

State of Oklahoma
Office of State Finance
Division of Central Accounting and Reporting

Financial Reimbursement for Educational Expenses Act of 2007
House Bill 1114

Payroll Procedures Update, August 31, 2007

Summary

The HB 1114 permits executive branch state agencies to make direct payments not to exceed \$5,000.00 in any 12-month period on behalf of an eligible employee to any private or public entity for qualified educational loan expenses. Such expenses must have been incurred prior to employment with the agency or directly related to employment incurred during employment. The cumulative total reimbursement cannot exceed \$15,000.00. Employees receiving assistance are committed to a “required payback period” of 2,000 hours of full-time employment for each \$5,000.00 of qualified educational loan expenses paid by the employing agency.

Funding

No funding is provided by HB 1114 for this optional benefit. Additionally, this benefit is subject to state and federal income taxes, social security taxes and unemployment tax. Therefore, in order to result in a fixed net amount payable toward the loan, these taxes must be considered in determining the total amount that would be required to fully fund the benefit.

The following table demonstrates agency costs at different loan repayment amounts.

	Examples			
Loan Repayment Amount	\$500.00	\$1,000.00	\$2,500.00	\$5,000.00
Estimated Agency Cost:				
Taxable Benefit Amount (Earnings)	810.37	1,620.75	4,051.86	8,103.73
Employer (ER) Share of FICA/MQFE	61.99	123.99	309.97	619.94
Est. Total Cost*	\$872.37	\$1,744.73	\$4,361.83	\$8,723.66

Taxable Benefit Calculation: $\text{Loan Repayment} / (1.00 - .062 - .0145 - .25 - .0565)$ or $.617$
 2007 Flat tax rates: FICA = 6.2%, MQFE = 1.45%, Fed Tax = 25%, State Tax = 5.65%

* The agency could incur additional costs for unemployment taxes (UT), depending upon whether the employee has reached the maximum subject to UT and whether the agency is designated as a covered 1% tax participant or as a reimbursing participant.

Financial Reimbursement for Educational Expenses Act of 2007

As demonstrated above, the agency cost will be higher than the fixed loan repayment amount. Therefore, each agency should determine the overall impact to its budget based on its total estimated costs for eligible employees when considering whether to offer this benefit.

Eligibility

Suggested forms are attached for obtaining the employee information, the education and loan information, and the agreement to abide by this program. The following are required under this program:

- the employee is a full-time employee;
- the expense is a qualified expense – student-activity fees and expenses for course-related books, supplies, and equipment only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance;
- the loan is eligible – incurred prior to employment with the agency or for education expenses directly related to employment incurred during employment, and for which repayment is legally required over a period greater than 1 year; and
- The cumulative amount paid does not exceed the maximums allowed per employee – \$5,000 in any 12 month period, and \$15,000 total.

Once the information is verified, the agency may initiate the payments through the payroll systems.

Processing through PeopleSoft Payroll

- These payments should be processed through the regularly scheduled payroll run for the individual, such as the end-of-month payroll.
- The codes for the qualified educational expense loan reimbursement for time reporting, earnings and miscellaneous deductions are all the same code, which is “QEL”.
- To determine the total taxable benefit amount to be recorded with the earnings code QEL, use the “Online Check” feature in the payroll system. Enter the net amount desired for the loan payment and use the “gross-up” feature to determine the actual earnings amount that will need to be recorded for the employee. (Specific navigation and processing instructions are being documented and will be provided to payroll administrators.)

The following example calculates the approximate QEL earnings amount for a loan repayment of \$1,000.00. The actual “gross-up” feature amount will be slightly different than this example due to rounding in the system.

Financial Reimbursement for Educational Expenses Act of 2007

Example: $\$1,000 / .617 = \$1,620.75$ QEL earnings

- The earnings amount, \$1,620.75 in this example, will be assigned to the earnings code QEL. The payroll account/object code is 511300, Education Loan Reimbursement Incentive.
- The loan repayment amount, \$1,000 in this example, will be assigned to the miscellaneous deduction code QEL (vendor ID 0000001114).
- The “Payroll to AP” process will create a miscellaneous withholdings voucher on class 994, with account/object code 633190, Other Miscellaneous Deductions.
- Before the payments are processed, the generic vendor ID No. 0000001114, Qualified Education Loan Reimbursement, must be changed on the AP Voucher Payee page to the actual vendor ID for the specific loan provider. (Use OSF Form VEND to add or update vendor/loan provider information.)

NOTE: These payroll codes cannot be used for any earnings or deductions other than those authorized under HB 1114.

Listed below are examples of how different payment scenarios will affect an eligible employee’s monthly check:

\$35,000.00 Annual Salary, Monthly Pay Period

	Without Loan Pmt	With \$200 Loan Pmt	With \$416.66 Loan Pmt	With \$5000 Loan Pmt
REG Earnings	2,916.67	2,916.67	2,916.67	2,916.67
QEL Earnings		324.15	675.30	8,103.73
Deductions:				
FICA	180.83	200.93	222.70	683.26
MQFE	42.29	46.99	52.08	159.80
OPERS EE	102.08	102.08	102.08	102.08
Fed Tax	315.44	396.48	484.26	2,341.37
State Tax	120.95	139.27	159.11	578.82
QEL Deduct	0.00	200.00	416.66	5,000.00
Net Check	2,155.07	2,155.07	2,155.07	2,155.07

Calculations

The changes between the first column and the others in the deduction amounts are attributable to the 2007 Flat tax rates on QEL Earnings for FICA of 6.2%, MQFE of 1.45%, Fed Tax of 25%, and State Tax of 5.65%. These rates are subject to change each year.

QEL Earnings Amount = QEL Deduct Amount / (1.00 -.062 -.0145 -.25 -.0565) or .617

Financial Reimbursement for Educational Expenses Act of 2007

Processing through Legacy Systems

Higher education agencies using the legacy payroll accounting system, PACS, must set-up internal agency systems with the earnings, object codes and deductions as described above to effect the appropriate payroll expenditures and taxes. These payroll codes cannot be used for any earnings or deductions other than those authorized under HB 1114.

If you have any questions please contact OSF, Lisa Raihl at 405-521-3258 or Dan Thomason at 405-522-6300.