How PPC Calculates Taxes on In-Service Debts

NOTE: Federal and state taxes vary based upon each individual member's elections and legal state of residence. There can be additional variations in taxes depending on changes to pay, changes to tax laws, and the member's tax elections, etc. Because of these variations, PPC bases calculations for taxes on what has actually been deducted. PPC does **not** use tax brackets (or other rates, etc.) to determine "pay-off" amounts. PPC does **not** serve as an Internal Revenue Service (IRS) or a certified tax professional. Any final tax adjustments will be processed when the member files their annual income taxes; and the IRS will determine the final balance considering tax brackets and other variables, as mentioned above. The member is responsible for ensuring the appropriate taxes are paid.

See below generic examples and details of a net and a gross pay-off. Real examples appear on pages 2-7.
*** NOTICE: The difference between the below "pay-off" amounts is $240 for the same debt. If the member does not navigate the process carefully, tax credits could be delayed. Larger debts may have larger variations.

Generic Example:
Paying off the **net** amount (this is only possible if the entire overpayment was received in the current year).

In this example, the member was overpaid $1,000.00 for Basic Pay. Direct Access had previously deducted an average of 14.8% (varies by member) per paycheck for federal taxes (FITW). Direct Access had previously deducted an average of 9.2% (varies by member) per paycheck for state taxes (SITW). When necessary, PPC calculates the member's average FITW and SITW based upon the most recent (3) end-of-month pay calendars.

If the member calls PPC Customer Care to repay the lump-sum debt, the "pay-off" amount will be calculated by PPC, as follows:

Current year taxable debt (Ex: Basic Pay)	$1,000
Minus federal taxes withheld (Ex: 14.8% *varies by member)	$- 148
Minus state taxes withheld (Ex: 9.2% *varies by member)	$- 92
Net "pay-off" amount	**$ 760**

After the member repays the debt in full, PPC will ensure the In-Service Debt is closed and PPC will ensure tax accumulators are adjusted accordingly.

Generic Example:
Paying off the **gross** amount:

In this example, the member was overpaid $1,000.00 for Basic Pay in a previous year. Direct Access may have previously deducted taxes; however, PPC cannot adjust prior year taxes (due to IRS laws). At the end of the year, the W-2 is finalized and the IRS is in control of that money: PPC cannot get it back. The member must file their income taxes to reconcile with the IRS (i.e. tax credit / refund).

Prior year taxable debt (Ex: Basic Pay)	$1,000
Taxes for prior year debts CANNOT be deducted	$- 0
Gross "pay-off" amount	**$1,000**

After the member repays the debt in full, the member can request a Tax Certificate that PPC will provide. The member can file the Tax Certificate along with their end-of-year annual taxes to receive a tax credit. Consulting a tax professional is recommended.

Real Example:
Member receives a Notice of Overpayment.

U.S. Department of Homeland Security
United States Coast Guard

Commanding Officer
United States Coast Guard
Pay & Personnel Center

444 SE Quincy St
Topeka, KS 66683-3591
Staff Symbol: MAS
Phone: (785) 339-2200
Fax: (785) 339-3772

7430
17 May 2018

MEMORANDUM

From:
CG PPC (mas)

To:
CG MIFC PAC

Subj: NOTICE OF OVERPAYMENT

Ref: (a) USCG Pay Manual, COMDTINST M7220.29 (series)
(b) Personnel and Pay Procedures Manual, PPCINST M1000.2 (series)

1. Recently processed pay-related transactions have resulted in a $3,818.25 overpayment. Enclosure provides a breakdown of this overpayment.

2. Coast Guard policy in reference (a) permits collection of this debt in installments through deduction from your pay. Under the statutes, the maximum monthly amount collected cannot exceed 15% of disposable pay. If repaid by installment, 31 U.S.C. 3717 requires interest and administrative charges assessed on all debts unless waived. We have waived these charges in your case, per paragraph 11-B-5 of reference (a).

