

2006 Year End Information for Employees

The following information pertains to year end tax form processing and renewal deadlines.

Verification of Information

All employees should review their pay stubs or direct deposit notifications prior to December 1 to confirm that the following information is accurate:

- Employee name and spelling
- Employee address
- Employee earnings and related tax deferred deduction balances

Any discrepancies must be reported immediately to the agency Payroll Office for correction.

Filing Amended W-4 and NC-4 Forms

Amendments to Current Forms

Employees must file an amended Form W-4, Employees' Withholding Allowance Certificate, and the North Carolina equivalent, Form NC-4, if their filing status, exemption allowances or exempt status has changed since the last filing of their withholding forms. These forms may be accessed from the IRS forms section of the following web site:

http://www.ncosc.net/sigdocs/sig_docs/payroll/index.html

Amended forms should be submitted to the agency Payroll Office prior to December 31, 2006 to be effective by January 2007.

Maintaining Exempt Status

Employees claiming "exempt" from withholding during 2006 on their Forms W-4 and NC-4 must complete new forms by February 15, 2007 to keep their exempt status. Employees that do not submit new forms by the deadline will be processed as single, with zero withholding allowances.

Form W-5, Earned Income Credit Advance Payment Certificate (EIC)

Employees who filed Form W-5 in 2006 will have their certificate expire on December 31. All employees who want to continue receiving advance payments of the earned income credit (EIC) must complete a new Form W-5 prior to January 1, 2007. This form may be accessed from the IRS forms section of the following web site:

http://www.ncosc.net/sigdocs/sig_docs/payroll/index.html

Form W-2, Wage and Tax Statement

Distribution and Content

Form W-2, Wage and Tax Statement, will be distributed to all state employees prior to January 31, 2007. The form is submitted by employees to the federal and state governments when their income tax returns for 2006 are prepared. An employee may verify the W-2 information by comparing the reported numbers to the last payroll's year-to-date balances **unless** other adjustments are made to the employee's wages after the last monthly payroll for the year. The following components may be reported on the W-2 form:

Box/Code Identifier	Description or Calculation
Box d	Employee Social Security Number

Box e	Employee Name
Box f	Employee Address and ZIP Code
Box 1 Wages, tips other compensation	Gross Wages Less: Retirement contribution by employee Less: Perquisites Less: Deferred Parking Costs Less: 401(k) Contributions (see Box 12 Code D) Less: 403(b) Contributions (see Box 12 Code E) Less: 457(b) Contributions (see Box 12 Code G) Less: All NC Health Benefit Contributions Less: All TriCare Health Benefit Contributions Less: All NC PPO Health Benefit Contributions Less: All Flex Plan Contributions Add: Taxable Moving or Business Expense Reimbursements Add: Value of group term life insurance over \$50,000 (see Box 12 Code C)
Box 2	Federal Income Tax Withheld
Box 3 Social Security Wages (Limited to \$94,200)	Gross Wages Less: Deferred Parking Costs Less: All NC Health Benefit Contributions Less: All TriCare Health Benefit Contributions Less: All NC PPO Health Benefit Contributions Less: All Flex Plan Contributions Add: Taxable Moving or Business Expense Reimbursements Add: Value of group term life insurance over \$50,000 (see Box 12 Code C)
Box 4	Social Security Tax Withheld
Box 5 Medicare Wages and tips	Gross Wages Less: Deferred Parking Costs Less: All NC Health Benefit Contributions Less: All TriCare Health Benefit Contributions Less: All NC PPO Health Benefit Contributions Less: All Flex Plan Contributions Add: Taxable Moving or Business Expense Reimbursements Add: Value of group term life insurance over \$50,000 (see Box 12 Code C)
Box 6	Medicare tax withheld
Box 9 Advance EIC payment	Amount paid to employee as advance earned income credit
Box 10	Section 125 Dependent Care Flex Plan Contributions
Box 12 Code C	Value of group term life insurance over \$50,000 (imputed income)
Box 12 Code D	Section 401(k) contributions
Box 12 Code E	Section 403(b) contributions
Box 12 Code G	Section 457(b) contributions
Box 12 Code P	Excludable reimbursed moving expenses (not reported in wages, Boxes 1, 3 or 5)
Box 12 Code AA	Roth contributions to a section 401(k) plan
Box 16 State wages, tips, etc.	Gross Wages Less: Perquisites Less: Deferred Parking Costs Less: 401(k) Contributions (see Box 12 Code D) Less: 403(b) Contributions (see Box 12 Code E) Less: 457(b) Contributions (see Box 12 Code G)

