

PAYROLL OFFICE PROCEDURE MANUAL

EFFECTIVE JANUARY 1, 1993
REVISED 11-16-09

OBJECTIVE

The purpose of the Payroll Office is to process all payments to employees as a direct result of employment at Morehead State University in the most accurate, efficient, and timely manner possible, while maintaining compliance with all federal, state, and local regulations.

TYPES OF EMPLOYEES

The University has two types of employees:

1. Exempt
2. Non-Exempt

Exempt

Exempt employees are those who have been determined by the Office of Human Resources to be **exempt** from the time reporting requirements of the Fair Labor Standards Act. These employees are: administrators, professional and administrative staff, faculty, graduate assistants, lecturers, etc.

The basis of pay for all exempt employees is semi-monthly. Faculty and staff who provide services with a contract that is less than 12 months are paid on a semi-monthly 24 pay (08/15 – 7/30). Non-returning faculty may request a lump sum payment of salary at termination.

Supplemental payments to exempt employees are added to their regular salary payments (coded as supplemental). Summer School payments to regular Standing I or returning Fixed Term faculty are the only payments distributed through a separate supplemental payroll (federal tax calculated at *25% and state tax calculated at 5%).

Graduate Assistants are paid on a semi-monthly basis from approved Personnel Action Recommendations (PAR). A schedule is prepared at the beginning of each academic year outlining their payments, which coincides with the regular semi-monthly schedule. Every effort is made for them to receive their first check as soon as possible after the beginning of school. The stipend amount is divided into equal payments for the appointment period usually beginning with the semi-monthly release of 8/30. They are not required to submit hours due to their exempt classification. The formula for weekly rate, daily rate and hourly rate are listed below:

Weekly Rate

Stipend amount / Number of weeks for period (34 for academic year
or 17 for one semester)

Daily Rate

Weekly Rate / 5

Hourly Rate

Weekly Rate / No. of hours per week (20 for full time or 10 half time)

*Supplemental rate is determined annually by the Internal Revenue Service.

Non-Exempt

Effective July 1, 2006, non-exempt hourly regular employees who have been determined by the Office of Human Resources to be subject to time reporting of the Fair Labor Standards Act and student employees will be placed on a semi-monthly release cycle instead of a bi-weekly release. This means that these employees will be paid on the 15th and 30th of each month instead of every other Friday. If the 15th or 30th falls on a weekend or holiday, they will be paid on the preceding work day. The pay release on the 15th will be for hours worked on the 16th – 30th/31st of the preceding month. The pay release on the 30th will be for hours worked on the 1st – 15th of the current month. The appointment letter/PAR is at an hourly rate of pay. Examples of these employees are: service maintenance, secretarial/clerical, technical paraprofessional, skilled crafts, etc.

Supplemental payments for non-exempt employees are added to their regular semi-monthly release. Hours worked should be submitted to the payroll office on a “Supplemental Time Sheet”, which is available on the payroll web page. All hours worked over 40 during the work week (Sunday to Saturday) are paid at overtime rate (time and one half regular rate). The 37 1/2 hour per week non-exempt employee must be paid the 2 1/2 hour difference between 40 and 37 1/2 at their regular rate when the supplemental work done is for another department. PSNE-5 addresses the payment of overtime, equivalent time and compensatory time.

A college workstudy is paid on a semi-monthly basis. They are employed based on authorization from the Office of Financial Aid. They follow the same schedule as the regular non-exempt semi-monthly payroll. Time verification for the college workstudy is processed in the same manner as regular non-exempt employees, however, the unit head may designate a full-time non-exempt employee as a supervisor for a college workstudy.

FIXED TERM EMPLOYEES

Fixed term employees who are employed less than 12 months will be paid as indicated below:

1. **Fixed term faculty** will be paid on a semi-monthly basis. They will follow the same pay release schedule as standing faculty appointments.
2. **Exempt fixed term** will be paid on a semi-monthly basis. Payment will begin on the first pay release date after receipt of the PAR for the number of days from the effective date to the release date of the check. Insurances will be deducted according to the regular deduction schedule. The 11 work day rule will determine insurance fringe benefit eligibility for partial months.
3. **Non-exempt fixed term** will be paid only for hours worked during a specific time period. The payments will be processed and released according to the non-exempt schedule. The insurances will be deducted according to the regular deduction schedule. The 11 work day rule will determine insurance fringe benefit eligibility for partial

months.

