

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

DATE: December 1, 2009

PERSONNEL LETTER #09-025

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Don Scheppmann, Chief
Personnel/Payroll Services Division

RE: **CHANGES TO THE INTERNAL REVENUE SERVICE "IRS LOCK" PROCEDURES**

A recent revision to the California Code of Regulations Title 22 Section 4340-1 requires the Internal Revenue Service (IRS) lock-in determination letter to be applied to the California state tax withholding status of an employee. A lock-in determination letter results when the IRS determines that the amount of income tax withheld from the employee's pay will not adequately cover the employee's tax liability as required by IRS Code Section 3402.

Effective immediately, when the State Controller's Office (SCO) receives an IRS lock-in determination letter the marital status and exemptions specified in the letter will be applied to both the federal and state marital status and number of exemptions. To ensure compliance with the new California regulation, SCO began auditing the records of employees with an IRS lock. Records that are not in compliance will be corrected by SCO or the department/campus may be contacted to make the correction.

During the course of the auditing, it was found that some employees were no longer in compliance with their IRS lock-in determination letter. In some instances, the employee's tax status was changed to 'exempt from withholding'. An employee with an IRS lock cannot have a tax withholding status that will result in a tax withheld amount that is less than the amount specified by the IRS lock-in determination letter.

Since there can be a fine imposed by IRS for non-compliance, changes to the employment history (EH) on-line system are in progress to prevent departments/campuses from updating the tax withholding status of employees with an IRS lock. A subsequent Personnel Letter will be issued upon implementation of the system changes.

Until the system changes are implemented, if the EH on-line audit message "IRS LOCK IN EFFECT – VERIFY CHANGES COMPLY WITH IRS LOCK-IN LETTER" is received when keying an EAR tax status change verify that the new tax status will result in a higher withholding amount than the lock tax status. If it does result in a higher tax withholding amount, discontinue processing the EAR change. Submit the EAR along with a print-out of the audit message to SCO for processing. If the tax withholding amount is less than the lock tax status then return the EAR to the employee indicating that the requested change cannot be made without authorization from IRS.

For more information regarding the IRS lock- in determination letter procedures, please refer to Personnel Letter #05-003. Also, questions regarding the lock update process can be directed to Donna Collins at (916) 322-8141 or djcollin@sco.ca.gov.

DS:JG:PMAB