

# Payroll Deduction Rule Update

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January 2006

**L&I updated the payroll deduction rules to:**

- **Clarify when payroll deductions may be made**
- **Ensure consistency with state and federal law**
- **Allow adjustments for overpayments**
- **Specify when a deduction cannot reduce the minimum wage**
- **Place all requirements in one chapter**

**The new rules become effective Jan. 1, 2006.**

## **What is the issue?**

The original payroll deduction rule, WAC 296-126-025, was adopted in 1974 and has never been revised. The rule is used by employers who need to know when they may make deductions from employees' pay.

L&I updated the rule for clarity and consistency with state and federal law and compiled all requirements into one chapter for ease of use.

Employers who understood the requirements in Administrative Policies ES.B.1 and ES.B.2 would be in compliance with the new rule. See [www.LNI.wa.gov/WorkplaceRights/Rules/Policies](http://www.LNI.wa.gov/WorkplaceRights/Rules/Policies) for more information on the administrative policies.

There is a new provision in the rule to allow adjustments for overpayments of wages. There were no previous rules or policies, and employers faced uncertainty as to what was allowed when an inadvertent overpayment occurred. The new rule provides certainty to employers by allowing reasonable steps to recover an overpayment.

## **Why did the rule need to be updated?**

There are two laws regarding deductions. In 1993, the Supreme Court affirmed that the payroll deductions allowed in RCW 49.48.010 were applicable only to the final wages upon termination of employment. Another law, RCW 49.52.060, applies to deductions during ongoing employment.

Since 1995, the department has been consistently and correctly applying the deduction laws to the payroll deduction rules. However, the rules did not reflect the difference in the two laws.

The new rule clarifies when an employer can make payroll deductions, for example, for employee loans, purchases or cash shortages and upon termination of employment. It clarifies when a deduction may not reduce the minimum wage. Finally, it allows adjustments for overpayments with reasonable limitations.

The new rule is consistent with all applicable statutes and the Supreme Court decision.

## **What has L&I done so far?**

The department has worked with the Employment Law Advisory Committee (ELAC) and other stakeholders in the development of the new payroll deduction rule. The department held three public hearings in July 2005 and based on testimony, made further changes to the proposed wording. An additional public hearing was held in November 2005. The new rules become effective Jan. 1, 2006.

## **For more information:**

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