

Recoupment of Overpayments of Salary by an Employer from an Employee

Part 42-04-70

Document last updated August 2018

Contents

1	Introduction	2
2	Recoupment of overpayment	2
2.1	General Position	2
2.2	Current-year overpayment recoupment	2
2.3	Out-of-year overpayment recoupment	3
3	Recoupment spanning a number of years	4
4	Making a claim for a repayment of tax/USC	4
5	An employee who has left employment	7
6	Payment following the death of an employee	7
6.1	Recovery of gross payments	7
6.2	Recovery of net payments	7
	Appendix	9

1 Introduction

This manual sets out Revenue's position regarding the recoupment of an overpayment of emoluments by an employer from an employee.

2 Recoupment of overpayment

2.1 General Position

Any recoupment of an overpayment of emoluments paid to an employee must be recovered on a gross pay basis, i.e. before any deductions such as income tax, USC, PRSI.

2.2 Current-year overpayment recoupment

Where the overpayment is being recouped by means of a deduction from emoluments in the current year, the gross amount of the overpayment is deducted from gross emoluments. Using this method, any tax rebate due to the employee will be generated and paid to the employee through the payroll. Pension, Pension Related Deduction (PRD), Universal Social Charge and PRSI contributions should also be adjusted accordingly, where appropriate.

Example 1:

In July 2018 it was discovered that Adam had been placed on the wrong pay scale after the award of an increment in March. This had resulted in Adam being overpaid for 17 weeks with a total gross overpayment of €357.

As the overpayment was discovered in the year in which it was made, it was agreed between Adam and his employer that he would repay the overpayment in 2018. Therefore, the gross amount overpaid to Adam is recouped by deducting €357 from his gross pay.

Prior to discovery of overpayment:		On discovery of overpayment:	
17 weeks March 16 th – July 6 th		Applies for 17 weeks July 20 th - November 9 th	
Gross Pay:	618.00 p.w. 618.00	Gross Pay:	597.00 p.w.(Correct scale) 597.00
Gross Tax:	123.60	O/P Recoupment:	<u>21.00</u>
Credit:	<u>63.46</u>	Pay:	576.00 576.00
Net Tax:	60.14 60.14	Gross Tax:	115.20
USC:	15.64 15.64	Credit:	<u>63.46</u>
PRSI:	24.72 <u>24.72</u>	Net Tax:	51.74 51.74
Total Deductions	100.50	USC:	13.64 13.64
Net Pay:	€517.50 p.w.	PRSI:	23.04 <u>23.04</u>
		Total Deductions	88.42
		Net Pay:	€487.58 p.w.
		As Adam paid income tax/USC/PRSI on the overpayment of €357, any refund for this will also be made by the employer.	

2.3 Out-of-year overpayment recoupment

Where the overpayment is being recouped by means of a deduction from emoluments paid in a later year, the gross amount of the overpayment is deducted from the **net** pay. Where an overpayment is being recouped out-of-year, upon application by the employee, the employer should issue a statement(s) (see Appendix) to the staff member setting out:

- (i) the year to which the overpayment relates, and
- (ii) the amount of the overpayment to be recouped each year.

Example 2

In 2017 Megan was overpaid by a total of €1,200. This was discovered in May 2018. An instalment arrangement to recoup the overpayment was agreed between Megan and her employer. She will repay €40.00 per week for the remainder of the year 2018 and thereafter until the total overpayment has been repaid.

As the overpayment occurred in a previous year, the out of year recoupment method must be used i.e. gross overpayment must be collected from her net pay.

	€	
Gross pay:	650.00 p.w.	650.00
Gross tax:	130.00	
Credits:	<u>63.46</u>	
Net Tax:	66.54	
USC:	17.16	
PRSI:	<u>26.00</u>	
Total Deductions	109.70	<u>109.70</u>
Net Pay		540.30
Net Pay:	€540.30	
O/P Recoupment:	€ <u>40.00</u>	
Take Home Pay:	€500.30	

On completion of the recoupment plan, Megan can apply to Revenue for a refund of any income tax and USC that has been deducted on the €1,200 overpayment. Any overpayment of PRSI is a matter for the Department of Employment Affairs and Social Protection.

3 Recoupment spanning a number of years

Where recoupment of an overpayment spans a number of years, recoupment can commence in the year in which the overpayment occurs, employing the current year recoupment method as set out in paragraph 2.2 above.

Recoupment of an overpayment, or part of an overpayment, in subsequent years must use the out of year recoupment method as set out in paragraph 2.3 above.

4 Making a claim for a repayment of tax/USC

- 4.1 A claim for a repayment of income tax and USC is only relevant where the recoupment refers to prior year overpayments.

Where out of year recoupment occurs, the employee can make a claim to Revenue for any repayment of income tax and USC that may be due. He or she can make the claim by providing Revenue with the appropriate statement from their employer setting out full details of the amount of emoluments overpaid and the timeframe for recoupment of the overpayment - see Appendix.

4.2 Revenue must apply the statutory 4-year time limit for making a claim for repayment of tax e.g. in 2018, a repayment of tax can be made for the years 2014 – 2017. Where an individual makes a **valid** claim for a year (e.g. a claim for year 2014 must be made by 31 December 2018), but the overpayment will not be totally recouped from him or her for a number of years, Revenue can make a refund at a later date, but only after the overpayment has been repaid in full to the employer - see example 3 below. However, a repayment can only be made where Revenue holds a valid claim.

