

## Memorandum 72-2

Subject: Study 39.30 - Attachment, Garnishment, Execution (Employees' Earnings Protection Law)

Summary

The staff has revised the recommendation for the Employees' Earnings Protection Law to reflect changes made at the last meeting and to reflect 1971 enactments. A copy of the revised recommendation is attached. The revision of the recommendation has been a substantial undertaking, and the publication of the recommendation will be delayed as a result. Nevertheless, the staff is working with the office of the Legislative Counsel to prepare copies of the recommended legislation for introduction as soon as possible. The recommendation is now in the final steps of printing (preparation of page proofs) and only the most significant type of error could be corrected before the recommendation is published. We will, of course, be able to amend the bill and the official Comments after the bill is introduced.

Another significant development is that we have received a response to a letter I wrote to the U.S. Department of Labor in January 1971 advising that the Commission was undertaking a study of wage garnishment and requesting assistance. The reply (Exhibit I) points out that a state law will be approved in lieu of the federal law only if the state law provides the same or greater restrictions on garnishment of individuals' earnings. The reply includes various attached opinions that indicate that certain of the provisions of our recommendation may not satisfy federal requirements. These provisions, together with others noted by the staff, are discussed in this memorandum.

Significant problems that will need further consideration include:

(1) The U.S. Department of Labor (in a public domain letter) has taken the position that, since wages "paid or payable" are protected under the federal law, the deposit of earnings in a bank does not result in a loss of the protection afforded by the CCPA.

(2) Where an employer is directed by court order to withhold earnings for child support and alimony, the limits of the federal statute are not applicable but the amount withheld is to be considered as a garnishment, thus precluding any additional garnishment that would bring the amount withheld over the amount permitted to be withheld under federal law.

#### Analysis

Problem of compliance with federal requirements. The staff believes that the Commission's recommendation is a sound one. It is apparent, however, that some of the provisions may not satisfy federal requirements. It would seem that the best way to deal with this problem is to send the recommendation, with a letter pointing out the problem areas, to the U.S. Department of Labor with the request that the Commission be advised as to the changes, if any, needed to satisfy federal requirements. A draft of such a letter is attached to the **Second Supplement to Memorandum 72-2.**

Bank accounts. Pages 30-31 of Exhibit I set forth a copy of a letter from the federal administrator holding that the federal restrictions on garnishment of earnings apply where a corporation pays 800 of its employees by depositing the total amount due these employees with a local bank and the bank deposits the net pay due each employee to an account set up for the employee. The opinion holds that the bank is acting as the agent of the employer and that

garnishment of the bank accounts is limited by the federal restrictions. The language in the opinion is broader than the holding and the opinion relies on cases where it has been held that exempt earnings of a debtor or other exempt funds do not lose their exempt character by being deposited in a bank account.

The precise holding in this opinion is sound. The problem with our recommendation is that Section 690.7 (pages 29-32) provides in subdivision (1) that: "The exemptions provided by this section are exclusive. A debtor may claim no greater amount as exempt by showing that such amount was derived from his earnings or any other source." The staff believes this is a generally sound principle, but that the particular case considered in the opinion of the federal administrator must necessarily be an exception.

It is easy to apply the federal restrictions in the case considered in the opinion. The bank is computing the net pay of the employee and depositing it to his account. When the account is garnished, the bank knows the source of the earnings (unless the employee is depositing additional amounts), and can easily compute the amount to be withheld. Thus, there is no need for the employee to claim an exemption (at least as far as the amount of his earnings that the bank has deposited to his account). Where the bank is not the employer's payroll agent, however, the bank does not know the source of deposits and cannot compute the amount to be withheld. A claim must be made, tracing will be required, and first-in, first-out or similar rules developed. Our recommendation avoids these complexities.

Despite the more general language in the opinion of the federal administrator, the staff believes that there will be serious practical problems in attempting to apply the opinion in situations other than the type involved in the opinion. Accordingly, we recommend that the general scheme of our exemption

be retained and that it be retained at the amount provided in the recommendation (\$500). We further recommend that an additional subdivision be added to Section 690.7, to read:

(j) Subdivision (i) does not apply where the employer is using a bank as its payroll agent. In such case, the earnings of the debtor which have been deposited by the employer's payroll agent in the employee's deposit account are subject to levy of execution only in an amount not to exceed the maximum amount of such earnings that could be withheld by his employer under Section 723.050 less any amount withheld from such earnings pursuant to any earnings withholding order.

Support orders. The federal administrator has clearly taken the position that amounts withheld pursuant to a court order for child support or alimony are not limited by the federal act but, if amounts are withheld for child support or alimony, they are considered in determining the amount withheld from earnings for the purpose of applying the 25 percent limitation. Our recommendation, on the other hand, subtracts the amount withheld pursuant to an earnings withholding order in determining gross income for the purpose of applying the withholding table. See Section 723.030(b)(4) at page 49 of the revised recommendation. In other words, even if 25 percent of disposable earnings is being withheld pursuant to a support order, another creditor can sometimes receive something if the remaining earnings after the withholding pursuant to the support order are sufficient to justify withholding on the other judgment.

The staff believes that the Commission's recommendation is a good compromise between ignoring the amount withheld for support (as would be the case where the support is voluntarily paid) and the federal position which, for all practical purposes, precludes withholding for another creditor if the employer of the judgment debtor is withholding pursuant to a support order. We suggest that it be submitted to the federal authorities as is even though we doubt that it will be approved by the federal authorities as meeting federal requirements.

In the event that our support scheme is not approved, the staff believes that we should investigate the possibility of a system of "voluntary" wage assignments for support. (We would consider a wage assignment for support to be "voluntary" even where the alternative is the court holding the person who refuses to make such an assignment in contempt.) We would distinguish between a judgment for past due support and a wage assignment for continuing withholding for support. The former would count in the 25 percent limitation; the latter would be treated as proposed in the recommendation for a withholding order for support. Since it is doubtful that our proposal will meet federal approval, a decision should be made whether Commission resources should be devoted to the drafting of provisions to carry out the suggestion outlined above. The staff believes that, despite the many demands on our resources, sufficient resources should be devoted to permit the development of the alternative scheme.

Independent contractors. We have some concern that the federal statute may be applied to "earnings" of independent contractors. If the federal statute is given this interpretation, we doubt that our proposal will satisfy federal requirements. It should be noted that the definition of "earnings" for federal purposes is not clearly limited to employees and, in fact, literally is broader. Possibly the complications of applying the federal restrictions in case of an independent contractor would cause the federal authorities to limit the applicability of the statute to employees. We suggest no change in the recommendation and we do not believe that we should devote resources at this time to this problem.

Paid earnings. The staff is also concerned that the opinion dealing with bank accounts, discussed above, may create problems as to "paid" earnings in the hands of the employee. Moreover, we believe that our approved recommendation

contains an unfair discrimination against employees who are paid weekly as distinguished from those paid biweekly or monthly. Section 690.5-1/2 provides for the exemption of "paid" earnings in subdivision (e). Only earnings of the debtor for "his pay period immediately preceding the levy" are protected. The staff recommends that subdivision (e) of Section 690.5-1/2 be revised to read:

(e) The earnings of the debtor for his pay period or periods ending within 30 days immediately preceding the levy which have been paid to him and are retained in the form in which paid or as cash are subject to levy of execution only in an amount not to exceed the maximum amount of such earnings that could be withheld by his employer under Section 723.050 less any amounts withheld from such earnings by the debtor's employer pursuant to any earnings withholding order.

Serious problems are created by restricting the exemption to earnings for periods ending within 30 days as several of the opinions attached to this memorandum point out. Nevertheless, the staff would not want to exempt \$10,000 in cash found in a safe deposit box as "paid earnings" and we believe that the problems of identifying the pay periods and determining the amount of the exemption (whether amounts expended from net wages paid are to be considered the exempt portion, and similar problems) are such that the exemption provided is sufficient. Moreover, we are influenced by the fact that no creditor has advised us that he was ever able to levy on cash in the hands of the debtor.

Retirement payments. Our treatment of retirement payments will, we believe, satisfy federal requirements with one exception: We do not protect "paid" retirement payments which are in the hands of the judgment debtor. We do, on the other hand, protect to a limited extent "paid" earnings. The federal statute treats retirement benefits the same as other earnings. Accordingly, the staff recommends that Section 690.18 be revised to add the following subdivision (e) and to renumber existing subdivision (e) as subdivision (f):

(e) Periodic payments received by the debtor from a pension or retirement plan during the 30 days immediately preceding the levy of execution which have been retained by him in the form in which received or as cash are subject to levy of execution only in an amount not to exceed the maximum amount of such payments that could be withheld by the fund under subdivision (d), less any amounts withheld from such payments by the fund pursuant to a levy of execution.