	Less: All NC Health Benefit Contributions Less: All TriCare Health Benefit Contributions Less: All NC PPO Health Benefit Contributions Less: All Flex Plan Contributions Add: Taxable Moving or Business Expense Reimbursements Add: Value of group term life insurance over \$50,000 (see Box 12 Code C)
Box 2	State Income Tax Withheld

Employees should review the information printed on their W-2 form for accuracy.

Multiple Employers

Individuals employed by different state agencies during a calendar year will receive only one W-2 form if the employing agencies process payroll through the Central Payroll System. If the agencies utilize different payroll processing systems, the employee will receive a W-2 from each of the agencies.

Individuals that have multiple employers in a single year that operate different payroll systems will have different wage bases for FICA tax withholding. Consequently, employees that receive multiple W-2s and have total FICA subject wages in excess of the maximum earning limit (\$94,200) may be due a refund of overwithheld FICA taxes. Overwithheld FICA taxes are refunded to the employee when the employee files a federal income tax return for the year. Information on the current FICA maximum earnings limitation is located at:

http://www.ncosc.net/sigdocs/sig_docs/payroll/OSCPXA09_2006_Quick_Tax_Calculation_Sheet.pdf

Replacement of W-2 Form

Any employee that does not receive a W-2 by January 31, or has an original form that is illegible or is lost, must contact their agency payroll office to request a replacement form.

Limitations on Replacements

Employees can request replacement W-2 forms for up to three previous calendar years without backup documentation. For employees that are still active on the payroll system, agency payroll staff can generate a new W-2 form online. Agency payroll staff must submit a written request to the Central Payroll Division for replacement W-2's if the employee is no longer active on the payroll system.

Individuals requesting a replacement W-2 form for years prior to the three previous calendar years must provide an audit letter from the IRS or NCDOR indicating the years for which replacement W-2 forms are needed.

Form W-2C, Corrected Wage and Tax Statement

Incorrect Name or Social Security Number

Corrections to W-2 forms are processed when an employee identifies an error on the original form(s) related to an incorrect name or social security number. The employing agency must submit a request to the Central Payroll Division for the issuance of a W-2C Corrected Wage and Tax Statement form along with the following:

- Form OSCPXAW2C, Request for Issuance of W-2C Form

- A clear photocopy of the employee's social security card
- A copy of all W-2 forms issued to the employee (if there are multiple forms)

Employees should retain the original incorrect form(s) because both the original and the W-2C forms must be submitted when the appropriate tax documents are filed by the employee.

W-2C forms are distributed in the same manner as the original W-2 form. **Under no circumstances will W-2C forms be faxed to an employee.**

More information about W-2C forms is available at:

http://www.ncosc.net/sigdocs/sig_docs/payroll/manual/OSC-CP-E.03.html

Overpayment to Employees

Corrections to W-2 forms are processed when the payroll agency staff identifies that an employee has been overpaid for the previous tax year. The employing agency must submit a request to the Central Payroll Division for the issuance for a W-2C Corrected Wage and Tax Statement form along with the following:

- Form OSCPXAW2C, Request for Issuance of W-2C Form
- Payroll register pages containing the adjusted amounts reportable
- A copy of the W-2 form issued to the employee
- A signed Waiver Letter relinquishing any personal claim for reimbursement

Employees should retain the original incorrect form(s) because both the original and the W-2C forms must be submitted when the appropriate tax documents are filed by the employee.