4.3 To make a valid claim for repayment, the employee must contact Revenue and provide full details of the claim.

Where the recoument is made in full within the 4 year time limit, Revenue will make any refund that may be due.

Where the recoument extends beyond the 4 year time limit, an employee should:

- advise Revenue that they wish to make a claim for repayment of tax for the relevant year e.g. 2014, but that the overpayment will not be fully recouped from him or her by the employer for a number of years e.g. extending to 2020,
- forward the statement from the employer as set out in the Appendix,
- when the overpayment has been totally recouped by the employer, e.g. in 2020, the employee should then request Revenue to make any repayment that may be due in respect of the relevant year e.g. year 2014.

Further information on the statutory 4-year time limit, and making a valid claim, is available in Tax and Duty Manual [Part 37-00-30](#) on the Revenue website.

Example 3

Refund for an Overpayment Spanning a Number of Years

In July 2018, it was discovered that John has been on the wrong pay scale since 2012. This has resulted in an overpayment of emoluments to him of €7,200. John and his employer came to an agreement that he would repay this over the course of 4 years from 2018 to 2021 as follows:

Year 2018

For the remainder of 2018, the recouments in respect of January to June 2018, are

deducted from his gross pay under the current year recoupment method outlined in paragraph 2.2.

Year 2019 and subsequent years

For the remainder of the instalment arrangement, the out of year recoupment method set out in paragraph 2.3 applies.

John needs to make a valid claim to Revenue.

Year	Amount Overpaid	Latest date to forward Valid Claim to Revenue	If Statement sent to Revenue by	Valid Claim Y/N	Refund to be made by:
2018	900	N/A	N/A	N/A	Employer
2017	1,500	31/12/2021	31/12/2020	Y	Revenue
2016	1,400	31/12/2020	31/12/2019	Y	Revenue
2015	1,200	31/12/2019	31/12/2018	Y	Revenue
2014	1,000	31/12/2018	31/12/2018	Y	Revenue
2013	800	31/12/2017	31/12/2018	N	N/A - outside the 4 year time limit
2012	400	31/12/2016	31/12/2018	N	N/A - outside the 4 year time limit
Total	7,200				

On completion of the repayment for each individual year, John will be able to claim any overpaid tax back from Revenue, i.e. once 2016's overpayment has been recouped in full, John can claim for a refund of tax. However, John will not be able to claim for a refund of tax for the years 2012 and 2013 as these years are outside the 4-year time limit.

John will however be able to submit a valid claim for the subsequent years, e.g. a claim for year 2014 must be made to Revenue by 31 December 2018, even though the overpayment will not be totally recouped from him for a number of years. Provided Revenue hold a valid claim for the year 2014, any refund that may be due can be made later, after the overpayment has been paid back in full e.g. in 2020.

5 An employee who has left employment

In the current year

Where an employee leaves employment in the current year and is required to repay an overpayment of salary, the employee may repay the value of the overpayment net of tax to the employer.

In a previous year

Where an employee ceased to be employed by an employer in a previous year, and is required to repay an overpayment of salary the employee must repay the gross value of the overpayment to the employer and apply to Revenue for any refund of income tax and USC that may be due.

6 Payment following the death of an employee

6.1 Recovery of gross payments

Where emoluments continue to be paid following the death of an employee, and

- the payment is made by cheque, and the cheque is returned uncashed to the employer, or
- the payment has been made by electronic funds transfer, and the payment is returned to the employer immediately following notification of the employee's death to the relevant financial institution,

the employer, on receipt of the uncashed cheque or returned payment, may reverse the payment in their PAYE records. As such, the gross pay in the period in which it was paid is reduced to nil with consequential adjustments for income tax, USC and PRSI, regardless of whether the payment was in the current year or an earlier year.

6.2 Recovery of net payments

Where emoluments continue to be paid following the death of an employee and any such net payment is subsequently refunded to the employer, the following may be applied—

- a) if the overpayment only relates to a single pay period, the gross pay for the period in which the overpayment was made is reduced to nil with consequential adjustments for income tax, USC and PRSI, and
- b) if the overpayment relates to multiple pay periods, any payment should be applied in the first instance to the most recent pay period in which the overpayment occurred. Where there is full recovery of the net amount paid for that period, the gross pay for that pay period is

reduced to nil with consequential adjustments for income tax, USC and PRSI.

Example 4.

The following example sets out how the recovery of a net payment, made following the death of an employee, should be processed in respect of payroll notifications submitted under PAYE modernisation i.e. from 1 January 2019.

An individual died in January 2019, and payments for February 2019 and March 2019 continued to be made by an employer. The gross payment was €200 and the net payment was €150 in each month.

In August 2019, the employer started to receive payments in respect of the February 2019 and March 2019 payments.

Payment	Amount
August	€100
September	€100
October	€100

By September 2019, there has been a full recovery of the net payment for March (i.e. €150), therefore the March payroll can be amended and reduced to nil in September 2019.

By October 2019, the net payment for February 2019 (i.e. €150) has been recovered in full so the February payroll can be amended and reduced to nil.

Appendix

Statement of Recoupment of Emoluments

Name of Employee		
PPS Number of Employee		
Name of Employer		
Employer's Registered Number		
Amount of overpayment in respect of the year ____.		
Years and Amounts in which the overpayment is/will be recouped from net pay.	Years	Amounts