RELEASE 1721

New Federal Tax Withholding Rules for Nonresident Aliens
Service Request 81561

Detail Design Document for Phase 1

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Introduction

Service Request 81561 provides the following background for this project:

“The Internal Revenue Service (IRS) issued new rules (Notice 2005-76) for determining the amount of Federal withholding tax employers must withhold from salaries and wages paid to nonresident alien (NRA) employees employed in the United States. Because certain NRA employees were experiencing over withholding of income tax on their wages for services performed within the United States, the IRS reconsidered the requirements for determining the amount of income tax to be withheld under section 3402 from the wages of nonresident alien employees. These new rules are designed to provide for withholding on the wages of a NRA employee that more closely approximates the income tax liability of the NRA. The changes also include new rules for NRA employees in completing Form W-4, Employee’s Withholding Allowance Certificate.”

The requirements in Service Request 81561 ask that the Payroll/Personnel System (PPS) be modified to eliminate the current method of establishing a special NRA Federal Withholding Tax (FWT) deduction (currently $33.10 per month) for employees with Citizenship Status Code of “N” or “A”. This special NRA FWT deduction is deducted in the compute in addition to the regular FWT deduction from the Federal Tax Table. Instead, PPS should use the new method prescribed by the IRS to calculate the appropriate FWT for nonresident alien employees. This method involves basing the lookup in the Federal Tax Table on a calculated amount that is equal to the employee’s Federal Taxable Gross plus a fixed amount determined by primary pay cycle. Currently, these amounts are:

- $221.00 – Monthly
- $102.00 – Biweekly
- $110.00 – Semi-monthly

The requirements specify that the new calculation method must be put in place with the first pay cycle with a 2007 check date.

Processing Overview

Control Table Changes

GTN Table

Existing Gross-to-Net (GTN) number 301 will be set to inactive status effective with the first pay cycle with a 2007 check date. This will allow adjustments to be processed
against that GTN, but no new deductions will be taken. Transactions to set GTN 301 to zero will be provided from UCOP with other calendar year-end CTL Table updates.

**System Parameter Table**

Three new entries (118, 119, and 120) will be made available in the System Parameter Table to carry the extra amount to be added to the Federal Taxable Gross for purposes of the calculation of the FWT deduction for nonresident aliens.

Additionally, at Calendar Year Begin, System Parameter 074 (used to establish the existing NRA GTN 301 amount) will be set to zero, effectively disabling enrollment in the NRA additional Federal withholding tax.

**EDB Maintenance Changes**

The EDB Maintenance process will be modified so that a NRA FWT deduction is not automatically established under Gross-to-Net 301 for employee records with Citizenship Status Code values of “N” or “A”.

Calendar Year-to-Date maintenance will be modified to include temporary code for this year to initialize any values associated with the existing NRA deduction, GTN 301.

**Compute Process Changes**

The Compute process will be modified to perform a special calculation to determine the FWT deduction when the employee’s Citizenship Status Code is “N” or “A”. An additional amount, based on the employee’s Primary Pay Cycle, will be retrieved from the System Parameter Table. For calculation purposes only, this additional amount will be added to the employee’s Federal Withholding Taxable Gross for the pay cycle. The resulting amount will be used to look up the appropriate FWT from the Federal Tax Table. Note that this amount does not increase employee’s FWT gross on the EDB or the PAR; it is used solely for purposes of calculating the Federal Withholding tax. For example:

During the Monthly compute, an employee with Citizenship Status Code “A” receives $2000.00 in total regular pay. There are two pre-tax reductions: a $21.00 DCP deduction, and a $50.00 HCRA deduction. The FWT Gross for this compute is $1929.00 (2000 – 21 – 50 = 1929). The compute process will retrieve an additional amount for the monthly pay cycle, $221.00, from the System Parameter Table. This amount is added to the employee’s FWT Gross, giving a result of $2150.00 (1929 + 221 = 2150). $2150.00 is used to look up the tax in the Federal Tax Table. The PAR file and the pay advice will show an FWT Gross of $1929.00.
Rush Check Process and Overpayment Process Changes

Equivalent changes to those made in the batch compute will be made to allow the on-line Rush Check and Overpayment processes to correctly calculate the FWT deduction for NRA employees.

