ADDENDUM TO SR#14863
ADVANCE EIC PAYMENTS
March 1, 2002

This addendum is to address when an employee claims exempt status from federal income tax withholding but continues to be eligible to receive advance Earned Income Credit (EIC) payments.

According to IRS Circular E, if an employee claims exempt from federal income tax withholding and there is no gross to calculate the EIC payment, then the employer is to use the OASDI or Medicare gross to determine the payment amount. Currently, the Payroll/Personnel System (PPS) only invokes this process when an employee claims "99" withholding allowances and not "999", and the OASDI gross is used. The "99" needs to be corrected to "999". (Note: If an employee has no federal taxable gross and no OASDI gross, the system calculates a $0.00 EIC payment. The University has several employees who may not have an OASDI gross (e.g. Safe Harbor, etc.). In order to include a larger population of low-income wage earners (part-time employees), the Medicare gross (EDB 5510) should be used instead.

In addition, to determine whether the EIC earnings limit has been reached, the federal taxable gross cannot always be used because of an employee's exempt status, as mentioned above. To appropriately determine the earnings limit, the procedures described below should be followed.

**New Data Element**

A new data element is required to store the current Medicare gross used to determine the EIC earnings limit. The cumulative total in this new YTD field must be added to the employee’s YTD Federal Taxable gross whenever the employee claims exempt from withholding (EDB 0128 = 999). See Attachment 1 for the suggested name (EIC Year-to-Date Exempt Gross) and sample data element definition.

**Process**

1. **Exempt Employee**

   During each compute, if the employee’s witholding allowance is equal to “999”, then the current pay subject to Medicare gross must be used. This amount is to be stored in the new EIC YTD Exempt Gross bucket. To determine if the employee (whose EIC indicator = 1.00, 2.00, or 3.00) has reached the earnings limit or not, the YTD Federal Taxable gross must be added to the EIC YTD Exempt gross. If the sum equals or is greater than the limit, then no EIC payment is to be calculated.

   See the table below for an example:

<table>
<thead>
<tr>
<th>Month</th>
<th>#WH Allow (0128)</th>
<th>Current Pay Subject to Fed Gr</th>
<th>Fed YTD (5502)</th>
<th>Current Pay Subject to Med Gr</th>
<th>Medicare YTD (5510)</th>
<th>EIC YTD (xxx) from current pay subj to Med Gr when #WH = 999</th>
<th>YTD Earnings Check</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>010</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1000</td>
<td>+</td>
<td>1000</td>
<td>1000</td>
<td>0</td>
<td>1000</td>
</tr>
<tr>
<td>Feb</td>
<td>010</td>
<td>1000</td>
<td>2000</td>
<td>1000</td>
<td>2000</td>
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<td>2000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2000</td>
<td>+</td>
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</tr>
<tr>
<td>Mar</td>
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<td>1000</td>
<td>3000</td>
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<td>1000</td>
<td>3000</td>
</tr>
<tr>
<td>Apr</td>
<td>999</td>
<td>0</td>
<td>2000</td>
<td>1000</td>
<td>4000</td>
<td>2000</td>
<td>4000</td>
</tr>
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<td>2000</td>
<td>2000</td>
<td>5000</td>
</tr>
</tbody>
</table>

2. **Non-exempt EIC Employee**
If the employee's withholding allowance is other than "999", the same process can still be used. The YTD EIC Exempt Gross bucket will contain $0.00 for those computes.
Online Screens

The IBAL screen should be modified to include the new gross.

Also, please change "OS DED 1" to "OS Ded 1".

ATTACHMENT 1

System Number: EDBxxxx-x

User Access Name:

Programming Name:

Revision Date:

Comments:
Source(s): Calculation, Reporting
Location(s):

**Name:** EIC YEAR-TO-DATE EXEMPT GROSS

**Type:** NUMERIC

**Length:** 9

**Format:** 7v2

**General Description:**

The year-to-date OASDI gross accumulated when the employee claims exempt from federal withholding. This amount is used in determining if the employee has reached the EIC earnings limit.

**Code Interpretation:**

N/A