3. Repayment from your pay will begin at 15% installments of your available pay per month beginning 1 July 2018. The monthly amount could fluctuate based on your disposable income. Please notify your Command if you want to propose a different repayment schedule based upon your financial situation. A revised collection schedule must allow for collection of the debt before your separation. Repayment schedules for less than 10% of disposable pay will only be approved in cases of legitimate financial hardship. For these situations, you must provide a financial statement, Form CG-5489B. See enclosure (1) of reference (b). For lump sum repayment options, please see Chapter 9.A of reference (b): http://www.dcms.uscg.mil/Portals/10/CG-1/PPC/pppm/CHAP09.pdf. When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.

4. You have the right to inspect and copy government records and review all decisions related to the debt. For copies of government records and/or an explanation of the nature of the debt, contact your servicing SPO. You have the right to ask for a waiver or remission of the debt in accordance with sections 11-F and 11-G of reference (a) and chapter 9 of reference (b). If separated early, we will collect any debt remaining at separation in lump sum from your final pay and allowances.

5. This is notice under 11 U.S.C. 342 should you contemplate relief under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. Should you file litigation, including action under Title 11, U.S. Code, you must include your Employee ID Number (cited on the attached Summary of Overpayment) on such filing. You must also provide notification of such filing to the following address: Commanding Officer (LGL), USCG Pay & Personnel Center, 444 SE Quincy Street, Topeka, KS 66683-3591.

#

Enclosure: (1) Summary of Overpayment

Copy: CG BASE Alameda (spo)

In mid-April 2018, a member was overpaid. This member had a debt due to erroneous receipt of pay and allowances from 04/01/2018 to 04/15/2018 for Title 10 Reserve Orders that ended 03/31/2018.
Notice the difference between the Gross Result Value and the Net Result Value in Pay Calculation Results. This alludes to tax implications.

Calendar Group Results | Earnings and Deductions | Accumulators | Supporting Elements

Employee   **Empl ID**   **Empl Record** 0

Calendar Group ID C118040   201804 On-Cycle AD Mid Month

Calendar Information   Find First 2 of 2 Last

Calendar ID CG ACT 2018M04M   **Pay Group** USCG

Segment Number 1   **Version** 1   **Revision** 1

Gross Result Value 3,818.25 USD   **Net Result Value** 3,158.03 USD

Earnings & Deductions   Personalize | Find | View 5 | First 1-11 of 11 Last

Element Results | Components | Retro Adjustments | Deduction Arrears | User Fields

Element Type	Element Name	Amount	Description	Instance	Slice Begin Date	Slice End Date	Resolution Details
Earnings	BAH	1213.500000	Basic Allowance for Housing	0	04/01/2018	04/15/2018	Resolution Details
Earnings	BAS	127.200000	Basic Allow for Subsistence	0	04/01/2018	04/15/2018	Resolution Details
Earnings	BASIC PAY	2477.550000	Basic Pay	0	04/01/2018	04/15/2018	Resolution Details
Deduction	FWT	341.960000	FIT Withholding	0	04/01/2018	04/15/2018	Resolution Details
Deduction	MEDICARE EE	35.920000	Medicare Tax	1	04/01/2018	04/15/2018	Resolution Details
Deduction	MEDICARE ER	35.920000	ER Medicare Tax	1	04/01/2018	04/15/2018	Resolution Details
Deduction	OASDI EE	153.600000	OASDI Tax	1	04/01/2018	04/15/2018	Resolution Details
Deduction	OASDI ER	153.600000	ER OASDI Tax	1	04/01/2018	04/15/2018	Resolution Details
Deduction	SGLI	14.000000	Servicemembers Group Life Ins	0	04/01/2018	04/15/2018	Resolution Details
Deduction	SWT	114.240000	State Income Tax	1	04/01/2018	04/15/2018	Resolution Details
Deduction	TSGLI	0.500000	Traumatic SGLI	0	04/01/2018	04/15/2018	Resolution Details

