



University of Pittsburgh

Pittsburgh, PA 15260

MEMORANDUM

TO: Members of the University of Pittsburgh Faculty

FROM: James V. Maher, Provost and Senior Vice Chancellor *JVM*
Arthur G. Ramicone, Vice Chancellor for Budget & Controller *AGR*

DATE: April 8, 2009

SUBJECT: IRS REGULATIONS APPLICABLE TO PAYROLL BASE PERIOD

The IRS rules on tax-deferred income have been changed in ways that could affect you if you are on a less than twelve month contract and choose to spread your pay over twelve months. In the new system, you are regarded as earning the full monthly income in each month of your contract, and then a \$16,500 limit is placed on the total income that you can defer into the next calendar year. Thus someone on a two-term contract who earns less than \$99,000 for the full academic year can spread the salary payments over the September through August period without penalty, but someone whose two-term salary exceeds \$99,000 would incur a tax penalty for doing so.

The attached document will give you more detail if you fall into the affected category. We urge you to read that attachment unless you are quite certain that it does not apply to your case.

JVM/AGR:lgs

Attachment

ATTACHMENT

To recap: recent changes in federal tax regulations applicable to payroll base periods and deferred compensation require academic institutions to take certain steps to address the possible impact of federal income taxation on faculty members who work eight, nine or 10 months in an academic year, but elect to receive their salaries over a 12-month period. The statements here are applicable to faculty whose current appointments are less than 12 months. Faculty who are contemplating a change in their appointments should also take this information into account.

Under the new regulations, a faculty member whose appointment is for eight, nine, or 10 months and who elects to spread his or her salary over 12 months has effectively “deferred” a portion of the salary from one calendar year to the next calendar year because the academic year spans two separate calendar years. For the deferred portion, typically paid and taxable in the summer months, a consequence of the new regulation may be a federal income tax penalty. However, the University has taken steps to avert the penalty for this current academic year and has put in place policies and procedures so that future penalty to both the faculty and University will be avoided.

Because this academic year, September 1, 2008 – August 31, 2009, has already commenced and faculty election requirements have been met, any possible liability to you is averted and no further action is required for this academic year.

For next academic year, September 1, 2009 – August 31, 2010, liability for the penalty may be avoided by such faculty and the University if certain steps are taken based on the applicable regulations:

- Prior to the beginning of the academic year, the faculty member who works eight, nine or 10 months and wishes to be paid over a 12-month period must make a written election to annualize the salary. This means electing to spread eight months over 12 months, also known as electing 8 over 12 (“8/12”).
- For that academic year, the election must be irrevocable.
- The portion deferred must not exceed the federally-established maximum. For 2009, the limit is \$16,500.
- In the event the federally-established limit is exceeded at the onset or in anticipation that the limit will be exceeded, the faculty member must elect to be paid as worked, such as pay over eight months for work during eight months, known as “8/8”.

Administrators in the office of your Dean and your department will provide you with the information and the procedures for either keeping your current election or changing your election before September 1, 2009.

- Your election will depend upon your own personal circumstances.

- Whether or not the portion of the deferral paid in the summer of 2010 may exceed the federally established limit is also a determining factor. You may be required to be paid your full contract salary during the months in which you actually work, such as pay over eight months for work during eight months, known as eight over eight (“8/8”).
- In either case, the election must be made before September 1, 2009.

The above explanations may be summarized as follows:

What remains the same with no impact of the new regulations – Electing to be paid “8/8.”

What may be continued – Electing to be paid “8/12” if the deferred portion does not exceed \$16,500.

What action must be taken – Revising election to “8/8” if the deferred portion exceeds \$16,500.

- ***As explained above, administrators in the Office of your Dean and your Department will provide you with the information and procedure for either keeping your current election or changing your election.***

In analyzing and implementing these new regulations, the Office of the Provost has worked together with the University Tax Department and the Payroll Office.

If questions remain, please email your inquiry to payrollinfo@bc.pitt.edu.