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.

**NOTE:** 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.

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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.
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-I/PPC/pppm/CHAP09.pdf](http://www.dcms.uscg.mil/Portals/10/CG-I/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.

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

<table>
<thead>
<tr>
<th>PAY ITEM</th>
<th>RATE TYPE</th>
<th>GRADE</th>
<th>STEP</th>
<th>PERIOD START</th>
<th>PERIOD END</th>
<th>YEARS</th>
<th>MONTHS</th>
<th>DAYS</th>
<th>RATE PAID (PAY CALCS)</th>
<th>TOTAL PAID (PAY CALCS)</th>
<th>CORRECT RATE</th>
<th>CORRECT TOTAL</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAH W/O OSP</td>
<td>M</td>
<td></td>
<td></td>
<td>04/01/2018</td>
<td>04/15/2018</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>2,472.00</td>
<td>1,213.50</td>
<td></td>
<td></td>
<td>-1,213.50</td>
</tr>
<tr>
<td>BAS OFF</td>
<td>M</td>
<td></td>
<td></td>
<td>04/01/2018</td>
<td>04/15/2018</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>254.39</td>
<td>127.20</td>
<td></td>
<td></td>
<td>-127.20</td>
</tr>
<tr>
<td>BASIC PAY</td>
<td>M</td>
<td></td>
<td></td>
<td>04/01/2018</td>
<td>04/15/2018</td>
<td>0</td>
<td>0</td>
<td>15</td>
<td>4,955.10</td>
<td>2,477.55</td>
<td></td>
<td></td>
<td>-2,477.55</td>
</tr>
</tbody>
</table>
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.
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.

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

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:

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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.