Return to Search | Previous in List | Next in List | Notify

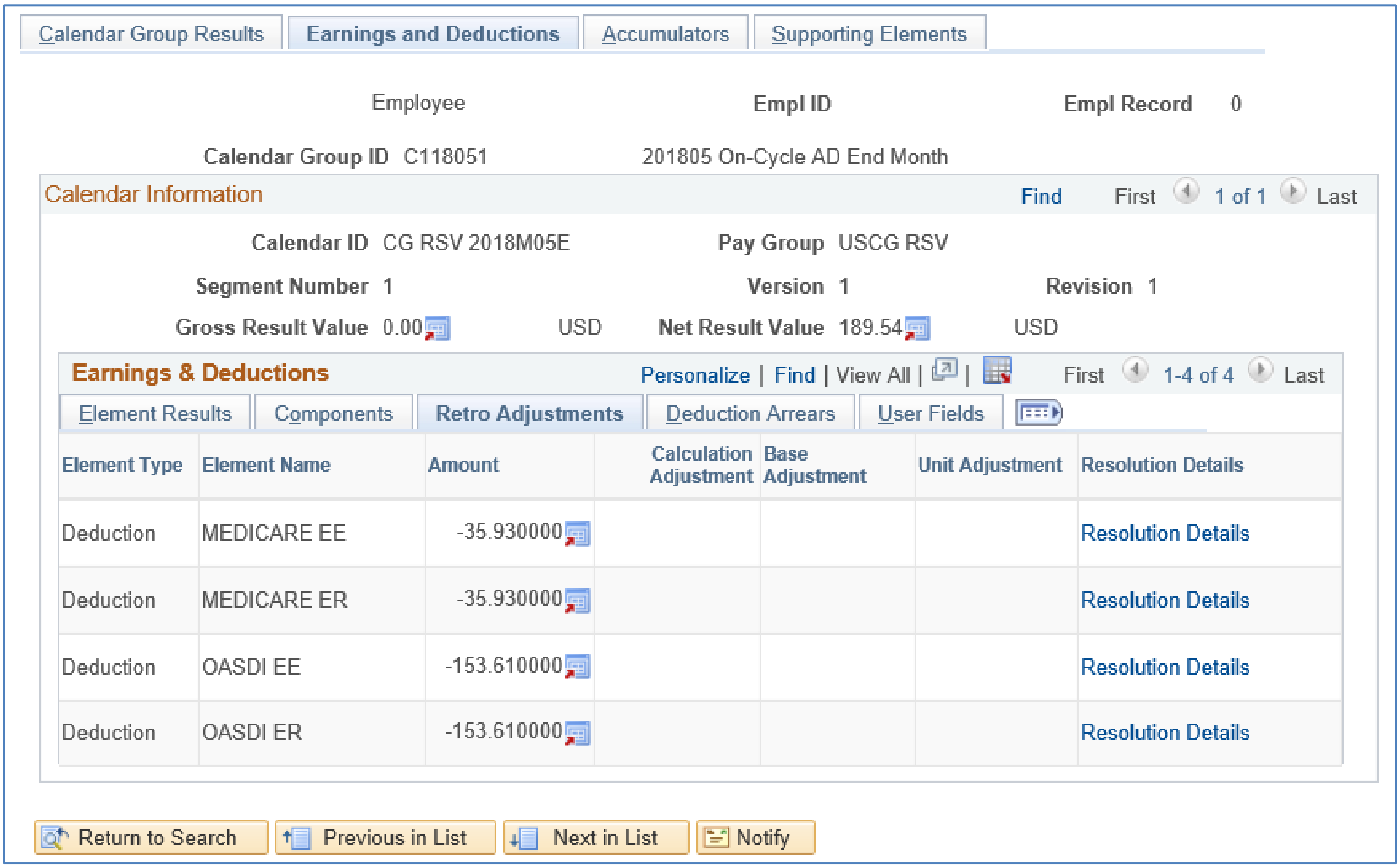
Calendar Group Results | Earnings and Deductions | Accumulators | Supporting Elements

In-Service Debts were built for the gross pay amounts, as follows:

