

RECOVERY OF WAGE PROCEDURES

Payroll check or direct deposit payments [to an employee's bank account] may occur as a result of reporting errors in the time/pay reporting process [e.g. Exception Time Report (ETR) or Positive Time Report (PTR)]. 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**. The Full Pay recovery method is followed when an employee is not entitled to any portion of their pay. The Partial Pay recovery method is followed when an employee is entitled to a portion of their pay.

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 must use the Net Recovery method when dealing with Full Pays; however, they have the option of using the Gross or Net Recovery method for Partial Pays.

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 recover the taxes/deductions from each vendor [that was paid as a result of the erroneous overpayment]. The vendor(s) in turn will recover the funds directly from the employee's account. (See NOTES: Prior Calendar Year Taxes and Non-Recoverable Deductions)

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 asks that agencies recover the net amount to reduce financial hardship for the employee.

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 supplied 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 supplied in the Employer Paid Fringe Benefits packet. All taxes and subsidies will be credited via R*STARS interface process. (See NOTES: Deduction Overdeferral, Padded Taxes, Social Security Wage/Tax Maximum, and Prior Calendar Year Taxes)

After Agency Recover Funds, What Next?

After the agency recovers the funds from the employee, they must deposit the funds into their bank account. They must also process the appropriate R*STARS deposit transaction for their agency. Afterwards, 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)

NOTES

- **Deduction Overdeferral**. If an employee is overpaid in error and the overpayment supports a contribution(s), the agency must notify Central Payroll Bureau for recovery options [e.g. 401(k), 403(b), 457, credit union, retirement, health, etc.].

- **Padded Taxes**. Padded taxes refer to the additional set amount that the employee elects to have withheld from each paycheck to be forwarded to 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 allowed too much tax credit and the agency may under-recover from the employee. Please contact Central Payroll Bureau for further instruction.

- **Social Security Wage/Tax Maximum.** When calculating FICA taxes [i.e. Social Security and Medicare/MQGE], the agency should not give Social Security tax credit to employees who have exceeded the annual Social Security Wage maximum. For the current calendar year wage limit, please refer to:
 - www.SSA.gov
 - Go to **Questions about:**
 - Using the drop down bar, select **Taxes and Social Security**
 - Press **Go**
 - Select **Option – [What is the Social Security tax rate?](#)**

- **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 plus the Federal and/or State taxes. It is the agency's responsibility to recover the taxes directly from their employee. As calendar year end approaches, please refer to Central Payroll Bureau's website and/or memo regarding year-end adjustments and the handling of taxes.

- **Non-Recoverable Deductions.** Certain deductions are mandatory chargeback items because the funds cannot be recouped [i.e. *Dependent Support, Savings Bonds, Federal/State Tax Liens, and State Auto.*]. In such a case, these deductions should be factored when calculating what the employee owes. Other deductions may not be recovered due to non-sufficient funds, closed accounts, etc. Examples of those types of deductions may include [but are not limited to] State Employee's Credit Union, Wage Garnishments, etc. All non-recoverable deductions will be charged to the agency separately via R*STARS. It is their responsibility to recover directly from their employee. For non-mandatory chargeback items, the agency should only recover from the employee once an R*STARS chargeback appears for their agency.



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

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. The system will generate all associated R*STARS credits based on the original Payroll Distribution of Charges that occurred for that pay period [i.e. taxes, deductions, and subsidies].

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.

PAYROLL RECOVERY FORM

Mail to: Central Payroll Bureau
 Attn: Accounting & Reporting
 PO Box 2396
 Annapolis, MD 21404-2396

Fax #: (410) 974-2035
Inquiries: (410) 260-7964
 (888) 674-0019
(If faxing, do not mail hardcopy)

① **EMPLOYEE INFORMATION**

Name: _____ Social Security Number: _____
 PPE of Overpayment: _____ Type of Earnings: _____
 Reason for Recovery: _____

② **AGENCY CERTIFICATION**

Telephone Number: _____ Date: _____
 Agency 6-digit Code: _____ Agency Name: _____
 Authorized by (Print): _____ Title: _____
 Signature (Required): _____

Draft

③ **FULL PAY RECOVERY** (When overpayment is for the entire pay) – DO NOT COMPLETE LAST (3) SECTIONS

Net Pay Amount Recovered: _____ (Net amount of check or direct deposit recovered)
 Check or Deposit Advice Number: _____

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

Amount Recovered: _____
 (Check one) Recovery was _____ Net *or* _____ Gross

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

FICA – Employee 6.2% _____ Federal _____
 1.45% _____ State _____

⑥ **EMPLOYER SUBSIDIES TO BE RECOVERED** (Partial Pay Recovery)

FICA – Employer 6.2% _____ UI Subsidy _____
 1.45% _____
 Total Employer Subsidies _____

CPB USE ONLY	
R*STARS	Yes <i>or</i> No
REVL	Yes <i>or</i> No
NET	Yes <i>or</i> No
RFRC	_____
Ledger	_____
Coversheet	_____
YA – RE _____	
YA – OT _____	
YA – OE _____	
YA – Net _____	
YE – St Wgs () _____	
YE – St Tx () _____	
YD – UI (74) _____	
YD – _____	
RM – FXWgs _____	
YL – Fed Wgs _____	
YL – Fed Tx _____	
YN – FWgs _____	
YN – SS Tx/Sub _____	
YN – Med Tx/Sub _____	

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 as 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 are 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 Code** – the agency six-digit payroll code.
- **Agency Name** – the name of the local agency submitting the form.
- **Authorized by** – the agency must **print/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.
- **STOP HERE!** Do not complete *Partial Pay Recovery*, *Taxes to Be Recovered*, and/or *Employer Subsidies to Be Recovered* Sections 4 – 6.

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

- **Amount Recovered** – the amount recovered from the employee; net recovery is the overpayment less Federal, State, and/or FICA taxes; gross recovery is the total overpayment.
- **Net or Gross Recovery** – the agency must select the “Net” or “Gross” recovery 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 Recovery)

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

⑥ **EMPLOYER SUBSIDIES TO BE RECOVERED** (Partial Pay Recovery)

- **FICA – Employer 6.2%** – the employer share of Social Security tax calculated on the overpayment (if applicable).
- **FICA – Employer 1.45%** – the employer share of Medicare/MQGE tax calculated on the overpayment (if applicable).
- **UI Subsidy** – the unemployment insurance subsidy as calculated using the 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.