

In-Service Debts - Tax Implications

Introduction This presentation provides the information for understanding the tax implications for In-Service Debts.

Information

- Overpayments of non-taxable entitlements do not have any tax implications and are excluded from this guidance.
- In accordance with U.S. tax laws, overpayments to members on Active Duty and SELRES are processed by PPC. When a member is overpaid on a taxable entitlement, this is converted into an In-Service Debt. The member has options to repay the debt. It is wise for the member to immediately report overpayments to their SPO especially because there can be significant tax implications.
- A FICA credit is automatically calculated upon establishment of the In-Service Debt; and so, FICA has no bearing on the repayment. The FICA refund can be seen on the member’s payslip by a change in the FICA deductions (OASDI & MEDICARE). The refund is applied on the pay period following the debt identification.

Definition

- **Gross** – The overpayment including Federal and State taxes.
- **Net** – The overpayment minus Federal and State taxes.
- **Current Year Overpayments** – the entire overpayment was received in the current year
- **Past Year Overpayments** – all or part of the overpayment was received in a previous year

Procedures See below.

Step	Action
1	<p>To repay the net amount of a taxable debt, members call PPC Customer Care at 866-772-8724 to initiate a ticket requesting a “net payoff amount”.</p> <p>NOTE: PPC will perform the calculations and follow up with the member to advise of the “pay-off” amount (so the taxes will be accounted for). Members may then make a lump sum payment. In this option, the W2 data will be up to date. (This option is the most beneficial to the member in regard to taxes.)</p>

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Procedures,
continued

Step	Action
2	<p>To repay the gross amount of the debt, members can allow payroll deductions to automatically occur. As each bi-monthly payroll deduction takes place, the member will receive a corresponding tax credit. The tax credit can be seen on the member's payslip by a change in the FITW / SITW deductions (FED / STATE).</p> <p>If the member repays the entire debt BEFORE the end of the year (by finalization of end-month Dec), the Federal and State taxes will have been fully credited and the member's W2 data will be updated.</p> <p>If the member DOES NOT repay the entire debt before the end of the year, the outstanding balance will fall under the "Past Year Overpayments" guidance in Step 3.</p>
3	<p>Refunds of prior tax years cannot be refunded by PPC because the IRS has control of those funds. PPC will issue a Tax Certificate (upon request from the member) for prior year debts that have been repaid in full.</p>
4	<p>If the member repays the debt AFTER the end of the year (after finalization of end-month Dec), a PPC Ticket can be submitted to request a Tax Certificate (e.g. CG Memo).</p> <p>The Tax Certificate documents only the repayments that were made AFTER the end of the debt originating year. The member can file the Tax Certificate with the appropriate office to claim tax credits.</p> <p>NOTE: A Tax Certificate must be requested & issued within 6 years from when the debt was repaid.</p>
5	<p>If you have further questions about taxes, you should contact the IRS or a tax professional.</p> <p>If you have further questions about debts, you should contact your P&A or SPO.</p>
