



TO: Full-time Faculty

FROM: Office of Human Resources

DATE: July 25, 2022

RE: Important Pay Option Information

As you may recall, 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)

The Internal Revenue Service (IRS) requires an 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 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. **If you want to keep your current election, no action is required. If you wish to change your election for Academic Year 22-23, you must complete the online [Faculty Pay Option Form](#) (note: the form indicates a July 31 deadline; this has been extended until August 15 for this year).**

**Moving forward, you will no longer receive a yearly notification regarding pay option elections. Current elections will remain in place until a new Faculty Pay Option Form is completed which is available on the Office of Human Resources' website. Changes must be submitted by July 31 prior to the start of the Academic Year.



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

Nine-month semi-monthly checks (18 pays)

- 18 payments received 8/31 thru 5/15 (1st pay Aug. 31)
- Benefits are deducted over the 18 pays
- Annual taxation calculation may be overstated
 - $(\$45,000(\text{contract})/18=\$2,500 \times 24 = \$60,000(\text{used by tax tables for Federal and State taxes})$

Twelve-month semi-monthly checks (24 pays)

- 24 payments received 8/31 thru 8/15 (1st pay Aug. 31)
- A deferred pay entry will reduce compensation during the 18 pays from 8/30 thru 5/15
- This deferred compensation will be paid and taxed during the six pays from 5/31 thru 8/15
- If applicable, retirement contributions are calculated on the gross pay before the deferred pay entry and deposited into retirement accounts during the nine-month contract period
- All other benefits will be deducted over the 24 pays

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 x3638 or via email at benefits@xavier.edu.

Thank you,
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