The 30-day limit is, of course, subject to the same objection as a 30-day limit on "paid" earnings.

Multiple sources of earnings. Under our recommendation, a creditor can obtain an earnings withholding order directed to one of several of the employers of the debtor directing the employer to withhold an amount computed taking into account the employee's earnings from other employers as well as the employer to whom the order is directed. Later, another creditor may obtain a withholding order directed to one of these other employers. In such case, the employee must claim an exemption if he wants to exempt more than the amount that would be exempt under Section 723.050. Yet, under the federal law, he is entitled to have exempt the amount provided under federal law without having to claim the exemption. Here, the amount may be in excess of the federal law because the amount being withheld under the prior order is computed by taking into account the earnings that are covered by the second order.

Granted this is a problem, but the case posed is so remote we do not believe that it is necessary to deal with it. If we want to deal with it, we could provide for an order made directed to all employers of the debtor so they would all be aware of the withholding by one, and the other employers (as well as the one withholding) would make an employer's return to any creditor serving a subsequent order indicating that the earnings covered by the subsequent order were subject to withholding under the prior order.

Tips. We consider tips as earnings for the purposes of our recommendation. We do not indicate whether dollar values of meals and lodgings furnished by an employer to his employees are earnings (the State Administrator would provide rules on this by regulation). The federal authorities indicate that tips are not generally regarded as "earnings"; and dollar values of meals and lodgings furnished by an employer are generally regarded as "earnings." We believe the recommendation is satisfactory. The State Administrator can provide by rule for the treatment of the matters mentioned above.

Applying restrictions on garnishment to employees with pay periods less than one week. The federal administrator has made it clear that the restrictions on the amount of earnings that can be garnished cannot be prorated for employees on a daily pay period. In other words, the first \$48 of disposable earnings earned each week is exempt. If the employee works only one day during the week and earns not more than \$48 of disposable earnings, it is all exempt.

Our recommendation does not make the above result clear. However, the State Administrator is directed to adopt regulations and provide tables for pay periods of other than a week and he can provide by regulation for a result comparable to that achieved under the federal statute. Accordingly, we do not believe that any revision of the recommendation is needed.

Respectfully submitted,

John H. DeMouilly  
Executive Secretary

Memorandum 72-2

EXHIBIT I

U.S. DEPARTMENT OF LABOR  
EMPLOYMENT STANDARDS ADMINISTRATION  
WASHINGTON, D.C. 20110



OFFICE OF THE ADMINISTRATOR

NOV 22 1971

Mr. John H. DeMouilly  
School of Law  
Stanford University  
Stanford, California 94305

Dear Mr. DeMouilly:

This is in reply to your letter of January 7, 1971, concerning legislation which you are preparing in order to apply for an exemption from the provisions of section 303(a) of Title III of the Consumer Credit Protection Act for garnishments issued under the laws of the State of California.

As indicated in 29 CFR 870.51, differences in text between the restrictions of State law and those in section 303(a) are not material so long as the State laws provide the same or greater restrictions on the garnishment of individuals' earnings. The achievement of such restrictions has been found to be best accomplished by amending State law so that its protection is predicated upon the same factors as the Federal law. This would include, for example, the incorporation of similar definitions of the terms "earnings", "disposable earnings", and "garnishment" and a formula based upon such terms which provide restrictions on garnishment which are the same or greater than section 303(a).

Title III does not contain any time limitation for its restrictions to be effective but your current State law, which is similar to that of some other States, seems to protect only those earnings which have been earned during the 30 days next preceding the levy.

We are enclosing a number of opinions dealing with questions you have raised. Of particular interest will be our public domain letter of October 26, 1971, concerning garnishment of wages deposited in a bank account. As you will note, we took the position in this opinion that since wages "paid or payable" are protected (Secs. 302(a) and 303(a) of the CCPA), the deposit of earnings in a bank does not result in a loss of the protection afforded by the CCPA.

We would be pleased to examine your proposed legislation to ascertain

whether it would provide restrictions on garnishment substantially similar to those of section 303(a).

Sincerely,



Horace E. Manasco  
Administrator

by Ben P. Robertson  
Deputy Administrator  
Wage and Hour Division

9 Enclosures



Public Law 90-321  
90th Congress, S. 5  
May 29, 1968

## An Act

To safeguard the consumer in connection with the utilization of credit by requiring full disclosure of the terms and conditions of finance charges in credit transactions or in offers to extend credit; by restricting the garnishment of wages; and by creating the National Commission on Consumer Finance to study and make recommendations on the need for further regulation of the consumer finance industry; and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

Consumer Credit  
Protection Act.

### § 1. Short title of entire Act

This Act may be cited as the Consumer Credit Protection Act.

(This reprints only that portion of the Consumer Credit Protection Act contained in Title III - Restriction on Garnishment - effective July 1, 1970.)

## TITLE III—RESTRICTION ON GARNISHMENT

Sec.

- 301. Findings and purpose.
- 302. Definitions.
- 303. Restriction on garnishment.
- 304. Restriction on discharge from employment by reason of garnishment.
- 305. Exemption for State-regulated garnishments.
- 306. Enforcement by Secretary of Labor.
- 307. Effect on State laws.

82 STAT. 162

### § 301. Findings and purpose

(a) The Congress finds:

(1) The unrestricted garnishment of compensation due for personal services encourages the making of predatory extensions of credit. Such extensions of credit divert money into excessive credit payments and thereby hinder the production and flow of goods in interstate commerce.

(2) The application of garnishment as a creditors' remedy frequently results in loss of employment by the debtor, and the resulting disruption of employment, production, and consumption constitutes a substantial burden on interstate commerce.

(3) The great disparities among the laws of the several States relating to garnishment have, in effect, destroyed the uniformity of the bankruptcy laws and frustrated the purposes thereof in many areas of the country.

(b) On the basis of the findings stated in subsection (a) of this section, the Congress determines that the provisions of this title are necessary and proper for the purpose of carrying into execution the powers of the Congress to regulate commerce and to establish uniform bankruptcy laws.

82 STAT. 163

### § 302. Definitions

For the purposes of this title:

(a) The term "earnings" means compensation paid or payable for personal services, whether denominated as wages, salary, commission, bonus, or otherwise, and includes periodic payments pursuant to a pension or retirement program.

(b) The term "disposable earnings" means that part of the earnings of any individual remaining after the deduction from those earnings of any amounts required by law to be withheld.

(c) The term "garnishment" means any legal or equitable procedure through which the earnings of any individual are required to be withheld for payment of any debt.

**§ 303. Restriction on garnishment**

(a) Except as provided in subsection (b) and in section 305, the maximum part of the aggregate disposable earnings of an individual for any workweek which is subjected to garnishment may not exceed

(1) 25 per centum of his disposable earnings for that week, or

(2) the amount by which his disposable earnings for that week exceed thirty times the Federal minimum hourly wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938 in effect at the time the earnings are payable,

80 Stat. 838.  
29 USC 206.

whichever is less. In the case of earnings for any pay period other than a week, the Secretary of Labor shall by regulation prescribe a multiple of the Federal minimum hourly wage equivalent in effect to that set forth in paragraph (2).

(b) The restrictions of subsection (a) do not apply in the case of

(1) any order of any court for the support of any person.

(2) any order of any court of bankruptcy under chapter XIII of the Bankruptcy Act.

(3) any debt due for any State or Federal tax.

52 Stat. 930.  
11 USC 1001-  
1086.

(c) No court of the United States or any State may make, execute, or enforce any order or process in violation of this section.

**§ 304. Restriction on discharge from employment by reason of garnishment**

(a) No employer may discharge any employee by reason of the fact that his earnings have been subjected to garnishment for any one indebtedness.

82 STAT. 164  
Penalties.

(b) Whoever willfully violates subsection (a) of this section shall be fined not more than \$1,000, or imprisoned not more than one year, or both.

**§ 305. Exemption for State-regulated garnishments**

The Secretary of Labor may by regulation exempt from the provisions of section 303(a) garnishments issued under the laws of any State if he determines that the laws of that State provide restrictions on garnishment which are substantially similar to those provided in section 303(a).

**§ 306. Enforcement by Secretary of Labor**

The Secretary of Labor, acting through the Wage and Hour Division of the Department of Labor, shall enforce the provisions of this title.

**§ 307. Effect on State laws**

This title does not annul, alter, or affect, or exempt any person from complying with, the laws of any State

(1) prohibiting garnishments or providing for more limited garnishments than are allowed under this title, or

(2) prohibiting the discharge of any employee by reason of the fact that his earnings have been subjected to garnishment for more than one indebtedness.