PAY ITEM	RATE TYPE	GRADE	STEP	PERIOD START	PERIOD END	YEARS	MONTHS	DAYS	RATE PAID (PAY CALCS)	TOTAL PAID (PAY CALCS)	CORRECT RATE	CORRECT TOTAL	DIFFERENCE
BAH W/O DEP	M			04/01/2018	04/15/2018	0	0	15	2,427.00	1,213.50			-$1,213.50
BAS OFF	M			04/01/2018	04/15/2018	0	0	15	254.39	127.20			-$127.20
BASIC PAY	M			04/01/2018	04/15/2018	0	0	15	4,955.10	2,477.55			-$2,477.55

The total gross amount is $3,818.25.
The member actually received a net pay amount of $3,158.03.
The following tax deductions were made:
$341.96 FWT withheld / $2477.55 Basic Pay ~ 13.8% FWT tax rate
$114.24 SWT withheld / $2477.55 Basic Pay ~ 4.6% SWT tax rate
$35.92 Medicare EE withheld / $2477.55 Basic Pay = 1.45% Medicare rate
$153.60 OASDI EE withheld / $2477.55 Basic Pay = 6.2% OASDI rate

FICA (Medicare + OASDI) for system generated overpayments is automatically credited on the following pay calendar. In this case, the member does not have current calendar earnings therefore; the FICA refund is disbursed to the member in full. If the member does have current pay calendar earnings, he/she will receive the credit and it will be offset by current calendar FICA due. *Rounding differences may apply.



Calendar Group Results | Earnings and Deductions | Accumulators | Supporting Elements

Employee | Empl ID | Empl Record 0

Calendar Group ID C118051 201805 On-Cycle AD End Month

Calendar Information — Find | First 1 of 1 Last

Calendar ID CG RSV 2018M05E | Pay Group USCG RSV
Segment Number 1 | Version 1 | Revision 1
Gross Result Value 0.00 USD | Net Result Value 189.54 USD

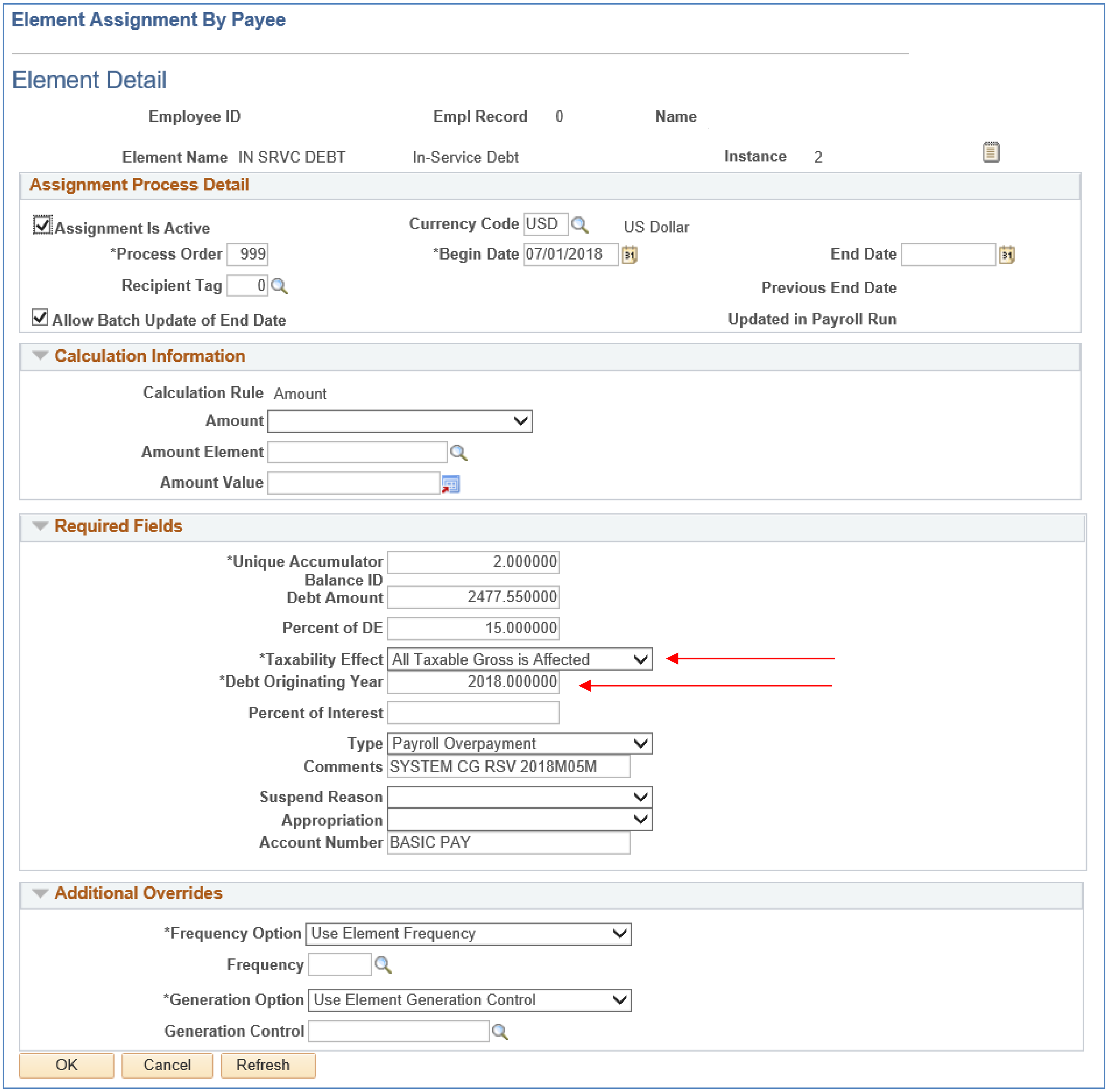
Earnings & Deductions — Personalize | Find | View All | First 1-4 of 4 Last