TYPES OF PAYROLLS

1. Semi-Monthly Exempt

Payment for exempt employees as described in types of employees.

2. Semi-Monthly Non-Exempt

A. Regular

Payment for non-exempt employees

B. College Workstudy

Payment for institutional and federal workstudy students as approved through the Office of Financial Aid.

3. Supplemental Payroll

Effective 10/1/94 the Payroll Office no longer processes a separate supplemental payroll **except** for the summer school payments. All supplemental PAR's are added to an employee's regular salary payment. Summer school payments are processed on a supplemental payment for release the last day of each session (federal tax rate = 25% and state tax rate = 5% plus additional mandatory withholdings for FICA = 7.65%, retirement, and any applicable local taxes).

Payments are calculated based on the determination in the Office of Human Resources as to whether it is an hourly wage or an exempt wage. If a non-exempt employee received a supplemental, a weighted average must be calculated for hours worked and assess a new overtime rate based on a formula prescribed by the Department of Labor. If regular job hours and the hours for the additional job exceed 40 hours, the supplemental department must provide funding for all overtime obligations. Non-exempt employees working 37 1/2 hours per week must be paid the 2 1/2 hour difference between 40 and 37 1/2 at their regular rate when employed by an outside department.

4. Education Bonus

Effective 8/95 education bonuses may be added to an employee's base salary and/or processed as a single payment. The Office of Human Resources determines whether the educational bonus is to be processed as a single payment or added to base (one time payment added to next available check after receipt of approved PAR in the Payroll Office).

REQUIRED DOCUMENTS FOR PAYMENT

All employees must have either a contract letter or a PAR (Personnel Action Request) in the Payroll Office.

The following are required deductions for all employees:

1. Social Security (OASD) -- currently 6.2% -- maximum earnings limit \$106,800 for 2009 calendar year
2. Medicare (HI) -- currently 1.45% -- no maximum earnings limit
3. Federal Tax (FITM=Married; FITS=Single) -- based on the federal W4 on file.
4. State Tax (KIT) -- based on the state K4 on file.
5. City Tax – Tax is assessed on wages for duties performed within city limits -- where main job duties occur. The cities which are in effect as of 11/16//09 are:

Ashland, Catlettsburg, Jackson, Flemingsburg, Frankfort, Jackson, Lexington/ Fayette Co., Maysville, Morehead, Mt. Sterling, Paintsville, Pikeville, Prestonsburg, Salyersville, Vanceburg, West Liberty Winchester, Hazard, Richmond.
6. County Tax – Tax is assessed on wages for duties performed within county limits -- where main job duties occur. The counties which are in effect as of 07/01/08 are:

Breathitt, Fayette County Schools, Johnson, Rowan, Magoffin, Morgan, and Martin.

The Office of Human Resources collects the following information before the Payroll Office can process a check:

1. Employees without Benefits
 - A. Federal W-4*
 - B. State K-4*
2. Employees with Benefits
 - A. Federal W-4*
 - B. State K-4*
 - C. Retirement information (KERS, KTRS, or ORP)
 - D. Insurance election information
 - E. Section 125 (Cafeteria Plan) Election
 - F. Direct Deposit Information

College workstudies must be approved for employment by the Office of Financial Aid. The Workstudy Supervisor Handbook is located on the Financial Aid web page. Financial Aid collects the I-9, new hire W-4, and performs the background check and forwards to Payroll. Revised W-4 forms and direct deposit should be filed with the Payroll Office.

*The Payroll Office policy is to have tax forms on all employees. Every effort is made to collect the tax forms, however, the IRS (Internal Revenue Service) does allow the capability of paying individuals as single with zero exemptions if forms are not provided. The Office of Human Resources is responsible for collection and verification of I-9's for regular employees. The Office of Financial Aid is responsible for the collection and verification of I-9's for college workstudies.