**U.S. DEPARTMENT OF LABOR  
WAGE AND HOUR DIVISION**

**PART 870 (29 CFR) — REGULATIONS**

*(Reprinted from the Federal Register of May 26, 1970)*

**Title 29—LABOR**

**Chapter V—Wage and Hour Division,  
Department of Labor**

**PART 870—RESTRICTION ON  
GARNISHMENT**

Computation of multiple of the Federal minimum hourly wage for pay periods other than weekly; exemption for State-regulated garnishments.

On December 5, 1969, there was published in the *Federal Register* (34 F.R. 19298) notice of proposed rule making regarding the computation of a multiple of the Federal minimum hourly wage equivalent to that set forth in section 303(a) of the Consumer Credit Protection Act (CCPA), and exemption of State-regulated garnishments. After consideration of all relevant matter presented by interested persons, and pursuant to sections 303(a), 305, and 306 of the CCPA (82 Stat. 163, 164; 15 U.S.C. 1673, 1675, 1676), 29 CFR Chapter V is hereby amended by adding a new Part 870 to read as set forth below:

**Subpart A—General**

- Sec.  
870.1 Purpose and scope.  
870.2 Amendments to this part.

**Subpart B—Determinations and Interpretations**

- 870.10 Maximum part of aggregate disposable earnings subject to garnishment.

**Subpart C—Exemption for State-Regulated  
Garnishments**

- 870.50 General provision.  
870.51 Exemption policy.  
870.52 Application for exemption of State-regulated garnishments.  
870.53 Action upon an application for exemption.  
870.54 Standards governing the granting of an application for exemption.  
870.55 Terms and conditions of every exemption.  
870.56 Termination of exemption.

**AUTHORITY:** The provisions of this Part 870 issued under secs. 303, 305, 306, 82 Stat. 163, 164; 15 U.S.C. 1673, 1675, 1676.

**Subpart A—General**

**§ 870.1 Purpose and scope.**

(a) This part sets forth the procedures and any policies, determinations, and interpretations of general application whereby the Secretary of Labor carries out his duties under section 303 of the CCPA dealing with "multiples" of weekly restrictions on garnishment of earnings, and section 305 permitting exemptions for State-regulated garnishments in certain situations.

(b) Functions of the Secretary under the CCPA to be performed as provided in this part are assigned to the Administrator of the Wage and Hour Division (hereinafter referred to as the Administrator) who, under the general direction and control of the Assistant Secretary, Wage and Labor Standards Administration, shall be empowered to take final and binding actions in administering the provisions of this part. The Administrator is empowered to subdelegate any of his duties under this part. Any legal advice and assistance required for administration of this part shall be provided by the Solicitor of Labor.

**§ 870.2 Amendments to this part.**

The Administrator may, at any time upon his own motion or upon written request of any interested person setting forth reasonable grounds therefor, amend any rules in this part.

**Subpart B—Determinations and  
Interpretations**

**§ 870.10 Maximum part of aggregate  
disposable earnings subject to  
garnishment.**

(a) *Statutory provision.* Section 303 (a) of the CCPA provides that, with some exceptions,

the maximum part of the aggregate disposable earnings of an individual for any workweek which is subjected to garnishment may not exceed

(1) 25 per centum of his disposable earnings for that week, or

(2) the amount by which his disposable earnings for that week exceed thirty times the Federal minimum hourly wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938, in effect at the time the earnings are payable,

whichever is less. In the case of earnings for any pay period other than a week, the Secretary of Labor shall by regulation prescribe a multiple of the Federal minimum hourly wage equivalent in effect to that set forth in paragraph (2).

(b) *Weekly pay period.* The statutory exemption formula applies directly to the aggregate disposable earnings for 1 workweek, or a lesser period. Its intent is to protect from garnishment, and save to an individual earner, the specified amount of compensation for his personal services rendered in the workweek, or lesser period. Thus, so long as the Federal minimum wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938 is \$1.60 an hour—

(1) If an individual's disposable earnings for a workweek or lesser period are \$48 (30 x \$1.60) or less, his earnings may not be garnished in any amount.

(2) If an individual's disposable earnings for a workweek or lesser period are more than \$48, but less than \$64, only the amount above \$48 is subject to garnishment.

(3) If an individual's disposable earnings for a workweek or lesser period are \$64 or more, 25 percent of his disposable earnings is subject to garnishment.

(c) *Pay for a period longer than 1 week.* In the case of disposable earnings which compensate for personal services rendered in more than 1 workweek, the weekly statutory exemption formula must be transformed to a formula applicable to such earnings providing equivalent restrictions on wage garnishment.

(1) The 25 percent part of the formula would apply to the aggregate disposable earnings for all the workweeks compensated.

(2) The "multiple" of the Federal minimum hourly wage equivalent to that applicable to the disposable earnings for 1 week is represented by the following formula: The number of workweeks, or fractions thereof (x) x 30 x the applicable Federal minimum wage (\$1.60). For the purpose of this formula, a calendar month is considered to consist of 4½ workweeks. Thus, so long as the Federal minimum hourly wage is \$1.60 an hour, the "multiple" applicable to the disposable earnings for a 2-week period is \$96 (2 x 30 x \$1.60); for a monthly period, \$208 (4½ x 30 x \$1.60); and for a semi-monthly period, \$104 (2½ x 30 x \$1.60). The "multiple" for any other pay period longer than 1 week shall be computed in a manner consistent with section 303(a) of the Act and with this paragraph.

**Subpart C—Exemption for State-  
Regulated Garnishments**

**§ 870.50 General provision.**

Section 305 of the CCPA authorizes the Secretary to "exempt from the provisions of section 303(a) garnishments issued under the laws of any State if he determines that the laws of that State provide restrictions on garnishment which are substantially similar to those provided in section 303(a)."

**§ 870.51 Exemption policy.**

(a) It is the policy of the Secretary of Labor to permit exemption from section 303(a) of the CCPA garnishments issued under the laws of a State if those laws considered together cover every case of garnishment covered by the Act, and if those laws provide the same or greater protection to individuals. Differences in text between the restrictions of State laws and those in section 303(a) of the

Act are not material so long as the State laws provide the same or greater restrictions on the garnishment of individuals' earnings.

(b) In determining whether State-regulated garnishments should be exempted from section 303(a) of the CCPA, or whether such an exemption should be terminated, the laws of the State shall be examined with particular regard to the classes of persons and of transactions to which they may apply; the formulas provided for determining the maximum part of an individual's earnings which may be subject to garnishment; restrictions on the application of the formulas; and with regard to procedural burdens placed on the individual whose earnings are subject to garnishment.

(c) Particular attention is directed to the fact that subsection (a) of section 303, when considered with subsection (c) of that section, is read as not requiring the raising of the subsection (a) restrictions as affirmative defenses in garnishment proceedings.

#### § 870.52 Application for exemption of State-regulated garnishments.

(a) An application for the exemption of garnishments issued under the laws of a State may be made in duplicate by a duly authorized representative of the State. The application shall be filed with the Administrator of the Wage and Hour Division, Department of Labor, Washington, D.C. 20210.

(b) Any application for exemption must be accompanied by two copies of all the provisions of the State laws relating to the garnishment of earnings, certified to be true and complete copies by the Attorney General of the State. In addition, the application must be accompanied by a statement, in duplicate, signed by the Attorney General of the State, showing how the laws of the State satisfy the policy expressed in § 870.51(a) and setting forth any other matters which the Attorney General may wish to state concerning the application.

#### § 870.53 Action upon an application for exemption.

(a) The Administrator shall grant or deny within a reasonable time any application for the exemption of State-regulated garnishments. The State representative shall be notified in writing of the decision. In the event of denial, a statement of the grounds for the denial shall be made. To the extent feasible and appropriate, the Administrator may afford to the State representative and to any other interested persons an opportunity to submit orally or in writing data, views, and arguments on the issue of whether or not an exemption should be granted and on any subsidiary issues.

(b) If an application is denied, the State representative shall have an opportunity to request reconsideration by the Administrator. The request shall be made in writing. The Administrator shall permit argument whenever the opportunity to do so has not been afforded under

paragraph (a) of this section, and may permit argument in any other case.

(c) General notice of every exemption of State-regulated garnishments and of its terms and conditions shall be given by publication in the FEDERAL REGISTER.

#### § 870.54 Standards governing the granting of an application for exemption.

The Administrator may grant any application for the exemption of State-regulated garnishments whenever he finds that the laws of the State satisfy the policy expressed in § 870.51(a).

