



Peggy Rowe  
Director of Human Resources

In a recent *Ask Peggy* issue, employees were advised that the current leave exchange program would be terminated at the end of this year due to the possibility that employees could suffer adverse tax consequences. Some employees sent questions to me and the most common ones follow. Again, if you have other questions please send them to [AskPeggy](#). Thank you for your understanding as we develop a new program for 2013.

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**Q:** What happens to leave exchange when we leave employment or retire? We can still exchange the maximum 696 hours when we retire, correct?

**A:** Employees are entitled under the Personnel Rules to be paid up to three (3) times their annual accrual rate when they leave County service, retirement or otherwise. For instance if you earn 232 hours per year you could receive your leave balance up to 696 hours. The changes to our leave exchange program do not impact this.

**Q:** I have over 500 hours in my leave. I turn in 160 hours every year. I do not care about a possible tax penalty. I rely on this money for my Christmas gifts for my kids. Does this mean that I can no longer have money for Christmas?

**A:** You can still do exchange leave for this year, and use the funds for Christmas or for another purpose. For 2012 you will not be able to exchange. There will be a plan in place for 2013 that gives you options in this regard. Look for additional information.

**Q:** Does this change to the rule allowing exchange of leave action affect the option of exchange into Deferred Comp of up to 500 hours of leave when entering DROP?

**A:** This change does not affect the ability to exchange up to 500 hours when you enter DROP.

**Q:** Can employees still roll leave time that they are paid at separation of employment into one of the County's 457 Deferred Compensation plans to defer income tax?

**A:** Yes, this ability is not impacted by these changes. However the IRS has a maximum amount each year that employees can contribute to 457 plans and any amount over that limit will be taxable in that year.

**Q:** When will employees receive more information concerning the future leave exchange program being implemented for 2013?

**A:** Over the next few months details on a new program will be developed. HR will seek input of the appropriate professionals to ensure the program meets any legal requirements, and will also seek input from the Appointing Authorities and the Employees' Advisory Council. You can expect details to be released in the middle of 2012.



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It recently came to our attention that the county's rule allowing employees to exchange a portion of their accrued leave could produce negative tax consequences. Faced with this new information, the county had the option of discontinuing the annual leave exchange program in its entirety or repealing the existing exchange rule which allows us to create a new exchange of leave program without negative tax consequences. Therefore, at the November Personnel Board meeting, the Board repealed Personnel Rule XV—Annual Leave Exchange, and I want to take time to explain why that action was taken and what it means to you.

### What does this mean?

A leave exchange program may bring into play, pursuant to IRS Regulations, the principle of constructive receipt. Under this principle, the value of leave that an employee can elect to exchange or sell may be considered taxable even in instances where an employee does not elect to make the exchange (or receive cash).

Although the Rule was repealed, since the ability to exchange leave is an important benefit to the employees of Pinellas County, we want to do everything possible to offer an exchange program. However, any future program will have to be structured so as to eliminate any potential negative tax consequences. To do so, a future program will include significant limitations as described below:

- Employees' elections will be required prior to the beginning of the tax year in which the exchange will occur.
- The leave eligible for exchange will be limited to leave to be accrued in the tax year following the election.
- The elections will be irrevocable. In other words, once made, an election cannot be revoked or changed.

It is not possible to implement a revised program prior to December 31, 2011. Therefore, there will not be an exchange in calendar year 2012. To ease the transition and alleviate the impact of suspending leave exchange in 2012, we are having an additional election in December 2011. That exchange date will be December 9th. This option is available whether or not you are exchanging leave on November 10, 2011.

For the December 2011 exchange, employees will not be required to maintain a 40 hour minimum in their leave banks. We do, however, suggest that great caution be used if deciding to reduce your annual leave bank to zero. The maximum amount of leave that may be exchanged in the combined November and December 2011 exchanges will be 160 hours. Details regarding the December exchange will be provided very soon. After the December leave exchange, we will provide detailed information to you regarding the future program.

Again, additional information will be released soon. Any questions should be addressed to **ASKPEGGY**.