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Office of State Uniform Payroll

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September 9, 2026

Office of State Uniform Payroll Memorandum #2027-08

To: LaGov HCM Paid Agency Human Resources and Employee Administration Staff

From: Andrea P. Hubbard
Director

Subject: Update to OSUP Memorandum #2026-48
2025 Flexible Spending Account Unsubstantiated Claims - **Immediate Action Required**

OSUP Memorandum #2026-48 provided the recoupment and reporting process for 2025 unsubstantiated FSA claims per IRS regulations. Agencies were advised to review the May 19, 2026 OGB memorandum and list of employees with unsubstantiated claims for specific requirement details. A LaGov listserv message was released on May 21, 2026 with LaGov HCM entry instructions to establish payroll deductions for eight pay periods beginning PPD 12/2026. Payroll deductions using WT 5657 (deduction) and WT 5658 (balance) should conclude PPD 19/2026.

Agencies must take immediate action after PP 19/2026 to complete the reporting process for active employees and separated employees as follows:

<u>Active Employees</u>

Run ZP74 (Recurring/Additional Payments/Deductions Detail Report or Deduction Balance) to determine which employees have a remaining balance. Any balance remaining after PPD 19/2026 must be reported as taxable income on the 2026 Form W-2 using WT 0160 (FSA unsub claims TxNCash) on IT 0015. The amount entered will be included in the computation of applicable federal, state, Social Security, and Medicare wages and taxes and will be included in these wages/taxes on the 2026 Form W-2. **Applicable taxes will be deducted from the employee's pay in the pay period the WT 0160 amount is entered,**

thus reducing net pay. Entries must be completed by Oct. 23, 2026. Agencies must notify employees of this entry and the tax consequences.

Separated Employees

Per IRS regulations, the unsubstantiated claim amount must be reported as taxable wages on the 2026 Form W-2 using WT 0160. Entries must be completed by Oct. 23, 2026. Since there will be no pay, taxes cannot be withheld from separated employees. The federal and/or state income taxes will be the responsibility of the employee when he files his 2026 income tax return. The Social Security and/or Medicare taxes that should have been withheld will be paid by the agency on behalf of the employee and a claim may be created for these funds. It will be the agency's responsibility to follow the instructions in the semi-annual claims memorandum for collection of these funds. Notification of this W-2 adjustment must be sent to the separated employees. **Note: Deceased employees require further review. Contact a member of the OSUP Wage and Tax Administration Unit for special instructions.**

Direct LaGov HCM system entry questions to the LaGov HCM Help Desk. Direct questions related to unsubstantiated claims to OGB FlexibleSpendingAccounts. Direct all other questions to a member of the OSUP Wage and Tax Administration Unit. Contact information is available on the staff directory page.

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