#### § 870.55 Terms and conditions of every exemption.

(a) It shall be a condition of every exemption of State-regulated garnishments that the State representative have the powers and duties (1) to represent, and act on behalf of, the State in relation to the Administrator and his representatives, with regard to any matter relating to, or arising out of, the application, interpretation, and enforcement of State laws regulating garnishment of earnings; (2) to submit to the Administrator in duplicate and on a current basis, a certified copy of every enactment by the State legislature affecting any of those laws, and a certified copy of any decision in any case involving any of those laws, made by the highest court of the State which has jurisdiction to decide or review cases of its kind, if properly presented to the court; and (3) to submit to the Administrator any information relating to the enforcement of those laws, which the Administrator may request.

(b) The Administrator may make any exemption subject to additional terms and conditions which he may find appropriate to carry out the purposes of section 303(a) of the Act.

#### § 870.56 Termination of exemption.

(a) After notice and opportunity to be heard, the Administrator shall terminate any exemption of State-regulated garnishments when he finds that the laws of the State no longer satisfy the purpose of section 303(a) of the Act or the policy expressed in § 870.51(a). Also, after notice and opportunity to be heard, the Administrator may terminate any exemption if he finds that any of its terms or conditions have been violated.

(b) General notice of the termination of every exemption of State-regulated garnishments shall be given by publication in the FEDERAL REGISTER.

*Effective date.* This part shall become effective on the date of its publication in the FEDERAL REGISTER, except § 870.10, which shall become effective on July 1, 1970.

Signed at Washington, D.C., this 26th day of May 1970.

GEORGE F. SHULTE,  
Secretary of Labor.

[F.R. Doc. 70-6450; Filed, May 25, 1970;  
8:47 a.m.]

U.S. DEPARTMENT OF LABOR  
WAGE AND HOUR DIVISION

PART 870 (29 CFR) - REGULATIONS

(Reprinted from the Federal Register of September 11, 1970)

**Title 29—LABOR**

**Chapter V—Wage and Hour Division,  
Department of Labor**

**PART 870—RESTRICTION ON  
GARNISHMENT**

**Procedure for Exemption for State-  
Regulated Garnishments**

Pursuant to section 305 of the Consumer Credit Protection Act (CCPA) (82 Stat. 164; 15 U.S.C. 1675), § 870.52 of Title 29, Code of Federal Regulations, is hereby amended in the manner indicated below.

The amendment shall be effective upon publication in the Federal Register.

Section 870.52 is amended by adding thereto an additional paragraph, designated paragraph (c), which reads as follows:

**§ 870.52 Application for exemption of  
State-regulated garnishments.**

(c) Notice of the filing of an application for exemption shall be published in the Federal Register. Copies of the application shall be available for public inspection and copying during business hours at the national office of the Wage and Hour Division and in the regional office of the Wage and Hour Division in which the particular State is located. Interested persons shall be afforded an opportunity to submit written comments concerning the application of the State within a period of time to be specified in the notice.

(Sec. 305, 82 Stat. 164; 15 U.S.C. 1675)

Signed at Washington, D.C., this 4th day of September 1970.

ROBERT D. MORAN,  
Administrator, Wage and Hour  
Division, U.S. Department of  
Labor.

[F.R. Doc. 70-12117; Filed, Sept. 10, 1970;  
8:52 a.m.]

# THE FEDERAL WAGE GARNISHMENT LAW

March 1971



UNITED STATES DEPARTMENT OF LABOR  
Workplace Standards Administration  
Wage and Hour Division

March 1971

U. S. DEPARTMENT OF LABOR  
WORKPLACE STANDARDS ADMINISTRATION  
Wage and Hour Division  
Washington, D. C. 20210

THE FEDERAL WAGE GARNISHMENT LAW

The Federal Wage Garnishment law, which became effective July 1, 1970, limits the amount of an employee's disposable earnings which may be garnished in any one week, and protects him from discharge because of garnishment for any one indebtedness. It does not change other matters related to garnishment, such as the rights of a creditor to collect the full amount owed him, most garnishment procedures established by State laws or rules, or the priority of garnishment orders when more than one is served on the employer.

COVERAGE

This law (Title III of the Consumer Credit Protection Act, Public Law 90-321) applies wherever Federal and State courts have jurisdiction. Thus, it is applicable in the 50 States, Puerto Rico, the District of Columbia, the Canal Zone, and all United States territories and possessions.

The restrictions do not apply to the wages of most Federal employees. Salaries of most Federal employees were not subject to garnishment prior to this law, and the law made no changes in this regard. Whether city, county or State employee's earnings are subject to garnishment depends on the applicable State law.

This law became effective July 1, 1970 and applies to garnishment orders in effect on that date. The restrictions apply to amounts that may be withheld from an employee's wages subsequent to July 1, 1970, regardless of the fact that the garnishment proceeding was started before that date.

WHAT IS GARNISHMENT?

"Garnishment" means any legal or equitable procedure through which earnings of any individual are required to be withheld for the payment of any debt. It refers to a court proceeding through which a creditor seeks to reach an employee's earnings before they are paid to him, so that they may be applied to the satisfaction of a claim against the employee. Since a wage assignment is a transfer of the right to receive wages ordinarily effected by means of a contract, wage assignments are not within the scope of this law. If a legal proceeding to enforce a wage assignment results in a judgment with a garnishment order, the law would then be applicable.

WAGES SUBJECT TO GARNISHMENT

The law's restrictions on garnishment are based on the employee's disposable earnings, which are different than his gross pay or his take-home pay.

The term "earnings" means compensation paid or payable for personal services, whether called wages, salary, commission, bonus, or otherwise, and includes periodic-payments pursuant to a pension or retirement program.

Dollar values of meals and lodging furnished by an employer to his employees are generally regarded as "earnings". However, tips are generally not so regarded. Typically, tips do not pass through the hands of the employer and so he cannot withhold them if a garnishment order is received.

An employee's "disposable earnings" means that part of his earnings remaining after the deduction from those earnings of any amount required by law to be withheld. Examples of such deductions are:

1. Federal income tax withholding deductions (as determined by the number of exemptions claimed by the employee for income tax purposes)
2. Federal social security tax deductions
3. State and city tax withholding deductions
4. State unemployment insurance taxes
5. Deductions required under State employees' retirement systems.

Deductions which are not considered to be required by law are, among others, the following:

1. Deductions to purchase savings bonds
2. Deductions for contributions to religious, charitable, or educational organizations
3. Deductions for union dues and union initiation fees
4. Deductions for health and welfare premiums, including company retirement programs
5. Deductions for board, lodging, or other facilities furnished to an employee by his employer
6. Deductions for the purchase of stock in the employer's corporation
7. Deductions pursuant to an assignment of earnings
8. Deductions to repay loans or payroll advances made by the employer
9. Deductions for merchandise purchased from the employer
10. Deductions pursuant to garnishment orders.

RESTRICTIONS ON GARNISHMENT AMOUNT

The maximum part of the total disposable earnings of an individual which is subject to garnishment in any workweek may not exceed the lesser of:

- (a) 25 percent of the disposable earnings for that week;

OR

- (b) The amount by which his disposable earnings for that week exceeds 30 times the Federal minimum hourly wage prescribed by Section 6(a)(1) of the Fair Labor Standards Act in effect at the time earnings are payable (currently this is \$1.60 an hour or \$48 a week).

Stated differently, when an employee's disposable earnings are more than \$64 a week, up to 25 percent of his disposable earnings may be garnished. Where the disposable earnings are \$64 or less, only the amount over \$48 may be garnished. No garnishment can be made if the employee's disposable earnings are \$48 or less.

These restrictions represent the maximum amount subject to garnishment, regardless of the number of garnishment orders received by the employer. Thus, if \$25 of an employee's pay is the maximum amount subject to garnishment and that amount is being withheld to satisfy a current garnishment order, no further withholding can be made from that particular pay if a second garnishment order is received.

In the case of employees paid monthly or semi-monthly, the \$48 figure (30 times the \$1.60 minimum wage) is translated to \$208 a month or \$104 for a semi-monthly pay period. The \$64 breaking point is translated to \$277.33 for monthly pay periods, and \$138.67 for semi-monthly pay periods. For this purpose, a month is considered to consist of 4 1/3 weeks. Thus, if an employee is paid semi-monthly, no garnishment may be made where the semi-monthly disposable earnings are \$104 or less. It makes no difference if these earnings were \$80 in one week and the rest in other weeks of the period - the semi-monthly period is treated as a unit.

It is not permissible, however, to break the \$48 figure down to a daily basis. If an employee whose wage rate is \$20 a day works only 2 days in a week, for example, his week's earnings of \$40 cannot be garnished in any amount.

The law specifies that restrictions on the maximum amount that may be garnished do not apply to court orders for the support of any person, bankruptcy court orders under Chapter XIII of the Bankruptcy Act, and debts due for State or Federal taxes. Included in this group are local school taxes and municipal occupation taxes. Also included are court orders requiring an employer to withhold an employee's wages for child

support and for alimony.