Element Results | Components | Retro Adjustments | Deduction Arrears | User Fields

Element Type	Element Name	Amount	Calculation Adjustment	Base Adjustment	Unit Adjustment	Resolution Details
Deduction	MEDICARE EE	-35.930000				Resolution Details
Deduction	MEDICARE ER	-35.930000				Resolution Details
Deduction	OASDI EE	-153.610000				Resolution Details
Deduction	OASDI ER	-153.610000				Resolution Details

Return to Search | Previous in List | Next in List | Notify

The BASIC PAY debt is taxable (FICA, FITW, SITW).
The Taxability Effect of In-Service Debt Instance #2 is “All Taxable Gross is Affected.”
The Debt Originating Year is “2018.”
Because 2018 is in the current year, this debt is eligible for a net repayment.


Element Assignment By Payee

Element Detail

Employee ID | Empl Record 0 | Name

Element Name IN SRVC DEBT | In-Service Debt | Instance 2

Assignment Process Detail

Assignment Is Active | Currency Code USD | US Dollar
*Process Order 999 | *Begin Date 07/01/2018 | End Date
Recipient Tag 0 | Previous End Date
Allow Batch Update of End Date | Updated in Payroll Run

Calculation Information

Calculation Rule Amount
Amount
Amount Element
Amount Value

Required Fields

*Unique Accumulator Balance ID 2.000000
Debt Amount 2477.550000
Percent of DE 15.000000
*Taxability Effect All Taxable Gross is Affected
*Debt Originating Year 2018.000000
Percent of Interest
Type Payroll Overpayment
Comments SYSTEM CG RSV 2018M05M
Suspend Reason
Appropriation
Account Number BASIC PAY

Additional Overrides

*Frequency Option Use Element Frequency
Frequency
*Generation Option Use Element Generation Control
Generation Control

OK | Cancel | Refresh

After the member contacts PPC Customer Care to make a lump-sum repayment, the net “pay-off” amount would be calculated by PPC as follows:

Gross taxable debt amount	$ 2477.55
Minus FWT	- 341.96
Minus SWT	- 114.24
Net pay-off amount	**$ 2021.35**

In-Service Debt Instance #3 was for BAS OFF, which is not taxable. This must be repaid in full.