Non-Resident Aliens are required to file the same documents as citizens of the United States. In addition, they must also provide copies of their VISA, Passport, I-94, and I-20 to the Office of Human Resources. For individuals who wish to claim exemption from federal income tax due to a treaty agreement with the United States and their country a Form 8233 – Wages Only and/or a Form W8BEN – Scholarship Only is required to be on file with the Payroll Office. The individual must also sign a tax-exempt statement in conjunction with the Form 8233 (mailed to the IRS for approval -- they have ten days to approve or disapprove). IRS Form 1042S is issued instead of a W-2 form to the individuals who claimed tax exempt due to a treaty agreement. Form 8233 and the tax-exempt form are collected by the Payroll Office; Form 1042 and Form 1042S are issued by the Payroll Office. **(SEE SECTION ON NON-RESIDENT ALIENS PAYMENTS FOR ADDITIONAL INFORMATION).**

SUBMISSION OF TIME

Non-Exempt Hourly time is submitted online for all hourly regular and student employees via WebAdvisor Time Entry and Supervisor Approval. You should only submit regular hours online. If you earn equivalent hours, please submit them as regular hours when payment is due. These hours should be tracked when earned and used at the departmental level. Overtime hours worked should be submitted with supervisor approval via email to the Payroll Office. Supplemental pay hours are submitted on a “Supplemental Payroll Time Report”.

The employees and/or supervisors electronically submit/approve the non-exempt employee time according to schedules provided by the Payroll Office. Hours worked for regular employees are submitted either by the employee or by a designated alternate supervisor. The alternate may be a non-exempt employee; however, an exempt employee must approve the time card. Eligible supervisors must be authorized by the Department/Unit Head on the Web Time Entry form located on the Payroll web page.

NOTE: All time card supervisors must have completed FERPA training prior to approving time cards.

Additional information is located in the On-line Verification section.

Each department is responsible for notifying the Payroll Office if an employee is on leave without pay or resigned immediately upon notification from employee.

PAY RATES

Exempt *salary* employees have their contract amount divided over the appropriate semi-monthly periods. Partial months are calculated based on the daily rate multiplied by the number of workdays in the semi-monthly period. All succeeding disbursements are 1/24 or the appropriate portion of the contract per semi-monthly. If they resign before their contract is completed, they are paid based on the days worked for the period. The daily rate is established by dividing their contract salary by the appropriate number of days for the period. The daily basis for the various monthly positions are as listed below:

12 months	260 (52 weeks per year x 5 days per week)
11 months	238 (260 days per year / 12 months per year x 11 -- rounded)
10 months	217 (260 days per year / 12 months per year x 10 -- rounded)
9 months	195 (260 days per year / 12 months per year x 9 -- rounded)

Non-exempt *hourly* employees are paid according to their contract or PAR rate based on the number of hours submitted each semi-monthly period via WebAdvisor. Overtime worked during the work week (Saturday to Sunday) should be submitted with supervisor approval via email to the Payroll Office based on the pay schedule due date.

PAY DATES

Non-exempt semi-monthly payroll is paid after the work has been completed for hourly employees as indicated on the schedules provided by the Payroll Office. The semi-monthly period runs from 1st – 15th and 16th – 30th/31st of each month. The pay release on the 15th will be for hours worked on the 16th – 30th/31st of the preceding month. The pay release on the 30th will be for hours worked on the 1st – 15th of the current month. Payment is made with exceptions due to university closings as noted on the prepared schedules.

Exempts are **not** paid after the fact. Exempts are paid on a semi-monthly payroll which is released on the 15th and 30th of each month. If the 15th or 30th falls on a Saturday, Sunday or a university holiday, the release date is the preceding workday.

Summer School checks are released the last day of each summer term except for Summer II. If summer school is separated by July 1 then two PAR's are entered. The first half is released June 30 and the second half is released on the last day of Summer II. This is due to the fiscal year budget cross over.

When any of the check release dates fall on an official University holiday, release dates are subject to be changed. Usually the payment will be made on the last working day preceding the holiday. These should be noted on the prepared schedules.