Two Phase Implementation

The calculation of the FWT for employees must be done using the current method for all pay cycles with a 2006 check date, and must be done using the new method starting with the first pay cycle with a 2007 check date. This results in a very narrow window for implementation of the required system changes, at calendar year end when many other critical processes must also take place in a narrow time span. To address this time constraint the modifications will be released in two phases.

Phase 1

The first phase of the project will include:

- The updates to assign three new System Parameter numbers to record the additional amounts to be used in the calculation of the FWT for NRA employees
- Modifications to the compute to pass the appropriate additional value from the System Parameter Table, add that amount to the Federal Withholding Taxable Gross, and look up the Federal Tax based on the calculated value
- Equivalent modifications to the Rush Check and Overpayment process to calculate the FWT for NRA employees

Note: Temporary code will be added to the compute to look at the Check Date, so that the new calculation will not be done for any pay cycle where the check date is prior to January 1, 2007. This will allow phase 1 to be tested and installed at any time, giving campuses more flexibility in the installation schedule.

- Modifications to Calendar Year End maintenance to initialize the G-balance for existing NRA deduction GTN 301.
Phase 2

The second phase of the project will include:

- The updates to the EDB maintenance process to remove logic for the establishment of the NRA tax in GTN 301 (Note that an update to System Parameter 074 will be supplied with year end transactions, so no deductions will be established in 2007; changes to the EDB maintenance programs are therefore for maintenance only).
- Modifications to on-line CICS screens and web EDB Inquiry to remove the display of the NRA tax GTN and amount

Error Report 2039

In Release 1676, Include member PPVZEUD was changed. However, it was recently discovered that several programs were omitted in the installation instructions. This omission could cause several programs to abend. These programs have been added to the list of programs that need to be compiled without logic changes for this release.
PPS Modifications

Copylibs

CPLNKFED

This copylib is used to pass information from programs PPNETCLC and PPOROVPY into program PPFEDTAX.
The following fields need to be added for this project:

- **KFED-CHECK-DATE.**
  The processing Check date assigned for the compute being executed. This field is required since this project is date sensitive. The format is YYMMDD.

- **KFED-MO-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Monthly payroll schedule. The format is 9(9)V9(4)

- **KFED-SM-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Semi-monthly payroll schedule. The format is 9(9)V9(4)

- **KFED-BI-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Bi-monthly payroll schedule. The format is 9(9)V9(4)

CPLNKNET

This copylib is used to pass information from programs PPP400, PPRCOPT1 and PPRCOPT2 to program PPNETCLC.
The following fields need to be added for this project:

- **KFED-CHECK-DATE.**
  The processing Check date assigned for the compute being executed. This field is required since this project is date sensitive. The format is YYMMDD.

- **KNET-MO-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Monthly payroll schedule. The format is 9(9)V9(4)

- **KNET-SM-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Semi-monthly payroll schedule. The format is 9(9)V9(4)

- **KNET-BI-PARM-AMT**
  This field is used to increase the Federal Withholding Gross amount for employees are on a Bi-monthly payroll schedule. The format is 9(9)V9(4)
Year End EDB Maintenance

PPEY101
Program PPEY101 is one program that is responsible for resetting of default values for several Nonresident Alien consistency edits.

This program will be modified in order to reset to zero the G-balance for GTN 301 records for all nonresident alien employees. The reset will occur during the year-end processing for calendar 2006. In phase 2 of this project, the code will be disabled.

The Compute

PPP400
PPP400 reads the preliminary PAR, and develops deductions and calculates net pay.

During the initialization process, all System Parameters are retrieved and stored internally for later usage. This program will be modified to pass the three new system parameters (118, 119 and 120) the check date and the employee’s pay schedule via the linkage (CPLNKNET) for usage in Program PPNETCLC.

