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**James Paille** • Sep. 02, 2014



Now is a great time to sort out any anomalies that could complicate year-end and W-2 processing. And **two of the most common are overpayments and repayments.**

Overpayments and repayments may seem complicated, but they generally boil down to one simple rule of thumb: Recover net from overpayments that are repaid in the current year and gross from overpayments that aren't repaid until a subsequent year.

#### **Overpayments and repayments in the current year:**

Overpayments are considered paid when received and must be included in the employee's income when received. If the employee repays the advance or

overpayment during the same year they received it, the employer should exclude the

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ABC Company hires Mike on May 1, 2013 at a salary of \$5,000 per month. Mike receives a sign-on bonus of \$1,000 that he must repay if he leaves ABC within one year of hire. Mike resigns on December 2, 2013 and repays the sign-on bonus. Because he repaid the bonus in the same year it was originally paid, he owes only the net amount of \$698.50. ABC will issue the net transaction on Mike's W-2.

Here's how Mike's W-2 would appear in this scenario:

	2013	2013	2013	2013
	Payments	Repayment	Net	Payments Form W-2
Federal Wages	20,000	1,000	19,000	19,000
Soc.Sec. Wages	20,000	1,000	19,000	19,000
Medicare	20,000	1,000	19,000	9,000
FIT Withheld	4,000	225	3,775	3,775
Soc. Withheld	1,240	62	1,178	1,178
Med. Withheld	290	14.50	275.50	275.50
Net Pay	14,470	698.50	13,771.50	

Overpayments and repayments in subsequent years

Things get a bit more complicated when an overpayment isn't repaid until a subsequent year. This often happens with sign-on bonuses that need to be repaid. Again, overpayments are considered paid when received and must be included in the employee's income when received.

If the employee doesn't repay the advance or overpayment until a subsequent year,

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employee is over the FICA limit. In this case, the employer can recover Medicare tax but not Social Security.

### Let's look at an example:

ABC Company hires Mike on May 8, 2012 at a salary of \$3,000 per month. Mike also receives a sign-on bonus of \$1,000 that he must repay if he leaves ABC within one year of hire. Mike resigns on January 31, 2013 and repays the sign-on bonus. Because the repayment took place in a different year than the original payment, Mike owes the net amount of \$693.50, plus the \$250 in federal tax that was withheld and remitted to the IRS. ABC will issue the gross transaction on Mike's W-2C. Mike will deduct the \$250 from his 2013 income tax return.

	2012	2013	2013	2012
	Payments	Payments	Net Payments	Form W-2C
Federal Wages	24,000	3,000	1,000	n/a
Soc.Sec. Wages	24,000	3,000	1,000	(1,000)
Medicare	24,000	3,000	1,000	(1,000)
FIT Withheld	4,000	875	250	n/a
Soc. Withheld	1,008	186	42	(42)
Med. Withheld	290	14.50	275.50	275.50
Net Pay	18,702	18,875.50	693.50+\$250	

Recover net from current-year repayments and gross from subsequent-year

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