PAYROLL DEDUCTIONS

1. Semi-Monthly (Exempt and Non-Exempt)

<u>Deduction</u>	<u>Check to be Deducted*</u>
All Insurance Deductions	15 th and 30 th (equally)
U. S. Savings Bonds	15 th and 30 th (equally)
MSU Foundation Inc.	15 th and 30 th (equally)
Kentucky Deferred Compensation	15 th and 30 th (equally)
All Annuities	15 th and 30 th (equally)
Morehead Community Federal Credit Union	15 th and 30 th (equally)
Child Care (Sec. 125)	15 th and 30 th (equally)
Unreimbursed Medical (Sec. 125)	15 th and 30 th (equally)
Parking Decal	15 th and 30 th (equally)
Kentucky Teachers' Retirement System	% each
Kentucky Employee Retirement System	% each
Social Security/Medicare	% each
City Tax	% each
County Tax	% each
Federal Tax	each*
State Tax	each*

Child support, garnishments, federal levies, state levies, and other court ordered deductions are according to the instructions on the court order.

*Based on number of exemption claimed by individual

INSURANCE PREMIUM COLLECTION OTHER THAN PAYROLL DEDUCTION

The Office of Human Resources is responsible for the collection of payments for COBRA insurance premiums for deposit in MSU's self-insurance accounts. Payments are made payable to Morehead State University and entered on a COBRA tracking system on the main frame. Payments are deposited at the Cashiers Window in accordance to University cash receipts guidelines.

Employees who are on leave without pay or do not have sufficient gross (for whatever reason to cover insurance premiums) are responsible for the remittance to the Office of Human Resources for all premiums. The Office of Human Resources determines whether the individual is responsible for the entire premium or whether the University continues to contribute their share as outlined in the Personnel Policy manual. The Office of Human Resources determines the course of action for any employee failing to pay their portion of insurance premiums.

PAYROLL CHECK/STUB DISTRIBUTION

All pay checks/stubs are distributed through the Office of Accounting and Budgetary Control cashiers. Checks/stubs are delivered to the Office of Accounting and Budgetary Control immediately after printing by the Payroll Office for pressure seal and distribution.

Reports are generated by departments to accompany all releases and include release date, department mnemonic, employee name, check number, or advice number, as well as a signature line at the bottom for the designated employee receiving the checks. The person signing for the checks is responsible for all checks on the listing. The individual picking up checks should verify

all information before leaving the cashiers area. Names of employees who have direct deposit also appear on the report. The cashier retains one copy of the listing. The designated employees take the second copy to their department for individual signatures upon receipt of check by employee.

Accounting and Budgetary Control combines checks by the department. The name is shown on the outside of the envelope along with the designated employees and supervisor for the department. Checks must be picked up by a designated employee. College workstudies/graduate assistants are not permitted to pick up payroll checks. Direct deposit stubs are mailed to on-campus locations only (i.e. UPO box, departments). **Checks are not given out to individuals.**

On July 1, 2004, full-time regular employees were required to participate in direct deposit. The Payroll Office ceased printing direct deposit stubs for full-time regular employees. Employees can access their payroll information on WebAdvisor. They may view or print their stub information by accessing Pay Advices on WebAdvisor. WebAdvisor is available by going to Faculty & Staff Online Services through the MSU Web Page by entering <http://www.moreheadstate.edu>. Instructions for accessing pay advices is on the payroll webpage <http://www.moreheadstate.edu/payroll/>

INCORRECT PAYMENT

Employees who discover that a paycheck or direct deposit is incorrect should contact the Payroll Office immediately. The Director of Payroll will determine the most efficient method to correct the error. If an employee feels that a check is incorrect he/she should not cash the check. It is usually simpler to reverse the incorrect check and prepare a new one.

There are instances where payment is processed and later discovered to be incorrect by the department. The Payroll Office should be notified immediately. In situations where the employee has not received the check, the actual check should be returned to the Payroll Office. If the employee has already cashed the check, it would be the responsibility of the employee to return the net amount of the payment.

The Payroll Office notifies the employee in writing as soon as possible after receipt of information resulting in overpayments. In the written notification the former employee is informed that a hold will be placed on their MSU record if repayment is not received by a specified date. The former employee is also given instructions as to what steps to take if they need to make installments on repaying the debt.

Employees who participate in the direct deposit process are responsible to return the net amount of any overpayment by the University.

In the event an employee feels an underpayment or incorrect rate of pay has occurred, he/she should contact the Payroll Office for clarification.

COURT ORDERED PAYROLL DEDUCTIONS

Morehead State University is required by law to process all legally served garnishments, tax levies, child support orders, and other court ordered deductions.