A levy against wages for a Federal tax debt by the Internal Revenue Service, pursuant to its tax collection authority, is not restricted by this law. Collection of taxes is covered by other Federal laws and procedures that provide certain protection for the taxpayer.

#### EXAMPLES OF AMOUNT SUBJECT TO GARNISHMENT

The following examples illustrate the statutory tests for determining the amounts subject to garnishment.

- (a) An employee's earnings may not be garnished in any amount where his disposable earnings in a particular week are \$48 or less. (For those paid on a monthly basis, this amount is \$208, and for those paid semi-monthly, it is \$104.)
- (b) An employee's gross earnings in a particular week are \$70; after deductions required by law, his disposable earnings are \$60. Since only the amount over \$48 may be garnished where the disposable earnings are \$64 or less, only \$12.00 may be garnished in this week. \$48 would be paid to the employee.
- (c) An employee's gross earnings in a particular workweek are \$115; after deductions required by law, his disposable earnings are \$100. In this week 25 percent of the disposable earnings may be garnished, or \$25. The employee would be paid \$75.
- (d) A garnishment order is received on Wednesday requiring wages earned up to that day to be withheld. The employee is paid \$15 a day. Since he has earned less than \$48, no garnishment is permitted. However, if another garnishment order is received when the workweek is completed, the employer will recompute and withhold on the basis of the earnings for the entire week.
- (e) An employee paid bi-weekly has disposable earnings of \$200 for the first week and \$40 for the second week of the pay period, or a total of \$240. The rules for a bi-weekly pay period are:

No garnishment if disposable earnings for the pay period are \$96 or less.

When disposable earnings are \$128 or less for the pay period, only the amount in excess of \$96 may be garnished.

25% of disposable earnings above \$128 for the pay period may be garnished.

It does not matter that the disposable earnings in the second week are less than \$48 - 25% of the \$240 is subject to garnishment.

- (f) An employee who has \$100 disposable earnings (gross weekly wages less taxes) becomes subject to a court order directing his employer to withhold from his wages \$40 a week for child support and alimony. Such a support order is not regarded as an "amount required by law to be withheld", so the disposable earnings remain \$100. Since the 25% restriction does not apply to court orders for the support of any person, \$40 may legally be withheld instead of \$25. However, no additional withholding may be made that week if another garnishment order, resulting from an ordinary indebtedness, is subsequently received.
- (g) The rule stated in (e) above also applies in cases of tax liens for Federal or State taxes whether or not there has been a court proceeding. It also applies where the court order is issued under a wage-earner plan authorized by Chapter XIII of the Bankruptcy Act.
- (h) An employee on a \$125 weekly draw against commissions has disposable earnings each week of \$100. Commissions, paid monthly, total \$700 for July after deductions required by law. Each draw and the balance due at the monthly settlement are separately subject to the law's restrictions. Thus, 25% (or \$25) of each draw may be garnished. At the end of the month, the \$400 previously drawn is subtracted from the \$700 settlement figure, and 25% of the balance (or \$75) may also be garnished.

#### EFFECT ON STATE LAWS

The Federal Wage Garnishment Law does not annul, alter, or affect, or exempt any person from complying with State Laws which prohibit garnishments or provide for more limited garnishments than are allowed under the Federal law. Any provision of a State law that subjects less of an individual's earnings to garnishment than does the Federal law will be the one that is applied under a garnishment order. On the other hand, the Federal provision is applied if it results in a smaller garnishment.

For example, where a State law restriction on garnishment to a class of individuals such as householders results in a lesser amount subject

to garnishment than under the Federal law, that law rather than the Federal restriction will be applicable. This rule applies even though the State law in other respects imposes restrictions on garnishment less favorable than the Federal law. In those respects, the State provisions will be preempted by the Federal restriction, and the maximum amount subject to garnishment will be determined under the Federal law.

#### PROCEDURAL REQUIREMENTS IN STATE LAWS

There are no procedures that must be followed under the Federal law, such as filing an affidavit or an application for exemption, in order for the limitations on garnishment to apply. A requirement in a State law that the employer or employee must affirmatively claim an exemption as a condition to receiving it, or any other procedural requirement of similar effect, may not be applied to defeat the Federal limitations.

Where a State restriction on garnishment is more favorable to the employee than under Federal law, however, the State provision will be applicable even though its availability is conditional on such a procedural requirement. In cases where the employer or employee fail to follow the procedure and thus lose a more favorable State law provision, the provisions of the Federal law will become applicable.

In some States the entire amount due the employee when a garnishment order is received is impounded until certain procedural requirements are met. The Wage and Hour Division takes the position that such State provisions are preempted by the Federal law and that the law's restrictions apply to these withholdings.

#### GARNISHMENT BEFORE JUDGMENT

In the case of *Sniadach v. Family Finance Corp of Bay View*, 395 U.S. 337 (1969), the Supreme Court of the United States held that wage garnishment is not permitted until a judgment is obtained, in order that the debtor or wage earner will have the opportunity to be heard and tender any defense he might have. It was held that wage garnishment prior to trial on a suit for judgment constituted taking property without the procedural due process of law which is required by the 14th Amendment to the Constitution. The Wage and Hour Division believes the implementation of this decision is not within the purview of this law, but is a matter for the courts that issue wage garnishment orders.

#### EXEMPTION FOR STATE-REGULATED GARNISHMENTS

The Secretary of Labor may exempt from the garnishment provisions of this Act, garnishments under the laws of any State if he determines that the laws of that State provide restrictions on garnishments which are substantially similar to those provided in this Act. Regulations, Part 870, specify the procedures and standards under which State laws will be found to be "substantially similar." When a State's garnishment law is determined to be "substantially similar" to the Federal law, all of the provisions

of the State law relating to the restrictions on the amount that may be garnished will be applied, and the Federal formula will not come into play. Enforcement of garnishment restrictions will rest with the State. To date, the laws of Kentucky and Virginia have been found "substantially similar" to the Federal law.

In the absence of a determination that the State's garnishment law is "substantially similar" to the Federal law, any section or provision of the State law that results in a smaller garnishment amount is to be applied. Conversely, the Federal provision is applicable where the Federal restriction results in a smaller amount.

PROTECTION AGAINST DISCHARGE

The Federal law prohibits an employer from discharging any employee because his earnings have been subject to garnishment for any one indebtedness. The term "one indebtedness" refers to a single debt, regardless of the number of levies made or the number of proceedings brought for its collection. A distinction is thus made between a single debt and the garnishment proceedings brought to collect it.

If several creditors combine their debts in a single garnishment action, the joint amount is considered as "one indebtedness". In the same vein, if a creditor joins several debts in a court action and obtains a judgment and writ of garnishment, the judgment would be considered a single indebtedness for purposes of this law.

The protection against discharge is renewed with each employment, since the new employer has not been a garnishee with respect to that employee. Also, any garnishment fully executed before July 1, 1970, the effective date of the law, is not counted as an indebtedness.

LIMITS OF DISCHARGE PROVISIONS

The restriction on discharge applies to all garnishments as that term is defined in the law. Accordingly, discharge for a first-time garnishment such as an attachment of wages under a tax lien would be in violation of the law. The same would be true of a court order requiring an employer to withhold an employee's wages for child support or alimony. In the case of tax liens, several levies to collect a single tax delinquency (or to collect several year's tax arrears that are combined into a single indebtedness) would be treated as one indebtedness. However, each specific court order for the payment of child support or alimony obligations that are in arrears is considered as a separate indebtedness.

Since the discharge provision is a protection against "firing," a

suspension for an indefinite period or of such length that the employee's return to duty is unlikely may well be considered as tantamount to firing and thus within the term discharge as used in the law. In these situations, each case must be considered on its own facts.

Some employers have a rule that the employee will be given warnings for the first two garnishments and will be discharged for the third garnishment in a year. Where at least two of the actions relate to separate debts, discharge would not be prohibited by the law since the warning and discharge would be based on garnishment for more than one indebtedness.

In some cases employers set up plans which prescribe disciplinary actions for violations of company standards of conduct, with discharge if for example the employee violates three of the standards in a year. One of the actions considered as a violation is "garnishment of wages". If only one of these violations relates to garnishment, discharge would be prohibited by the law since the discharge would result from garnishment for only one indebtedness. In other words, regardless of the employer's disciplinary plan, no discharge may be based either wholly or in part on a first time garnishment.

The law does not prohibit discharge if there are garnishment proceedings pursuant to a second debt. However, as in the case of the limitations on the amount that may be garnished, the law does not affect or exempt any person from complying with a State law that prohibits discharge because an employee's earnings have been subjected to garnishment for more than one indebtedness.

