
STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P.O. Box 942850
Sacramento, CA 94250-5878

DATE: December 9, 2003

PAYROLL LETTER # 03-025
CIVIL SERVICE ONLY

TO: All Agencies in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services Division

RE: **ACCOUNTS RECEIVABLE (AR) OFFSET - LEAVE CREDIT USE PROCESS CHANGE (BU05 & BU06 ONLY)**

Effective immediately, this Payroll Letter replaces Payroll Letter 03-004.

This Payroll Letter provides new instructions for the Accounts Receivable (AR) Offset - Leave Credit Use Process. The process of using leave credits to satisfy ARs has been improved to allow for a payroll deduction, rather than an agency collection method. By establishing a deduction code '035' against the leave credit payment (collecting the AR via payroll deduction), the taxable gross of the leave credit payment will automatically be reduced, thus decreasing the amount of taxes owed by the employee. This method requires the employee to use fewer leave credits to satisfy the AR than the original method (excluding clearance type 5, payment type K ARs that have no taxable gross to reduce).

ELIGIBLE EMPLOYEES

The AR Offset - Leave Credit Use process is available for Bargaining Unit 05 and 06 employees per contract Article VI, Section 34.c and Article XV, Section 15.12.C.3 respectively.

ESTABLISHING THE AR

Before the AR Offset - Leave Credit Use Process can be requested, the AR to be satisfied must already be established in the SCO Payroll System as an agency collection AR.

LEAVE CREDIT USE PAYMENT / CHANGE METHOD OF COLLECTION REQUESTS

Once the AR is established as agency collection in the payroll system, a STD.674AR form should be submitted to SCO (note: the original STD.671 process no longer exists). The STD.674AR form must request that the AR method of collection be changed from agency collection to payroll deduction AND must also request the leave credit payment, for the same pay period that the AR is established. Payroll operations staff will then manually process the two requests concurrently to be sure the '035' deduction code applies against the leave credit payment to ensure that the reduction in the taxable gross occurs. To prevent any overpayments from issuing, the payment type G, payment type suffix S (Earnings ID GS), used to issue the leave credit payment, has been modified so that it will not work without a deduction code '035'.

Once the deduction code '035' is withheld from the leave credit payment, any balance remaining is issued to the employee. These payments are not subject to retirement contributions but the balance is taxable at the flat tax rate for federal and state taxes, and is subject to Social Security and Medicare tax withholding, when applicable.

FORMS SUBMISSION

The STD.674AR forms are to be submitted to:

State Controller's Office
 Personnel/Payroll Services Division
 P.O. Box 942850
 Sacramento, CA 94250-5878
 Attention: AR Unit, Denise Womack

CALCULATION

To determine the number of leave credits an employee must cash out in order to generate monies equal to the net of the AR, the following calculations must be used:

1. Determine the employee's hourly salary rate. For BU05 employees please refer to departmental procedures. For BU06 non-7k employees divide the salary rate by 168 or 176 depending upon the number of work hours in the month of the AR. For BU06 7k employees divide the salary rate by 182.

Examples:

Salary rate of \$5264 divided by 176 equals \$29.90909 hourly rate.

Salary rate of \$4759 divided by 182 equals \$26.14835 hourly rate.

2. Determine the necessary gross to be cashed out to provide a net equal to the AR by dividing the AR net by the maximum Withholding Factor of 92.35% if the employee pays Social Security and Medicare, by 98.55% if the employee pays Medicare only and by the exact AR net or 100% if the employee pays neither Social Security nor Medicare.

Examples:

Social Security & Medicare Formula

Gross	100%
Minus Social Security & Medicare	7.65%
Net	92.35%

Medicare Formula

Gross	100%
Minus Medicare	1.45%
Net	98.55%

Since the taxable gross reported on the deduction code '035' will reduce the taxable gross of the leave credit payment, it is important to calculate the amount as closely as possible to ensure the least amount of federal or state tax is withheld from the payment.

NOTE: When utilizing this process to satisfy clearance type 5, payment type K, ARs that have no taxable gross to reduce, federal and state tax will be withheld from the payment at the flat tax rate. Determine the necessary gross to be cashed out to provide a net equal to the AR by dividing the AR net by the Maximum Withholding Factor of 61.35% if the employee pays Social Security and Medicare, by 67.55% if the employee pays Medicare only and by 69% if the employee pays neither Social Security nor Medicare.

Example:

Social Security & Medicare Formula

Gross	100%
Minus Federal Tax	25 %
Minus State Tax	6 %
Minus Social Security & Medicare	7.65 %
Net	61.35%

3. Take the AR amount that is due and divide it by the formula percentage determined in step 2 above, to calculate the gross amount of the payment needed to equal the AR net amount. Then divide the result by the net hourly rate determined in step 1 above, to compute the hours of leave to be cashed out.

Example:

AR amount due of \$600.00 divided by 0.9855 equals \$608.83. This amount divided by an hourly rate of \$26.14835 equals 23.28361 hours. These hours would round to 23.50 hours of leave credits to be cashed out according to the breakdown of fractional time listed below.

.01 - .25 = .25
.26 - .50 = .50
.51 - .75 = .75
.76 - .99 = 1.00

EXCLUSIONS

Sick Leave is the only type of leave credit that cannot be used to satisfy an AR utilizing this process.

GARNISHMENTS

The AR collection deduction code '035' has a higher priority than all garnishment deduction codes. Therefore, garnishments no longer need to be considered when calculating the number of leave credits to cash out for an employee to satisfy their AR. However, if you cash out more hours than necessary, leaving a net balance, some garnishments may then apply.

DIRECT DEPOSIT

It is no longer necessary to cancel an employee's Direct Deposit status prior to participating in the AR Offset - Leave Credit Use process.

AR COLLECTION REPORTING

Now that all ARs involved in this process will be converted to payroll deduction ARs, reporting procedures are no longer needed.

CLAS

CLAS procedures, for this new process have not changed. Please continue to refer to CLAS Letter 03-003.

A PPM revision will be forthcoming. Please contact Denise Womack at (916) 445-8462 with questions regarding these instructions. Questions regarding CLAS procedures should be directed to the CLAS Liaison Unit at (916) 327-0756.

General benefit related questions regarding this payroll letter should be directed to Sandra Young at (916) 324-1293 or via email at syoung@sco.ca.gov.

JRH:SJY:PMAB