Immediate upon receiving a garnishment or levy, the Payroll Office will notify the employee. The employee is then given the opportunity (time permitting) to secure a release order. If a release order cannot be secured before the actual check processing, the deduction is made in accordance with the instructions of the particular document.

PROCEDURE FOR EARLY RELEASE OF PAY CHECKS

Early release of all types of payroll checks are discouraged. In the event an emergency necessitates the early release of a payroll check, the department should contact the Director of Accounting and Budgetary Control for the procedure for early release.

PAYMENT OF ACCRUED VACATION UPON TERMINATION OF EMPLOYMENT

Upon receipt of certification from the Office of Human Resources, vacation days are paid on the next available payroll cycle for both non-exempt and exempt employees. All questions relative to the number of days paid should be referred to the Office of Human Resources. Exempt employees are paid the number of vacation days multiplied by the appropriate daily rate as outlined in the **PAY RATE** section. Non-exempt employees hourly rate of pay is multiplied by the appropriate hours worked per day (either 7.5 or 8) to establish a daily rate. The daily rate is then multiplied by the number of vacation days.

Vacation pay for employees who are members of Kentucky Retirement System is not subject to retirement deductions. Employees who are members of Kentucky Teachers' Retirement must have retirement withheld from terminal vacation earnings.

LOST, STOLEN, DESTROYED, OR MISSING CHECKS

Any employee (other than college workstudy) who discovers that a paycheck is lost, stolen, destroyed, or missing should contact the Payroll Office immediately. College workstudy should contact the Office of Financial Aid.

After initial notification, written documentation must be submitted to Accounting & Budgetary Control (ABC) by the department supervisor. The notice should include employee name, check number, date of release, and net value of the check. The Office of Accounting and Budgetary Control will issue a stop payment after they have verified with the bank that the check in question has not cleared. Once the stop payment has been issued Payroll is notified and a replacement check will be processed. Replacement checks can usually be issued within two (2) days after the Payroll Office receives notification from ABC of the stop payment. The replacement check is given to the ABC Cashiers for disbursement. There is a replacement fee assessed on the payroll checks – any questions relative to this fee should be directed to the ABC.

DIRECT DEPOSIT POLICY

All employees (regular and student) are eligible to participate in the automatic payroll deposit plan “direct deposit”. The bank of the employee's choice must be a member of the National Automated

Clearing House Association and be able to accept electronic transfers. Most banks and savings and loan associations as well as many credit unions are members.

Employees interested in having their net pay automatically deposited may obtain the form from the Payroll Office. A voided check must accompany the direct deposit request authorization. This voided check gives the necessary information for the deposit to be made to the correct account. The direct deposit is processed as a prenote (zero transaction) on the initial payroll after the Payroll Office receives all information. If a correction is not received from the bank by the next payroll processing, the employee's net payment is direct deposited as per the data entered for the prenote transaction.

Electronic transfers are submitted for deposit to the employees account on the same day as check release day for non-participating employees through an online process with ACH software provided by Firststar of Cincinnati. The Payroll Office cannot control the posting of the individual banks.

Approximately two (2) days before the deposit date, the stub is mailed to the employee to the campus address on the Human Resources database by ABC. This stub contains the gross, net, and various deductions for this period in addition to the year-to-date amounts. The deposit date appears in the upper left corner of the stub.

The direct deposit remains in effect until written notification is received from the employee for cancellation.

(See also Payroll Check/Stub Distribution on Page 9.)

STATEMENTS OF EARNINGS AND DEDUCTIONS

1. A paycheck with attached payroll stub -- indicating earnings and deductions for the particular period and accrued year-to-date totals.
2. A direct deposit (stub only) -- indicating earnings and deductions for the particular period and accrued year-to-date totals.
4. An Annual Wage and Tax Statement (W2) -- indicating earnings and deductions for the calendar year.
5. Foreign Person's U.S. Source Income Subject to Withholding (1042-S). This document reports the amount of earnings for non-resident aliens who have declared exemption from tax under a treaty agreement or who have received a taxable scholarship (i.e. housing or athletic scholarship). The total tax deducted and the amount of the scholarship award is reported.
6. If you have online pay advices, you need to access WebAdvisor Pay Advices. Instructions can be found under "Payroll Services" on the Payroll Web Page at <http://www.moreheadstate.edu/payroll/>

ON-LINE PAYROLL VERIFICATION

Effective 01/01/07, Morehead State Payroll began using the WebAdvisor online time card system. You may view employee and alternate/supervisor instructions for payroll entry and approval on the Payroll Web Page at <http://www.moreheadstate.edu/payroll/>

Each supervisor must hold an exempt level position and have FERPA training to approve time cards. The supervisor must pay special attention to all time cards when verifying hours to be paid. Please contact the Payroll Office immediately if employees are not showing correctly on the time cards.

