

PCG Alert
02/04/20

Prior Year Overpayments

Please forward this alert to those in your Organization who need this information

As a reminder, Federal regulations prohibit reducing current year wages for a prior year overpayment. Do not recoup prior year overpayments using a negative WGR or negative ARO.

Prior year overpayments should be submitted to the Payroll Compliance Group (PCG) for approval and then collected via a payroll deduction.

If repayment is made in a subsequent tax year, special calculation and reporting rules apply as explained below:

- Income taxes (Federal, State, and Local) are not refunded. Because the employee received and had use of the funds during the previous tax year, the wages paid in error in a prior year remain taxable to the employee for the year in which they were received.
- The Federal, State, and Local taxable wages on the W-2 for the year in which the overpayment was received cannot be corrected.
- The employee may not file an amended tax return for the year of the overpayment reflecting lower taxable wages.
- When filing the tax return for the year in which the wages were repaid, the employee may be entitled to either a deduction or credit to recover income taxes on the repaid wages.

If you have any questions regarding the Payroll Repayment process, please contact the Payroll Compliance Group at PCG.DOA@delaware.gov.

PCG Alerts are posted on the DOA Website:

<https://accounting.delaware.gov/state-employees/payroll-compliance-group/communications/alerts/>