Rush Checks

PPRCOPT1
PPRCOPT1 is the main driver for the Rush Checks Compute deduction and net pay calculations. During the initialization process, all System Parameters are retrieved and stored internally for later usage. This program will be modified to pass the three new parameters (118, 119 and 120) along with the processing check date and the employee’s pay schedule via the linkage (CPLNKNET) for usage in Program PPNETCLC.

PPRCOPT2
The changes described above are also required in the other Rush Checks module
**Over-Payments**

**PPOROVPY**
Program PPOROVPY is responsible for generating Overpayment transactions. During this process, the original payment information is retrieved and subsequently, the “original” earnings are reduced by the user entered overpayment amount(s) and the “corrected” paycheck (glosses and deductions) is re-calculated. As a final step, the “corrected” amounts (glosses and deductions) are subtracted from the “original” paycheck amounts in order to create various fields required on the Overpayment transaction set. PPOROVPY calls PPFEDTAX directly to calculate federal withholding tax.

During the initialization process, all System Parameters are retrieved and stored internally for later usage. This program will be modified to pass the three new parameters (118, 119 and 120) the processing check date and the employee’s pay schedule via the linkage (CPLNKFED) for usage in Program PPFEDTAX.

**Common Routines**

**PPNETCLC (Dual Use)**
Program PPNETCLC controls which sub-routine is called to perform specific functions. The program also insures that the called subroutine has the necessary information is available to perform its function. PPNETCLC will be modified so the check date and the 3 new system parameters are moved from copylib CPLNKNET to copylib CPLNKFED before program PPFEDTAX is called.

**PPFEDTAX (Dual Use)**
The purpose of program PPFEDTAX is to calculate an employee Federal Withholding amount. This enhancement will increase their federal taxable gross wages for selected employees by a specific amount depending upon their payroll schedule. In PPFEDTAX, the wages are only used for computation purpose only and not used in later processing.

This program will be modified to select the employees that containing an “A” or “N” in their citizenship type field (EDB0109) for additional processing. Existing processing will occur for employees with a citizenship type other than “A” or “N”. In addition, the existing tax calculations will remain unchanged for all employees.

For calendar year 2006 processing, the changes for nonresident alien employees will be skipped.
When processing occurs after calendar year 2006:

- When an employee fails to pass the selection criteria, Existing withholding tax calculations are performed.
- When an employee passes the selection criteria:
  - The employees’ gross pay amount is increased by adding the amount contained in systems parameter to the Gross wages amount. The employee’s primary payroll schedule determines which corresponding systems parameter is used.
  - Existing withholding tax calculations are performed.

**Note:** The unmodified gross amount is used for further processing during the compute process.

**Recompiled Programs**

The programs listed in this section reference either one or both of the copylibs that have been changed. Therefore these programs need to be recompiled to pick-up the changes.

- PPFCBBEN
- PPNETDED
- PPNETDTK
- PPNETPDT
- PPNETPRE
- PPNETREF
- PPNETSMC
- PPNETSUS
- PPNETUPD
- PPRCNET
- PPFEDUTL

These programs only need to be recompiled to resolve error report 2039.

- PPWOVPY
- PPORCNCL
- PPORRVSL
- PPWCNCL
- PPWRVSL
Control Table Changes:

Gross to Net Table
During Year-end processing, GTN #301 will have its status changed to inactive from active.

System Parameter Table (UPAY559)
The following control cards are used to modify the Systems Parameter Table to be used by PPFEDTAX in calculating new gross taxable amount for Nonresident employees.

<table>
<thead>
<tr>
<th>Card</th>
<th>Description</th>
<th>Gross Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>C01118</td>
<td>MO NRA FED TAX AMT</td>
<td>221.00</td>
</tr>
<tr>
<td>C01119</td>
<td>SM NRA FED TAX AMT</td>
<td>110.00</td>
</tr>
<tr>
<td>C01120</td>
<td>BI NRA FED TAX AMT</td>
<td>102.00</td>
</tr>
</tbody>
</table>