

Disposable Income

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What is Disposal Income?

► Disposal Income is the amount of an employees paycheck that is eligible to be garnished after all **MANDATORY** deductions have been deducted from their gross pay.



What Disposal Income is Not

► Disposal Income does not take into account things such as rent/mortgage, car payments or other things that are not considered mandatory deductions.



What is a Mandatory Deduction?

- ▶ A mandatory deduction is defined as a deductions that is required by law to be taken from an employee's gross pay.
- ▶ For a full list of mandatory deductions please refer to PPM Section H 313.



https://www.sco.ca.gov/Files-PPSD/PPM/ppm_section_h_deductions.pdf

Complete List of Mandatory Deductions

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Section H 313. DISPOSABLE EARNING (Revised 05/2018)

The term "Disposable Earnings" means that part of the individual's earnings remaining after deduction amounts required by law are withheld (U.S. Code Title 26, Sec. 3412 (b)). The "amounts required by law" include:

1. Normal percentage deductions of taxes, Social Security, Medicare, State Disability Insurance and retirement.
2. Additional tax withholding (codes 094, 095, 096, 099)
3. State Disability Insurance Adjustment (Code 600)
4. Retirement deductions:
 - Annuity retirement (codes 003, 005, 013, 032)
 - Re-annuity (code 004, 014, 030)
 - Sacrifice benefits (code 076, 077)
5. Amounts due and owing the agency:
 - Account receivable deductions (code 033) to be deducted from the pay period that is subject to the garnishment.
 - Maintenance deductions (codes 021, 022) to be deducted from the pay period that is now subject to the garnishment.
 - The amount owing agency indicated on form STD-630.
6. Social Security adjustments (codes 097, 098) or Medicare adjustments (codes 091, 092).
7. Union dues if required as a condition of employment.
8. The "Support Exemption amount" entered on form STD-630.

The support exemption amount will be computed by pay period type as follows:

If paid: Reduce the disposable earnings by the support exemption amount:

Tidality	- entire amount
Semi-monthly	- divided by 2
Bi-monthly	- multiplied by 12 ÷ 10



Let's head to the important part...

How to Calculate Disposable Income

When do I have to calculate disposable income?

- ▶ Certain garnishments do list an amount that must be garnished but instead list a percentage of the employees disposable. When this is the case then you should always calculate disposable income.
- ▶ My advice though is to calculate the employees disposable income anytime you receive a garnishment even if the garnishment doesn't require it.



What is disposable income?

- a. All of the income that is left over after we account for all of the employees expenses
- b. Money that we can throw away
- c. Amount of money remaining after deducting all mandatory deductions from employees gross pay
- d. Amount of money remaining after deducting all mandatory deductions from employees net pay

What deductions do we take from the first page of pay history?

- a. Federal Tax, State Tax and SDI
- b. Federal Tax, Medicare, Social Security
- c. Federal Tax, State Tax, Social Security, Medicare, Retirement and SDI
- d. None of the above

Final Thoughts

- ▶ Always have the PPM Section H 313 available when calculating disposable income
- ▶ Remember that disposable income can change when an employees salary changes
- ▶ Calculate disposable income for every garnishment
- ▶ OPEB must be counted in calculation
- ▶ Don't over think it!

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Please email me with any questions you may have. I'm happy to help!