#### "SUBJECTED TO GARNISHMENT"

An individual's earnings are "subjected to garnishment" for purposes of this law when the garnishee (employer) is bound to withhold earnings and would be liable to the judgment creditor if he disregards the court order. Thus, if an employee on being advised that garnishment is contemplated obtains a release from the garnisher (creditor) before the garnishment order is issued, his earnings have not been subjected to garnishment.

The law does not expressly provide any time limitation between a first and second garnishment. Where a considerable time has elapsed between garnishment such as a year, it may be that the employee is actually being discharged for the current indebtedness. The first indebtedness may no longer be a material consideration in the discharge. Determinations in such cases will be made on the basis of all the facts in the situation.

### ENFORCEMENT

The Federal Wage Garnishment Law is enforced by the Wage and Hour Division of the Department of Labor. In those States where an exemption for State-regulated garnishment has been granted, the State enforces the limitations on the amount that may be garnished in a pay period, but not the restrictions on discharge from employment.

Section 303(c) provides that no court of the United States or any State may make, execute, or enforce any order or process in violation of the restrictions on the amount of an employee's disposable earnings subject to garnishment.

Anyone who willfully violates the discharge provisions of this law may be prosecuted criminally and fined up to \$1,000, or imprisoned for not more than one year, or both.

### ADDITIONAL INFORMATION

Inquiries about the Federal Wage Garnishment Law will be answered by mail, telephone, or personal interview at any office of the Wage and Hour Division of the U. S. Department of Labor. Offices are listed in the telephone directory under the U. S. Department of Labor of the U. S. Government listing. These offices also supply publications free of charge.

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This publication is for general information and is not to be considered in the same light as official statements of position formally adopted and published in the Federal Register.

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U.S. DEPARTMENT OF LABOR

Office of the Assistant Secretary  
Washington, D.C. 20210

Workplace Standards Administration

Feb. 5, 1971

Honorable Vernon B. Romney  
Attorney General  
State Capitol  
Salt Lake City, Utah 84114

Dear Mr. Attorney General:

This is in reply to your letter of October 13, 1970, requesting an exemption from the provisions of section 303(a) of Title III, Restrictions on Garnishment, of the Consumer Credit Protection Act for garnishments issued under the laws of the State of Utah.

A notice of the application was published in the Federal Register of November 25, 1970, and a period of 30 days was allowed for comments from interested persons. The comments received were considered together with the application.

The salient features of Utah law are found in sections 70B-5-105 and 78-23-1(7), Utah Code Annotated, 1953. The limits prescribed in section 70B-5-105, although adequate, apply only to garnishments to enforce payments of judgments arising from consumer credit sales, consumer leases or consumer loans. However, the garnishment restrictions of Title III apply to all garnishments with the exception of the three narrow exemptions listed in section 303(b). Also, section 70B-5-105 does not define "earnings" so that it is not known whether it applies to "earnings" as defined in Title III.

Garnishments which do not result from the three types of consumer credit transactions listed in section 70B-5-105(2), Utah Code Annotated, are within the purview of section 78-23-1(7), U.C.A. This section provides an exemption from execution for "one-half of the earnings of the judgment debtor for his personal services rendered at any time within thirty days next preceding the levy of execution or attachment by garnishment or otherwise, when it appears by the debtor's affidavit or otherwise that he is a married man, or head of family, and that such earnings are necessary for the use of his family residing in the state and supported wholly or in part by his labor, provided, that a married man or head of family shall be entitled to an exemption of not less than \$50 per month". The limits on garnishment prescribed in section 78-23-1(7) are clearly less restrictive than the garnishment restrictions of Title III. Also, this

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section does not protect earnings prior to the 30 day period next preceding the garnishment, but the garnishment restrictions of Title III apply without limitation as to when wages were earned. The protection of Title III does not depend upon whether earnings are necessary for family support but under this section there is no restriction on garnishment where earnings are not necessary for family support.

Furthermore, "garnishment" and "earnings" are not defined in section 78-23-1(7), U.C.A. Therefore, it is not clear that section 78-23-1(7), applies to all garnishments which are beyond the purview of section 70B-5-105 or that these two sections taken together would apply to all garnishments which are within the purview of the Title III definition of "garnishment". It is not known whether section 78-23-1(7) applies to "earnings" as defined in Title III without a definition of this term. Also, the exemption available under section 78-23-1(7) must be affirmatively claimed, but under Title III there is no such requirement.

The procedural law concerning garnishments is found in Rule 64D and Rule 69(b) of the Utah Rules of Civil Procedure. Under section (d) of Rule 64D, which prescribes the contents of the garnishment writ, the garnishee is commanded "not to pay any debt due or to become due to the defendant but to retain possession and control of all personal property, effects and choses in action of such defendant until further order". Rule 69(b) (not submitted by the State for our review although it is also pertinent to the garnishment writ) appears to be consonant with section (d) of Rule 64D. Thus, the garnishee is ordered to withhold the whole pay (100 percent) until further court order. Such a garnishment writ is itself a "garnishment" within the meaning of section 302(c) to which the restrictions of section 303(a) would be applicable. Under Title III, a garnishment writ may never cause any withholding of any earnings in excess of that subjected to garnishment under section 303(a). Accordingly, it should be clear under State law that any employer (or garnishee) shall pay any employee (or defendant) the amount of his exempt disposable earnings on the regular pay day for the pay period in which the wages were earned.

We have considered your Opinion No. 70-058 which indicates that Title III preempts any provision of State law which is not as restrictive as the Federal garnishment limitations. However, such preemption may not be considered as qualifying State laws for exemption under section 305. If this could be done every State would qualify for an exemption regardless of its laws, and section 305 would be a nullity. As indicated in section 301 of Title III, the purpose of this Title is to "regulate commerce and to establish uniform bankruptcy laws" based upon a Congressional finding that the "great disparities among the laws of the several States relating to garnishment have, in effect, destroyed the uniformity of the bankruptcy laws and frustrated the purposes thereof in many areas of the country".

In view of these differences between the Utah law and the Federal law and in applying Subpart C of Title 29, Part 870, Code of Federal Regulations (35 F.R. 8226), I conclude that the Utah law does not provide restrictions on

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garnishment which are substantially similar to those provided in section 303(a) of Title III of the Consumer Credit Protection Act. The application for exemption is, therefore, denied.

Sincerely,

/s/ Robert D. Moran

Robert D. Moran  
Administrator

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U.S. DEPARTMENT OF LABOR  
Workplace Standards Administration  
Washington, D.C. 20210

Apr. 8, 1971

This is in response to the questions raised during your recent visit to Washington concerning legislation you are preparing in order to apply for an exemption from the provisions of section 303(a) of Title III of the Consumer Credit Protection Act for garnishments issued under the laws of the State of Illinois. This letter also replies to general remarks on this matter in a recent letter from Mrs. Maria Elden of your office.

The comments in our letter of December 11, 1970, to Attorney General Scott concerned only some evident aspects of the current State garnishment laws. In this connection you may wish to examine the enclosed opinion letters, which indicate generally some of the reasons other State laws have been found not to be substantially similar.

As indicated in 29 CFR 870.51, differences in text between the restrictions of State law and those in section 303(a) are not material so long as the State laws provide the same or greater restrictions on the garnishment of individuals' earnings. The achievement of such restrictions has been found to be best accomplished by amending State law so that its protection is predicated upon the same factors as the Federal law. This would include, for example, the incorporation of similar definitions of the terms "earnings", "disposable earnings", and "garnishment" and a formula based upon these terms which provides restrictions on garnishment which are the same or greater than section 303(a).

As we understand your fourth alternative, which is the one you prefer, there would be subject to garnishment, (a) an amount by which gross earnings for the week exceed 38 times the Federal minimum hourly wage prescribed by section 206(a)(1) of Title 29 in effect at the time the earnings are payable (i.e. presently \$60.80) for an employee who is not the head of a family, or the amount by which gross earnings exceed that amount plus \$5.00 (i.e. presently \$65.80) in the case of an employee who is the head of a family and contributes substantially to its support or, (b) 15% of gross earnings, whichever results in a lesser garnishment deduction from the employee's wages. The \$200 maximum exemption presently provided in the Illinois law would be abolished.

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The garnishment restrictions in your fourth alternative, as well as in your other alternatives, are not predicated on the same principles as the Federal law in that they are based upon gross earnings. Any plan which has gross earnings as its basis does not manifestly provide substantially similar protection. In order to determine how such a plan would operate at various income levels for varying withholding exemptions, an analysis has to be made taking into account Federal income and social security taxes as well as State income taxes.

