



TO: Full-time Faculty
FROM: Office of Human Resources
DATE: August 1, 2017
RE: Important Pay Option Information

The University provides two distinct pay options for full-time faculty. These are:

- Nine-month semi-monthly checks (18 pays)
- Twelve-month semi-monthly checks (24 pays)

Effective in 2008, the Internal Revenue Service (IRS) requires a written election from any employee who chooses to defer a portion of their pay beyond their nine-month contract period. Section 409A of the Internal Revenue Code, a relatively new provision that became law in 2004 (but with a delayed effective date for teachers and faculty members), imposes federal income tax on deferred compensation – amounts earned in one calendar year but not paid until the next. Section 409A generally provides that any income earned in one taxable year but not paid until a subsequent year is nevertheless taxable in the year earned. This tax liability can be avoided if employees do the following:

- You give written (or electronic) notice to your institution that you wish to exercise your option to spread your compensation over a twelve-month period.
- You make that election prior to the first pay of the academic year to which the election applies.

Pay options can only be changed at the beginning of a contract year. Based upon these new guidelines, if you wish to elect to receive your pay over twelve months you must complete the [Faculty Pay Option Form](#) no later than August 21, 2017. If you want to keep your current election, no action is required.

Please review the information below regarding each option before making your choice.

Twelve-month semi-monthly checks (24 pays)

- 24 payments received 9/1/17 thru 8/31/18 (1st pay Sept. 15)
- A deferred pay entry will reduce compensation during the 18 pays from 9/1/17 thru 5/31/18.
- This deferred compensation will be paid and taxed during the six pays from June 1, 2018 thru August 31, 2018.
- Retirement contributions will be calculated on the gross pay before the deferred pay entry and will be forwarded to retirement contracts during the nine-month contract period.
- All other benefits will be deducted over the 24 pays.

Nine-month semi-monthly checks (18 pays)

- 18 payments received 9/1/17 thru 5/31/18 (1st pay Sept. 15)
- Benefit deductions for June-Aug 2018 deducted in May 2018
- Annual taxation calculation may be overstated
(\$45,000(contract)/18=\$2,500 x 24 = \$60,000 (used by tax tables for Federal and State taxes)
If you wish to adjust your tax deductions, forms can be obtained at the Controller's Office or the Office of Human Resources.

If you have any questions, please contact the Office of Human Resources at benefits@xavier.edu or x3638.