

## Compensation Reporting

*N.J.S.A.* 18A:23-2.1 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies fully with the requirements of federal and state laws and regulations regarding the compensation which is required to be reported. See the *State Aid/Compliance Supplement* available on the website: <http://www.nj.gov/education/finance/fp/audit/1112> for suggested audit procedures.

The following link is provided to assist auditors and districts/charter schools in complying with this law: Internal Revenue Service Governmental Entities website - <http://www.irs.gov/Government-Entities>

Information on tax filings for the State of New Jersey can be obtained through the website for Department of Treasury, <http://www.state.nj.us/treasury/>, the Division of Revenue link for “Tax and Employer Filings and Payments” <http://www.state.nj.us/treasury/revenue/>, or the Division of Taxation link <http://www.state.nj.us/treasury/taxation/>. Generally, anything regarded as “wages” for federal withholding purposes is subject to withholding for the NJ Income Tax. See also *N.J.S.A.* 54:A1-1 et seq. Auditors are advised to contact the NJ Department of Treasury directly for technical questions regarding taxable compensation for state reporting.

*N.J.S.A.* 18A:17-14.4 requires the school business administrator, or any other person designated by the board of education to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. The certification (not applicable to charter schools) is due annually on or before March 15 for the certification year (calendar year). The first year for this filing was December 31, 2007, and was due March 15, 2008. The form and instructions for this certification are available on the Department of Treasury’s website [http://www.nj.gov/treasury/taxation/pdf/other\\_forms/misc/e\\_cert1.pdf](http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf).

## Pensionable Wages

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For school districts/charter schools, these include the TPAF and PERS. School districts/charter schools are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Districts/charter schools may only include pensionable wages as defined by the Division of Pensions and Benefits. The following discussion is provided to assist auditors when testing payroll and pensionable wages.

The Division of Pensions and Benefits defines pensionable wages or creditable compensation as the compensation of a member subject to pension and group life insurance contributions and creditable for retirement and death benefits administered by the Teachers’ Pension and Annuity Fund (TPAF). Creditable compensation is limited to “base salary” which is defined under *N.J.A.C.* 17:3-4.1. Base salary means the annual compensation of a member, in accordance with contracts, ordinances, resolutions, or other established salary policies of the member’s employer for all employees in the same position, or all employees covered by the same collective bargaining agreement, which is reported in regular, periodic installments in accordance with the payroll cycle of the employer. Creditable compensation does not include “extra compensation” which is defined in *N.J.A.C.* 17:3-4.1. The Board of Trustees may question the compensation of any member or retiree to determine its creditability where there is evidence that compensation reported as base pay includes extra compensation. The examples of extra compensation listed in the citation above are not meant to be all inclusive.