We have briefly analyzed your fourth alternative with respect to its effect on a single individual who is not the head of a family and who also claims no withholding exemptions. It should be noted that the Internal Revenue Code merely prescribes the withholding exemptions to which an individual is entitled. Generally, lesser withholding exemptions are taken by single persons having income other than earnings or those desiring a form of forced savings. The zero exemptions classification is fairly commonly used and is prescribed in the Federal and State withholding tables. The analysis, based on current State and Federal tax withholding and Social Security tables, disclosed that in the range between \$65 and \$75 of gross earnings at zero withholding exemptions, the Federal law would result in a smaller garnishment amount than the proposed State law, assuming the individual was not head of a family under State law.

Moreover, the proposed State garnishment law would not be self-adjusting if withholdings required for State Income Tax or Federal Income Tax or Social Security were to increase. Thus, any such State law would need to be reexamined whenever any one of these factors were changed.

Title III defines "earnings" as compensation paid or payable for personal services whether denominated as wages, salary, commission, bonuses, or otherwise, including periodic payments pursuant to a pension or retirement system. Both current and proposed Illinois law exempt from garnishment only prescribed amounts of wages, salary, commissions, bonuses, and periodic payments pursuant to a pension or retirement plan. While the State law protects the same specific forms of remuneration as does Title III, it does not include within its protection any forms of compensation paid or payable for personal services which are not specifically named. Thus, it is not clear that the State law protects from garnishment all forms of compensation for personal services as does Title III.

The current and the proposed Illinois law both state the garnishment exemption in terms of remuneration for a week. Presumably under State law the exemptions are applied only on the basis of pay earned on a week-by-week basis. If this is true, the State law may provide substantially less protection against garnishment than Title III in the case of an employee receiving remuneration which compensates for personal services rendered in a pay period longer than one week. This could occur in situations where there are differences in earnings from week to week within the pay period. The treatment of earnings for pay periods other than a week is

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prescribed in section 303(a) of Title III and in 29 CFR 870.10 and is further discussed in the enclosed opinions WH-110 and WH-94. The protection of section 303(a) is predicated on the basis of the particular pay period and any week-by-week treatment of earnings within the pay period would be inconsistent with Title III.

Certain factors discussed above are common to each of the alternatives for proposed legislation. It is our conclusion that each of these alternatives, as presently formulated, would not provide restrictions on garnishment which are substantially similar to those provided in section 303(a) of Title III of the Consumer Credit Protection Act.

It may be possible to develop State legislation substantially similar to section 303(a) while retaining an exemption based upon gross earnings rather than disposable earnings. However, there is some question whether the retention of a gross earnings exemption would be worthwhile in view of the technical difficulties inherent in comparing permissible garnishment amounts under various combinations of State and Federal income tax and other required deductions from earnings.

The memorandum which you left with us during your recent visit indicates that adoption of the section 303(a) exemption formula by your State would eliminate the distinction between heads of families and others and also that the State law gives more favorable treatment to heads of families at all income levels up to \$249. It is true that the simple adoption of the Federal formula would eliminate such more favorable treatment. This difficulty could be overcome, however, by adopting legislation incorporating the essential features discussed on the first page of this letter and a garnishment formula based on disposable earnings. The law could provide the desired levels of protection for different categories of debtors so long as none of the levels of protection is lower than in Title III.

We would be pleased to have further consultations with you in the preparation of your proposed legislation.

Sincerely,

/s/ Robert D. Moran

Robert D. Moran  
Administrator

9 enclosures

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U.S. DEPARTMENT OF LABOR  
Workplace Standards Administration  
Washington, D.C. 20210

Office of the Administrator

May 11, 1971

CCPA

This is in reply to your letter of April 7, 1971, addressed to Mr. Harold Nystrom, Associate Solicitor, concerning legislation you have submitted to the legislature to amend Illinois garnishment laws. We are sorry that our letter of April 8, 1971, on this subject did not reach you in time to assist you in this matter.

As you know, our letter of April 8, 1971, commented primarily on the fourth alternative discussed in a memorandum dated January 26, 1971, prepared by your staff. The copy of the proposed act currently before the legislature differs from the proposal on which we previously commented. Hence, we believe some comments on the current proposed legislation may be helpful as we understand it may be possible to amend it to satisfy the "substantially similar" criterion of section 305 of Title III of the Consumer Credit Protection Act.

As we understand the bill before the legislature, there would be exempt from garnishment an amount (a) by which gross earnings for the week exceed 40 times the Federal minimum hourly wage prescribed by section 206(a)(1) of Title 29, U. S. C., in effect at the time the earnings are payable (currently \$64) plus \$25 for the first dependent other than the employee (i.e. a total of \$89 in such case) and \$10 for each additional dependent thereafter (i.e. for example, \$99 in the case of an employee claiming himself, his wife and one child) or (b) 85% of gross earnings, whichever is greater. The \$200 maximum exemption presently provided in Illinois law would be abolished. All compensation above the exempt amount is subject to garnishment and all payroll deductions required by law to be withheld are taken from the exempt amount.

The garnishment restrictions in the proposed act are predicated on gross earnings rather than disposable earnings as in the Federal law. As we indicated previously, any law which uses a different basis does not manifestly provide substantially similar restrictions.

We have briefly analyzed the proposed act, taking into account present Federal and State income and social security taxes, and have concluded that in all perceptible situations where the employee's pay period is a week the proposed State law would result in a smaller garnishment amount than the Federal law. However, the proposed State law would not be self-adjusting if withholdings required for State Income Tax or Federal Income Tax or Social Security were to increase. Thus, whenever any one of these factors is changed, it would be necessary to reexamine the State law to ascertain whether it would continue to provide "substantially similar"

restrictions on garnishment. It was for this reason that in our letter of April 8, 1971, we recommended the adoption of legislation providing garnishment restrictions based upon disposable earnings. Refer especially to the penultimate paragraph of that letter which suggested that a disposable earnings formula could be designed to provide the desired levels of protection for debtors having family responsibilities. Although not based on disposable earnings the proposed bill does provide such protection, which we find heartening. In any case, however, the gross wage garnishment restriction formula in the proposed act would not necessarily preclude its consideration under section 305 of Title III. However, if the presently proposed Illinois formula is not changed, any exemption granted pursuant to section 305 would necessarily incorporate a condition requiring re-examination if present Federal or State taxes or Social Security deductions are increased.

The proposed law states its garnishment restrictions only in terms of remuneration for a week and presumably such restrictions would only be applied on the basis of pay earned in each separate week in the case of an employee having a pay period longer than a workweek. As explained in more detail in the eighth paragraph of our prior letter, which continues to be pertinent, there are fairly common situations where such treatment under State law would result in the employee receiving substantially less protection against garnishment than is provided in Title III. The following tabular summary gives the treatment required under Title III in the case of pay periods longer than a week.

MAXIMUM PART OF DISPOSABLE EARNINGS SUBJECT TO GARNISHMENT

Biweekly	Semimonthly	Monthly
\$96 or less: NONE	\$104 or less: NONE	\$208 or less: NONE
More than \$96 but less than \$128: AMOUNT ABOVE \$96	More than \$104 but less than \$138.67: AMOUNT ABOVE \$104	More than \$208 but less than \$277.33: AMOUNT ABOVE \$208
\$128 or more: MAXIMUM 25%	\$138.67 or more: MAXIMUM 25%	\$277.33 or more: MAXIMUM 25%

The following example illustrates one of many possible situations where the State law gives less protection than Title III. An employee is paid on a biweekly basis and has a biweekly salary of \$210, is single and claims one exemption (for himself), and works only five days in the first workweek of the pay period before being laid off until the following pay period due to the employer not having any work available for him. He is paid \$105 gross wages for the workweek and receives no salary for the layoff time. After legal deductions (\$6.10 Federal Income Tax, \$5.46 Social Security and \$1.72

State Income Tax), the net pay or disposable earnings are \$91.72. Under Federal law no garnishment would be permitted because disposable earnings for the pay period are less than \$96.00. Yet under State law \$15.75 would be garnished.

Failure to provide any pay period garnishment restrictions in the proposed act for pay periods longer than a week, incorporating proper multiples of its weekly restriction as provided in section 303(a) of Title III and 29 CFR 870.10(c), would effectively bar any consideration of the bill under section 305 of Title III. Also, the seventh paragraph of our letter of April 8, which indicates that it is not clear that the State would protect from garnishment all forms of compensation for personal services as does Title III is equally pertinent to the present proposed bill.

If the recommendations discussed above are implemented, your State would have a basis for applying for an exemption pursuant to Subpart C of Part 870. We would be pleased to have further consultations with you in the preparation of this legislation. Our final decision would be predicated on the merits of such a formal application and the written comments of interested persons as provided in our regulations.

Sincerely,

/s/ Horace E. Menasco

Horace E. Menasco  
Administrator

COPY

U.S. DEPARTMENT OF LABOR  
Workplace Standards Administration  
Washington, D.C. 20210

Office of the Administrator

May 25, 1971

CCPA

This is in reply to your letter received on January 19, 1971, applying for an exemption for garnishments issued under the laws of your State under the provisions of section 305 of Title III of the Consumer Credit Protection Act.

