United States Department of Agriculture
Office of the Chief Financial Officer
National Finance Center
P.O. Box 60000
New Orleans
Louisiana 70160

NFC BULLETIN

Title: I, Payroll/Personnel Manual

Chapter:

Bulletin: Title I, 06-18, Thrift Savings Plan (TSP) Deductions

Date: October 4, 2006

To: Holders of the Payroll/Personnel Manual

Recent Internal Revenue Service changes have revised the limit that can be deducted from an employee's salary and placed in his/her TSP account. Employees can now have all of their gross pay deducted and placed in their TSP account for one or more pay periods. However, employees should be advised that if they choose to apply all gross pay to their TSP account, their routine deduction(s) may not be processed and a bill will be generated to them for an applicable amount for the applicable deduction(s).

Order of Precedence

Based upon the current order of precedence, TSP deductions have a higher priority than many other types of deductions. When the TSP deduction equals an employee's gross pay, there are no funds left to accommodate deductions that fall below TSP deductions in the order of precedence, such as Social Security and Medicare taxes. This results in incorrect reporting and incorrect deductions being made. For example, since TSP deductions are not exempt from Social Security and Medicare wage computations, they are also not exempt from taxes associated with those wages. The consequence for an employee subject to social security deductions is to cause an incorrect reporting of Social Security and Medicare wages and a nondeduction of Social Security and Medicare taxes associated with those wages.

The Office of Personnel Management is currently reviewing the order of precedence and is expected to issue final guidance on this in early 2007. Depending on the outcome of this review, the order of precedence may change. The National Finance Center (NFC) will issue updated guidance if this occurs.

NFC Action

To correct this situation, NFC will increase the appropriate wages by the amount of the TSP deduction and increase the taxes on the related wages by the applicable rates and bill the employee for the applicable amounts. For example, for Social Security and Medicare deductions NFC will, (1) increase the Social Security and Medicare wages by the amount of the TSP deduction, (2) increase the Social Security and Medicare taxes on the related

wages by the applicable rates (6.2 percent and 1.45 percent, respectively), and (3) bill the employee for the applicable amounts. This process will ensure that employees' Social Security and Medicare wages are accurately reported to their accounts with the Social Security Administration, if the bill is paid within the current year. If the bill is not paid in full, the balance owed at the end of the tax year is added to the employee's W-2, Wage and Tax Statement, in Box 1, Wages, Tips, and Other Compensation, and, if applicable, Box 16, State Wages, Tips, Etc.

Inquiries

For questions about policy/regulations, contact your Agriculture Payroll/Personnel User Group (AGPUG) representative or Committee for Agriculture Payroll/Personnel System (CAPPS) representative. Please refer questions about payroll deductions to the Payroll/Personnel Call Center at **504-255-4630.**

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