W-2 forms are distributed in the same manner as the original W-2 form. **Under no circumstances will W-2C forms be faxed to an employee.**

Employee Information on Filing 2006 Tax Returns

Refund of Withheld Taxes

Even if an employee is not required to file a tax return, a return should be prepared to determine if a refund is due if Box 2 or Box 17 of the W-2 shows income tax withheld, or if the earned income credit can be taken.

Earned Income Credit (EIC)

An employee **MUST** file a tax return if any amount is shown in Box 9 of the W-2. The EIC for 2006 may be taken if:

1. Your 2006 earned income and adjusted gross income are both under:
 - a. \$36,348 (\$38,348 if married filing jointly) with two or more qualifying children;
 - b. \$32,001 (\$34,001 if married filing jointly) with one qualifying child;
 - c. \$12,120 (\$14,120 if married filing jointly) with no qualifying children.
2. Your filing status is any status except married filing a separate return.
3. You and your spouse, if filing a joint return, were not a qualifying child of another person.

If you **do not** have a qualifying child, you must also meet these conditions:

- a. You or your spouse, if filing a joint return, were at least age 25 but under age 65 at the end of 2006.
- b. You and your spouse, if filing a joint return, cannot be claimed as a dependent on someone else's 2006 tax.
- c. You and your spouse's home, if filing a joint return, was in the United States for over half of 2006.

Note: *If you are in the military on extended active duty outside the United States, your home is considered to be in the United States during that duty period and you may be able to claim the EIC.*

An employee **CANNOT** claim EIC if any of the following conditions apply:

1. Your 2006 investment income (such as interest and dividends) is over \$2,800.
2. You file either Form 2555 or Form 2555-EZ (relating to foreign earned income).
3. You are a nonresident alien for any part of 2006, unless you are married to a U.S. citizen or resident and elect to be taxed as a resident alien for the entire year.

The maximum EIC allowed for 2006 is:

- \$4,536 with two or more qualifying children;
- \$2,747 with one qualifying child;
- \$412 with no qualifying children.

The maximum Advance Earned Income Tax Credit (AEITC) for 2006 the State of North Carolina is allowed to provide throughout the year with the employee's pay is \$1,648.

Credit for Excess Social Security Taxes

If an employee had more than one employer in 2006 and more than \$5,840.40 in social security taxes were withheld, the employee may be able to claim a credit for the excess against the employee's federal income tax. See Form 1040 or Form 1040A instructions and Publication 505, Tax Withholding and Estimated Tax for more information.

Corrections

If an employee's name and SSN are correct on their W-2, but are not the same as shown on the employee's social security card, the employee should ask for a new card at any SSA office or call 1-800-772-1213.

Limitations on Deferred Compensation and Tax-Sheltered Annuity Contributions

Employee Compensation Limit

For 2006, no more than \$220,000 of an employee's compensation can be taken into account when figuring contributions.

Additional Limits

Limits on the amount of elective deferrals that an employee can contribute follows:

457 Plan Annual Limit	401(k) / 403(b) Plans Annual Limit	Combined Total
The lesser of 100% of compensation or	The lesser of 100% of compensation or	\$30,000

\$15,000	\$15,000	
----------	----------	--

Age-Based Contribution

Employees age 50 or older may increase their annual contribution on an incremental basis using the following limits:

457 Plan Annual Limit	401(k) / 403(b) Plans Annual Limit	457 Age-Based Limit	401(k) / 403(b) Age-Based Limit	Combined Total
The lesser of 100% of compensation or \$15,000	The lesser of 100% of compensation or \$15,000	\$5,000	\$5,000	\$40,000

Employees may qualify for the Traditional Catch-Up provision. For more information on Deferred Compensation and tax-sheltered annuity plan limits and options, contact your financial advisor.