Only individuals listed on the authorization form may pick up checks from the Accounting & Budgetary Control Cashiers. Upon an employee's termination from the University, it is the department's responsibility to notify the Payroll Office of the replacement.

CHECK WRITING PROCEDURE

Checks and direct deposit advices are printed by the Payroll Office. They are then taken to Accounting and Budgetary Control (ABC) for distribution. Check forms are stored in the vault that is located in the Cashier area.

Steps for check writing are listed below.

1. Upon completion of the balancing process for payrolls, one of the payroll staff will go to the vault to obtain blank check forms.
2. After processing checks through PCHK, a manual check disbursement log is created through query and sorted in Excel by department. The listing includes the release date, employee names for all pay runs, departmental mnemonic, and check number or advice number. Two copies of the listing are provided to ABC with the printed check/advices. The advices are mailed to an on-campus departmental location. The list is separated by department and checks are filed with each department list. When checks are disbursed, departmental personnel are required to sign a copy of the list for ABC verifying that all checks are present and take a copy with them for validation when checks are released to the employee.
3. Reports are maintained on the (P) Drive including all checks and direct deposit advices for each pay cycle and release date, as well as, Payroll Detail and Summary Registers.
4. A manual log is also kept in the Payroll Office listing all payroll runs including the process mnemonic, pay period dates, release dates, form numbers, and descriptions of each process.

STUDENT FICA EXEMPTION

Morehead State University entered into a Section 218 Agreement with the Social Security

Administration effective 01/01/1951, which excluded students from withholdings. **The agreement states: Any service performed in the employ of a school by a student who is enrolled and regularly attending classes in that school district is excluded from full social security coverage. The student must be employed at a school within the district where attending classes. The student must have student status at the school (working as incident to pursuing a course of study).**

Recent audits of universities and colleges by the Internal Revenue Service (IRS) have resulted in new guidelines being recommended. The new guidelines set forth by the IRS required to qualify for the student exemption a student must be enrolled full time and work 20 hours or less per week – this practice was followed until January, 1998. The IRS issued Revenue Procedure 98-16, which was published on January 16, 1998. The new guidelines eliminate the full time and 20 hour rule. The new guidelines permit any student who is enrolled for ½ time whether graduate or undergraduate classification based upon the institution's definition of full time enrollment exemption from FICA withholdings regardless of hours worked. This was implemented with the first payroll of the spring semester 1998.

NO LONGER APPLICABLE:

*Effective with the bi-weekly payroll period ending 02/19/1993, each student will be verified for full time enrollment status and the maximum number of hours worked during each pay period. MSU classifies full time as nine (9) hours for graduate students and 12 hours for undergraduate students during the fall and spring terms. For summer terms three (3) hours for graduate students and four (4) for undergraduate students are classified as full time enrollment. This process will occur every pay period. If it is determined that a student is enrolled less than full time, FICA will be deducted. If a student is discovered to have worked over 40 hours during the two (2) week period, FICA will be deducted (this will occur even if the student is enrolled on a full time basis). The 40 hour test will apply only to regular hours worked in a pay period -- **back pay will not be added to regular hours for the purposes of the 40 hour test.***

Implemented 2/15/94

NON-RESIDENT ALIEN EMPLOYEE

FICA DEDUCTIONS

When proper documentation is provided for F-1, J-1, or M-1 Visa status, the employee will be exempted from social security and Medicare deductions as provided under social security guidelines. At any point that the Payroll Office receives information that indicates a change in status, a determination will be made whether social security and Medicare should be deducted. Once the Payroll Office determines that the employee is no longer exempt from social security coverage, deductions will begin immediately. Any adjustments for back tax collections will be made as soon as possible. The employee is responsible for their portion of the back tax collection. If documentation is later provided that social security was deducted in error, a refund to the employee will be processed.

