Error Report 1586

Error Report 1586 indicates a problem with the calculation of Medicare tax for employees with a Medicare–taxable gross in excess of $999,999.99 during a tax year.

In 1984, the limit on the maximum gross subject to Medicare taxation was removed. However, in case the limit needed to be restored in the future, the limit mechanism was not removed, but was modified as follows:

1. System Parameter 010 (Maximum Medicare Gross) was set to a value of 999999.9999, the largest possible parameter value.

2. Recognizing that there were employees making in excess of $99,999.99 per year, the parameter value was multiplied by 100 when it was loaded into the Medicare limit field, yielding an effective Medicare limit of $9,999,999.99. This limit value is loaded into copymember CPLNKNET and stored in a field defined as PIC S9(7)V99, which is large enough to contain it.

3. For the actual calculation of an individual employee’s Medicare tax, the limit is transferred from its holding area in CPLNKNET to field XFIC-MAX-MED-GRS in copymember CPWSXFIC. Unfortunately, that field was erroneously
declared as PIC S9(6)V99. The effect of this error is that the Medicare limit value is truncated to $999,999.99, so the Medicare tax deduction is stopped for all employees making in excess of that amount.

Copymembers

CPWSXFIC

The picture for field XFIC-MAX-MED-GRS has been expanded to PIC S9(7)V99 to match the holding area and allow the limit to be $9,999,999.99.

Test Plan

To test the installation of this release, perform a regression test similar to the one described below, which was performed at UCOP:

1. Use SPUFI or another direct update tool to modify employees on your test EDB so that

   - One or more FICA-Eligible employees to be paid on the test cycle have a year-to-date OASDI Gross set to the current OASDI limit, the year-to-date OASDI Tax set to the value appropriate for that limit, the year-to-date Medicare Gross set to just slightly below $1,000,000.00, and the year-to-date Medicare Tax set to the value appropriate for the Medicare Gross.

   - One or more FICA-Eligible employees are set up as above, however the year-to-date Medicare Gross is set to exactly $1,000,000.00, and the year-to-date Medicare Tax is set to $14,500.00.

   - One or more FICA-Eligible employees are set up as above, however the year-to-date Medicare Gross is set to amounts in excess of $1,000,000.00, and the year-to-date Medicare Tax is set to the value appropriate to the Medicare Gross.

2. Run a compute process using the unmodified compute, paying each of the test employees and observe the results. “Normal” test employees, with grosses below $999,999.99 should show regular Medicare Tax deductions. For the three specific groups identified above, employees in the first group should have Medicare Tax withheld on the pay amount which remains below the $999,999.99 limit; no deduction should occur for pay amounts causing the year-to-date Medicare Gross to be above that dollar limit. There should be no Medicare Tax deduction for employees in the second or third group.

3. Modify the compute process per the instructions below and rerun the same compute, using the modified compute process. Comparison of the results should show that Medicare Tax deductions are taken against all Medicare-Eligible pay received by employees in all three test groups. Machine comparison of PAR and EDB Change files should show that the only differences between the “before” and “after” computes are related to the extra Medicare Tax withheld.

Installation Instructions

1. Install the modified copymember CPWSXFIC

2. Compile and link PPFICA (into both the batch and on-line load libraries)

3. DB2 pre-compile, compile and link PPNETCLC (into both the batch and on-line load libraries; no bind is necessary, the only SQL in PPNETCLC is for includes).

4. Perform the above-described regression test plan.
5. Install the program in production.

Functional Note

Please note that if your campus has one or more employees who have already been paid a Medicare gross in excess of $999,999.99, the installation of this release will not automatically correct the Medicare tax for those employees. Installation of this release will cause resumption of the Medicare taxation that was improperly suspended, but will not cause the tax to be taken for any salary which has already been paid and from which no tax has been withheld. In order to identify affected employees and correct their Medicare taxation, perform the following steps:

1. Using a query tool, identify all employees with a year-to-date Medicare Gross (DE EDB5510) of $999,999.99. This will be the value for all employees who have reached or exceeded the limit that was being improperly applied. No corrections are necessary if no employees meet this criterion.

2. For each such employee, determine the total amount of Medicare-eligible pay received during the current tax year.

3. For each employee with a total amount of Medicare-eligible pay in excess of $999,999.99, create a Dollar Adjustment transaction, adding the difference between the total amount of eligible pay determined in the previous step and $999,999.99 to the year-to-date Medicare Gross (DE EDB5510).

4. Process the Dollar Adjustment transactions into the employee’s next regular payroll cycle. The adjustment transactions may be processed along with the employee’s regular pay, as the adjustments are posted prior to processing deductions, or they may be processed separately, into any earlier payroll cycle. The Medicare deduction routine will withhold taxes on the amount of the adjustment plus the amount of any current pay.

Timing of Installation

The installation of this release is Urgent for campuses with employees who have exceeded $999,999.99 in Medicare-eligible pay during this tax year or who will exceed that limit amount prior to the end of the tax year, otherwise the installation is non-urgent.

As usual, campuses are encouraged to install this release in as timely a fashion as possible, and in the normal numeric sequence of releases.

If there are any questions, please send electronic mail to Jerry.Wilcox@ucop.edu, or call at (510) 987-0516.

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