Element Assignment By Payee

Element Detail

Employee ID | Empl Record 0 | Name

Element Name IN SRVC DEBT | In-Service Debt | Instance 3

Assignment Process Detail

☑ Assignment Is Active	Currency Code USD US Dollar	
*Process Order 999	*Begin Date 07/01/2018	End Date
Recipient Tag 0		Previous End Date
☑ Allow Batch Update of End Date		Updated in Payroll Run

Calculation Information

Calculation Rule	Amount
Amount	
Amount Element	
Amount Value	

Required Fields

*Unique Accumulator Balance ID	3.000000
Debt Amount	127.200000
Percent of DE	15.000000
*Taxability Effect	No Taxable Gross is Affected
*Debt Originating Year	2018.000000
Percent of Interest	
Type	Payroll Overpayment
Comments	SYSTEM CG RSV 2018M05M
Suspend Reason	
Appropriation	
Account Number	BAS OFF

Additional Overrides

*Frequency Option	Use Element Frequency
Frequency	
*Generation Option	Use Element Generation Control
Generation Control	

OK | Cancel | Refresh

In-Service Debt Instance #4 was for BAH W/ DEP, which is not taxable. This must be repaid in full.

Element Assignment By Payee

Element Detail

Employee ID | Empl Record 0 | Name

Element Name IN SRVC DEBT | In-Service Debt | Instance 4

Assignment Process Detail

☑ Assignment Is Active | Currency Code USD US Dollar

*Process Order 999 | *Begin Date 07/01/2018 | End Date

Recipient Tag 0 | Previous End Date

☑ Allow Batch Update of End Date | Updated in Payroll Run

Calculation Information

Calculation Rule Amount

Amount

Amount Element

Amount Value

Required Fields

*Unique Accumulator Balance ID 4.000000

Debt Amount 1213.500000

Percent of DE 15.000000

*Taxability Effect No Taxable Gross is Affected

*Debt Originating Year 2018.000000

Percent of Interest

Type Payroll Overpayment

Comments SYSTEM CG RSV 2018M05M

Suspend Reason

Appropriation

Account Number BAH W/O DEP

Additional Overrides

*Frequency Option Use Element Frequency

Frequency

*Generation Option Use Element Generation Control

Generation Control

OK | Cancel | Refresh

The grand total **net** repayment amount is:

ISD#2 $ 2021.35 (taxes adjusted by PPC)
+ ISD#3 $ 127.20
+ ISD#4 $ 1213.50

Net payoff $ 3362.05

Alternately, the member may choose to allow payroll deductions to repay the debt incrementally per pay period. The FICA credit will process in the same manner, i.e. on the pay calendar following the system generated debt. All payroll deductions applied to taxable debts in the current calendar year/debt originating year will automatically generate the corresponding incremental FWT and SWT credits and apply them to the member's pay. However, any portion of the taxable debt that is NOT paid off by the end of the debt originating year, will NOT receive FWT and SWT credits for repayments received in subsequent years. A tax certificate can be requested for subsequent year repayments once the debt is paid in full.

Tax Certificate Example:

U.S. Department of Homeland Security
United States Coast Guard

Commanding Officer
United States Coast Guard
Pay & Personnel Center

444 SE Quincy St
Topeka, KS 66683-3591
Staff Symbol: MAS
Phone: (785) 339-2200
Fax: (785) 339-3772

7200
25 Jan 2018

MEMORANDUM

From: A. B. Spinolli, CWO2
CG PPC (mas)

To: O. J. Simpson, LTJG
CG AIRFAC Muskegon

Subj: TAX CERTIFICATE

Ref: (a) Publication 5, IRS Circular E (Employer's Tax Guide)

1. This is to certify you have made payments to the U. S. Coast Guard, IRS tax ID # 52-9981234, totaling $12,345.67 in calendar year 2018 for an overpayment of earnings issued in the 2017 calendar year. The $12,345.67 has not been deducted from your current year taxable wages.

2. Per reference (a), this certificate is provided for filing with your annual income tax return. You may be entitled to a deduction (or credit in some cases) for the repaid wages on your income tax return for the year of repayment. We suggest that you contact a tax consultant or the Internal Revenue Service if you need assistance. Please retain this certificate for filing with your tax return.

#