of Maryland Revenue Administration (State), etc.]. When calculating taxes on an overpayment, the agency must factor the additional padded taxes. If it is not, the employee may be given too much tax credit. In addition, the agency may under-recover from the employee. Please contact Central Payroll Bureau for further instruction.
  
- **NOTE: Social Security Wage/Tax Maximum.** When calculating FICA taxes [i.e. Social Security and Medicare], the agency should not give Social Security tax credit to employees who are over the Social Security Wage maximum. For the current wage limit, please refer to:
  
  
  
  
  
  
  
  
  
  
- **NOTE: Prior Calendar Year Taxes.** When calculating taxes on an overpayment, agencies must also keep in mind that they will not receive credit for prior calendar year Federal and/or State taxes. The Internal Revenue Service and the State of Maryland Revenue Administration prohibit tax adjustments once the W-2 files have been submitted for the calendar year in question. For prior calendar year Full Pay recoveries, agencies must collect the original net amount and the Federal and/or State taxes. It will be the agency's responsibility to recover the taxes directly from the employee.
  
  
  
  
  
  
  
  
  
  
- **NOTE: Non-Recoverable Deductions.** Under certain conditions some deductions may not be recovered [e.g. non-sufficient funds, closed accounts, etc.] Examples of those types of deductions may include [but is not limited to] State Employee's Credit Union, Savings Bonds, Tax Liens, Dependent Support, Wage Garnishments, etc. In cases of non-recoverable deductions, agencies will be charged separately through R\*STARS. It will be their responsibility to recover directly from the employee. The agency should only recover when they are charged. Agencies should not notify Central Payroll Bureau of deduction recoveries that are associated with R\*STARS charge adjustments.



For questions concerning the recovery process, please contact the Central Payroll Bureau – Accounting & Reporting Unit at (410) 260-7964.

## **FORM INSTRUCTIONS**

Based on the type of recovery, the following sections **must be completed**:

### **Full Pay**

The agency must complete the Employee Information, Agency Certification, and Full Pay Recovery sections of the Payroll Recovery Form. When processing net recoveries on a Full Pay, the agency may elect to complete the Employer Subsidies To Be Recovered section; however, it is not required because the system will generate the appropriate R\*STARS credit based on the original Payroll Distribution of Charges for the pay period in question.

### **Partial Pay**

The agency must complete the Employee Information, Agency Certification, Partial Pay Recovery, Taxes To Be Recovered, and Employer Subsidies To Be Recovered sections of the Payroll Recovery Form.

## ① **EMPLOYEE INFORMATION**

- **Name** – the employee’s name as indicated on the payroll check or direct deposit advice.
- **Social Security Number** – the employee’s social security number as indicated on the payroll check or direct deposit advice.
- **Pay Period Of Overpayment** – the pay period ending that the overpayment occurred.
- **Type of Earnings** – identify if it was Regular, Overtime, Miscellaneous, etc.
- **Reason For Recovery** – the agency must provide an explanation that details why the employee was erroneously overpaid. Examples may include [but is not limited to]:
  - Employee should have been 10-days absent
  - Employee was paid for 80 hours, but should have been paid 64 hours (wrong amount)

## ② **AGENCY CERTIFICATION**

- **Telephone Number** – the contact telephone number for the agency.
- **Date** – the date the agency certified the form.
- **Agency 6-digit Appn #** – the agency six-digit appropriation number.
- **Agency Name** – the name of the local agency submitting the form.
- **Authorized by** – the agency must **print** or **type** the name of the person authorizing the form.
- **Title** – the title of the person authorizing the form.
- **Signature** – the signature of the person authorizing the form; all forms **without** a signature will be **rejected** by Central Payroll Bureau.

## ③ **FULL PAY RECOVERY** (When overpayment is for the entire pay)

- **Net Pay Amount Recovered** – the net pay amount as indicated on the payroll check or direct deposit; this should be the amount collected from the employee when the overpayment is for the entire pay.
- **Check or Deposit Advice Number** – the payroll check or direct deposit advice number as it appears on the payroll check register.

## ④ **PARTIAL PAY RECOVERY** (When overpayment is less than entire pay)

- **Amount Recovered** – the amount recovered from the employee; this is defined as the partial overpayment less the Federal, State, and/or FICA taxes; for gross recoveries, it's the total overpayment.
- **Net or Gross Recovery** – the agency must check the appropriate option; a net recovery will indicate that the agency is due the employee portion of taxes; a gross recovery will indicate that the employee is due a FICA refund (if applicable).

⑤ **TAXES TO BE RECOVERED** (Partial Pay Net Recovery Only)

- **FICA – Employee 6.2%** – the employee share of Social Security tax on the overpayment (if applicable).
- **FICA – Employee 1.45%** – the employee share of Medicare tax on the overpayment (if applicable).
- **Federal** – the Federal income tax on the overpayment (if applicable).
- **State** – the State income tax on the overpayment (if applicable).

⑥ **EMPLOYER SUBSIDIES TO BE RECOVERED** (Partial Pay Net/Gross)

- **FICA – Employer 6.2%** – the employer share of Social Security tax on the overpayment (if applicable).
- **FICA – Employer 1.45%** – the employer share of Medicare tax on the overpayment (if applicable).
- **UI Subsidy** – the unemployment insurance subsidy as calculated using the appropriate Employer Paid Fringe Benefits packet for the appropriate fiscal year rate (if applicable).
- **Ret/Pen Subsidy (Full-pay only)** – the retirement/pension subsidy as calculated using the appropriate Employer Paid Fringe Benefits packet for the appropriate fiscal year rate (if applicable).
- **Total Employer Subsidies** – the total amount of employer subsidies that the agency expects to receive credit.