EFFECTIVE DATE DETERMINATION FOR FORM I-797

The Immigration and Naturalization Services has notified the Office of Human Resources that the following guidelines apply as the effective date for the Notice of Action Form (I-797):

The priority date is an internal date for the INS use only and does not determine when the status changed.

The notice date is the date that should be used as the effective date for any changes in status.

FEDERAL, STATE, AND LOCAL TAX DEDUCTIONS

All federal, state, and local tax laws will be followed for the proper deduction of the various taxes. Employee earnings will be treated as wages subject to various taxes unless he/she has provided proper documentation to the Payroll Office for exemption. Employees claiming "exempt" from withholding during the year on their Form W-4 must complete a new Form W-4 before February 15 of the following year to keep their "exempt" status. If the employee does not give their employer a new completed Form W-4 by February 15, the employer must begin withholding federal income tax as if they are single with zero withholding allowances.

FORM 8233

If an employee is from a Tax Treaty country (see Publication 901 for listing of countries with tax benefits), he or she is required to complete a **Form 8233** (Exemption from Withholding on Compensation for Independent Personal Services of a Nonresident Alien Individual). They must also include a statement (examples are in Publication 519), which will list their original date of entry to the United States.

A copy of the Form 8233 and attachment letter is given to the employee, a copy is sent to the Internal Revenue Service. A copy is kept for our files.

The Form 8233 and attachments is required for each calendar year the non-resident may qualify for exemption.

FORM W-4 (FOR NONRESIDENT ALIENS)

Employees from countries without a tax treaty must complete the Form W-4 following special instructions provided in Publication 515, Withholding of Tax on Non resident Aliens and Foreign Corporations, page 15 & 16. These instructions are also used for individuals from treaty countries who have exceeded their treaty limit during the calendar year.

Rules for completing W-4:

1. Must mark the box for single (may not claim a married status). Some students prefer to check the box for "married, but withhold at higher single rate" this is acceptable.
2. Nonresidents may not use the worksheet at the top of the Form W-4
3. Following the instruction of the IRS Circular E as identified in Internal Revenue Bulletin No. 2005-46 dated November 14, 2005, which requires income level and pay frequency to be calculated based on an increased imputed income and assigned a fixed federal tax withholding amount.
4. Nonresident employees are not permitted to write 'Exempt' on line 7. This must be left blank.
5. If the employee refuses to complete the W-4 following the above instructions, withhold by the IRS standards of 'single' with '0' allowances. This will allow the maximum amount to be withheld. If the employee then decides to follow the instructions, the withholding can then be changed, and he or she may qualify for a refund on his Form 1040NR tax return.

SCHOLARSHIP AND FELLOWSHIP GRANTS

As per discussion with Tim Rhodes Friday, October 13, 1995, no nonresident aliens receive scholarships or grants in excess of tuition, fees, books, supplies, and equipment required for the courses of instruction in which the student is a candidate for a degree. Tim was advised that should this procedure change the Payroll Office should be notified immediately to address the taxability issue (memo sent on 10/27/95 establishing this procedure to Tim).

Effective with the fall semester 1999, graduate assistants are eligible for housing awards – not all participate. For any nonresident alien participating in the housing awards, a 14% federal tax withholding is assessed. Tax is remitted at same time IRS 941 deposits labeled 1042 deposits. The housing awards and the federal tax are reported on the 1042-S Annual Forms.

SEE PAGE 6 FOR ADDITIONAL INFORMATION ON NON-RESIDENT ALIENS

Non-service athletic scholarships that exceed tuition, books, and required fees are taxable. The daily allowance rate prescribed annually by the IRS is applied to the scholarship based on calendar days for each semester. The daily allowance decreases the taxable amount. The tax is then calculated at 14% tax on the balance of the taxable amount. The tax is reallocated by the Department of Athletics from the student scholarship amount applied to their school account and transferred to the federal tax liability account. The Payroll Office remits the 1042S tax to the IRS based on notice of the reallocation by the Department of Athletics. This result in an amount due on the student account. The Payroll Office mails a notice to each student informing them of the tax reallocation.