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Division of Accounts and Reports

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INFORMATIONAL CIRCULAR NO: 97-P-003

DATE: October 14, 1996

SUBJECT: Earnings Codes Added to SHARP

EFFECTIVE DATE: Immediately

A & R CONTACT: Payroll Services - (913) 296-3146

APPROVAL:

SUMMARY: Non-resident Alien Fringe Benefit Income Earnings Codes

In order to accurately report fringe benefit income for non-resident alien employees who have completed Form 8233 to claim exemption from withholding on compensation for services that are exempt from taxation under a U.S. tax treaty, six new earnings codes have been added to the SHARP data base. These earnings codes correspond to the existing earnings codes for reporting exempt income to non-resident aliens (ie., 'NR1'-'NR6'). The new earnings codes are:

- NF1 - non-taxable fringe benefit income provided through a scholarship or fellowship grant
- NF2 - non-taxable fringe benefit income provided for independent personal services
- NF3 - non-taxable fringe benefit income provided for dependent personal services
- NF4 - non-taxable fringe benefit income provided for teaching
- NF5 - non-taxable fringe benefit income provided during studying and training
- NF6 - non-taxable fringe benefit income provided as an artist or athlete

The non-resident alien non-taxable fringe benefit earnings do not add to gross, are not subject to Federal or State withholding tax, and are not subject to Social Security (OASDI) and/or Medicare taxes. SHARP will maintain the month-to-date, quarter-to-date and year-to-date earnings balances for all non-taxable fringe benefit income amounts reported. Board of Regents institutions are the only agencies in the State of Kansas currently reporting income being paid to non-resident alien employees; however, the non-resident alien reporting requirements apply to *all* non-resident alien employees, *regardless of the agency in which they are employed.*

With the issuance of Form 1042-S at calendar year-end, all of the non-resident alien earnings codes (ie., codes beginning with 'NR' and 'NF') will be summed to arrive at the amount of "gross income paid" to the employee and reported in column (b) of Form 1042-S. Depending upon the existing tax treaty with the U.S. (please refer to Division of Accounts and Reports Informational Circular No. 1323 dated February 5, 1996 for the revised 1996 tax treaty tables), all or part of the gross income paid to the non-resident alien during the calendar year may be exempt from taxation. Only the exempt portion of the non-resident aliens earnings is reported on Form 1042-S. Any income paid to the non-resident alien employee in excess of the treaty limitation is taxable and is reported on Form W-2.

Agencies will continue to be responsible for determining when and if treaty limitations exist and for reporting earnings paid to non-resident alien employees using the appropriate earnings code. Once a treaty limitation has been exceeded, all remaining compensation paid to the non-resident alien employee during the calendar year should be recorded using the appropriate taxable earnings code. In the case of taxable fringe benefit income, the 'FBN' earnings code should be used.

If a Regents institution has erroneously reported non-resident alien earnings using the incorrect earnings code and the error does not impact the employee's taxes, deductions, or net pay for the payroll period in which the error occurred, the Regents institution can correct the error by submitting a pay detail file only. No STARS funding or DA-175/DA-176 file will be required. The agency should submit a pay detail file which decreases the earnings code for the amount erroneously reported and increases the correct earnings code. The earnings code 'increases' and 'decreases' should equal zero, both on an individual employee basis and in total for the file. Multiple employee corrections can be included on one pay detail file.

JJM:LK:sj