

# Hot Off The Press

## Spending Account Corrections in Prior Fiscal Years

**Problem:**

An active employee received more reimbursement from their spending account than they contributed via payroll deductions, and did not meet the goal amount defined in the BPP System.

For example, through no fault of their own, an employee has contributed less than their annual goal amount to their spending account plan. This usually occurs when an employee enrolls for a spending account at some time other than the start of the plan year (September 1). For instance, a new 12 month employee starts to work on December 1 and enrolls with a \$1,200 goal amount and requests to have \$100 deducted per month. By the end of the plan year (August 31), the employee will have only contributed \$900 to the plan. If claims have been filed in excess of this \$900, then there is a problem. The individual has received excess plan benefits and these benefits should be returned to the plan.

**Solution:**

Do not let it happen in the first place.

Be aware of the employee's annual term months, start date, spending account deduction amount, deduct code and the goal amounts. The goal amount must equal the payroll deduction amount times the number of deductions to be taken during the plan year (September 1<sup>st</sup> through August 31<sup>st</sup>). Spending account deductions are taken once a month for both biweekly paid and monthly paid employees. For biweekly paid employees, deductions are taken on the first biweekly of the month.

Should an out of balance condition arise, an error report is currently being generated and the System Benefits Administration Office will send an e-mail warning of this condition.

**DO NOT IGNORE THIS E-MAIL AND NOT CORRECT THIS OUT OF BALANCE CONDITION.**

For example, John is hired as a biweekly paid employee and starts work on November 1<sup>st</sup>. He wants to participate in the health care spending account plan with a goal amount of \$1200. His deduction amount should be \$120 ( $\$120 * 10 \text{ deductions (Nov - Aug) = } \$1200$ ), NOT \$100 ( $\$100 * 10 \text{ deductions (Nov - Aug) = } \$1000$ ).

**After the fact corrections:**

If the problem is not corrected in the current plan year, there are a couple of options:

1. The employee writes a check to the spending account plan administrator, currently PayFlex, for the amount of the excess benefit the employee received (the difference between what was deducted during the plan year and what was actually paid out by the plan) and sends it to Christy Ramirez, The Texas A&M University System, 200 Technology Way, Suite 1120, College Station, TX 77845-3424. This is by far the easiest and least cumbersome method to correct the problem and make the plan 'whole'. The slight drawback here is the employee will not get the entire pre-tax benefit that he/she thought they would be getting. There are no IRS or tax implication issues.
2. If the problem is discovered immediately following the benefit year and PRIOR to the end of the calendar year, and there are biweekly payrolls yet to be processed for the calendar year (i.e., payrolls during September through December), it is possible to make the necessary adjustments so that the employee will receive the full pre-tax benefit. The employee must make a check out for the excess benefit received payable to the A&M System and send to Christy Ramirez, The Texas A&M University System, 200 Technology Way, Suite 1120, College Station, TX 77845-3424. The employee's Payroll Office must then process the appropriate payroll cancellation and correction transactions to adjust the Spending Account deductions and the corresponding pre-tax impact on the employee's records (OASI, OAH and FIT withholdings) during the calendar and benefit year effected. All tax reporting and benefit reporting will be correct as these adjustments have been accomplished in a somewhat timely manner.
3. If the problem is discovered following the benefit year and AFTER the end of the calendar year, it is still possible to make the necessary adjustments so that the employee will receive the full pre-tax benefit. The employee must make a check out for the excess benefit received payable to the A&M System and send to Christy Ramirez, The Texas A&M University System, 200 Technology Way, Suite 1120, College Station, TX 77845-3424. It is recommended that the employee's Payroll Office still process the appropriate payroll cancellation and correction transactions to adjust the Spending Account deductions and the corresponding pre-tax impact on the employee's records (OASI, OAH and FIT withholdings) during the calendar and benefit year effected, just to maintain an audit trail. Watch the processing dates entered carefully!

Depending on where the payroll office is in the federal tax reporting process, the Form W-2 for the calendar year just completed may be corrected prior to being transmitted to the Social Security Administration (SSA). The W-2 could be updated just as any other W-2 needing correcting. After the W-2s for the calendar just completed have been transmitted to the SSA, then the payroll office must generate a Form W-2c and corrections to other tax reporting submissions as needed.

If you have any questions, email [bpphelp@tamu.edu](mailto:bpphelp@tamu.edu)