The procedures for submitting an application are prescribed in Subpart C of 29 CFR 870. Your application does not fully meet the requirements of 29 CFR 870.52. This section requires that any application for exemption must be accompanied by two copies of all the provisions of the State laws relating to the garnishment of earnings, certified to be true and correct by the Attorney General of the State. There is also the further requirement that the application be accompanied by a statement signed by the Attorney General of the State showing how the State laws satisfy the policy expressed in 29 CFR 870.51.

Certain substantive and procedural sections of Louisiana law which may bear on the garnishment of earnings and the application of section 13:3881 were not submitted with the application and, therefore, were not discussed in the Attorney General's statement. The laws not submitted includes such material as the following sections of the Louisiana Revised Statutes (RS): 13:3471, 13:3913, 13:3914, 13:3921 through 13:3928, 13:4732, 17:573, 17:772, 17:883, 17:1013, 20:32, 23:1205; and the following articles of the Louisiana Code of Civil Procedures (C.C.P.): 2411 through 2417, 3507, 3508 and Forms No. 381 and No. 385.

Apart from the failure of the application to fully meet the requirements prescribed in 29 CFR 870.52, it appears that ISA-RS § 13:3881 does not, in all circumstances, provide the same or greater protection to individuals as does section 303(a), Title III of the Consumer Credit Protection Act. Although there may exist other deficiencies in the present ISA-RS § 13:3881, an analysis has developed the following discrepancies.

One. Neither ISA-RS § 13:3881 nor any other applicable section of the Louisiana Revised Statutes, so far as we are aware, contains a definition of "earnings", necessary in that this definition forms the basis for ascertaining "disposable earnings" - the essential criteria for both statutes. Thus, there is no reasonable certainty that Louisiana would adhere to the same definition of earnings or disposable earnings as prescribed by sections 302 and 303 of Title III, Consumer Credit Protection Act.

Two. LSA-RS § 13:3881 provides that "seventy-five per centum of his disposable earnings for any week or the amount by which his disposable earnings for that week exceed thirty times the Federal Minimum Wage . . ." shall be exempt from seizure. A literal reading of the second proviso of the statute would appear to prescribe that only thirty times the Federal minimum wage may be garnished rather than that sum itself being exempted. In view of the rather clear wording of the statute and the absence of any Louisiana adjudication on this particular clause, we are unable to find any assurance in the State law that the restrictions provided by section 303(a) would be maintained in Louisiana. This difficulty is further compounded by the fact that LSA-RS § 13:3881 does not require that the greater of the two restrictions be utilized in determining the exact amount of the debtor's earnings which may be garnished. Thus, it appears that a Louisiana court could, in its discretion, apply either proviso in determining the debtor's exempt earnings, utilizing either the greater or lesser sum. And, if the second proviso of LSA-RS § 13:3881 were to be interpreted as exempting only the excess of thirty times the Federal minimum wage, then the disposable earnings of the debtor up to thirty times the Federal minimum hourly wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938 could be garnished - the exact converse of the protection afforded by section 303(a).

The Louisiana statute does provide that "in no case shall this exemption be less than at the rate of seventy dollars per week of disposable income." It is required, however, that "a multiple or fraction thereof according to whether the employee's pay period is greater or lesser than one week" be utilized. Conversely, section 303(a) does not prorate the exempted earnings when the pay period is less than one week, thereby providing an absolute base exemption from garnishment of thirty times the Federal minimum wage. In the event the pay period is substantially less than one week, the Louisiana statute would require such a reduction of its seventy dollar exemption that the thirty times the Federal minimum wage base exemption provided by section 303(a) would not be afforded to the debtor. Moreover, LSA-RS § 13:3881 requires a multiple of the seventy-dollar limitation to be applied when the pay period is greater than one week but less than two weeks while section 303(a) deems that any workdays in excess of one workweek constitute a subsequent workweek, treated as a separate entity and having its own above-mentioned absolute base limitation. Therefore, at the present minimum hourly wage of one dollar and sixty cents, LSA-RS § 13:3881 is more restrictive of garnishments in pay periods of exactly one week, but less restrictive in situations involving fractions of workweeks.

Three. Section 303(c), in conjunction with section 303(a), interpreted in 29 CFR 870.51(c), prescribes that the garnishment restrictions of section 303(a) are self-executing and do not require the raising of an affirmative defense. Under Title III, a garnishment may never cause withholding of any earnings in excess of that subjected to garnishment under section 303(a).

Special Counsel DeJean's opinion, however, states that the garnishment deductions withheld by the employer under the prior law would continue "until such time as that judgment is amended by the court upon application of an interested party." As may be readily seen, this represents a deviation from the mandate of Title III, and, absent any other Louisiana law clearly holding otherwise, remains a fatal disparity.

Four. Section 303(a) requires that no withholding of exempt income may be made at any time. Louisiana, however, upon service of interrogatories, requires the garnishee pursuant to ISA-RS § 13:3881 through 13:3927 and Louisiana Code of Civil Procedure article 2411 through 2417 to withhold an uncertain amount of the debtor's earnings pending a court determination of exactly what portion of those earnings are exempt. A further difficulty is presented when the garnishee fails to answer the interrogatories. In that event, the court is permitted to enter a writ of garnishment for the total indebtedness without any perceptible procedure for ascertaining the debtor's earnings and what portion of those earnings are exempt.

Sincerely,

/s/ Horace E. Menasco

Horace E. Menasco  
Administrator

2 Enclosures

COPY

U.S. DEPARTMENT OF LABOR  
Workplace Standards Administration  
Washington, D.C. 20210

Office of the Administrator

Oct. 26, 1971

This is in reply to your letter of June 11, 1971, which was referred to this office for a reply concerning Title III of the Consumer Credit Protection Act.

As explained in your letter and in a conversation with Mr. Hoffman of my staff, the corporation pays 800 of its employees by depositing the total amount due these employees with a local bank. A checking account has been set up for each employee to facilitate this payroll system, and each pay day the net pay due each employee after Federal and State taxes and usually insurance is credited to his account. The bank sends a voucher to that effect to each employee, and the employees draw against their account. They are not required to maintain a balance in their accounts, and it is believed that employees generally withdraw all of the funds before the next pay day.

Certain creditors of various employees have discovered this payroll system and now attach the employee's bank account by having garnishment summons served upon the bank. The bank freezes the account and pays the bank balance to the creditor. It is possible that an account will contain some monies that are not wages, but as a practical matter this is not expected to occur often. You believe that the effect of this procedure is a violation of the Act where more of the employees' disposable earnings are garnished than is permitted under Title III.

Under these circumstances it seems clear that the bank is acting as the agent of the employer in the performance of the payroll functions. This being so, the bank stands in the shoes of the employer, and may be garnished for wages to the same extent, and subject to the same restrictions on garnishment as the employer. The question thus arises as to whether the earnings once they are credited to the employee's bank account retain their identity as earnings and are within the protection of section 303(a).

In this connection it is clear that Congress intended to establish a guaranteed floor below which garnishment is prohibited thereby assuring to the employee that "a garnishment cannot leave him less than \$48" each workweek or the appropriate multiple equivalent for the pay period "to live on" (114 Cong. Rec. 4122). As you know, the problem is one of major proportions in view of the increasing number of employers who are using banks to perform their payroll services for them and the correspondingly increasing number of creditors who are seizing upon this method of payment as a means of attaching

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**CALIFORNIA LAW REVISION COMMISSION**

SCHOOL OF LAW—STANFORD UNIVERSITY  
STANFORD, CALIFORNIA 94305  
(415) 321-2300, EXT. 2479

THOMAS E. STANTON, JR.

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GEORGE H. MURPHY

*Ex Officio*

November 1, 1971

To THE HONORABLE RONALD REAGAN  
*Governor of California* and  
THE LEGISLATURE OF CALIFORNIA

The California Law Revision Commission was directed by Resolution Chapter 262 of the Statutes of 1957 to study the law relating to attachment, garnishment, and property exempt from execution. This recommendation deals with one aspect of this subject—wage garnishment procedure and certain related matters.

The proposed legislation set forth in this recommendation is substantially the same as Preprint Senate Bill No. 1 for the 1972 session. The preprinted bill was printed late in October 1971 at the request of the Commission so that the substance of the Commission's recommendations would be available in convenient form for study prior to the 1972 legislative session. Accordingly, the preprinted bill does not take into account legislation enacted after November 1, 1971; and, at that time, final action had not been taken on a number of bills affecting wage garnishment procedure and related matters. See, e.g., Assembly Bill 3057 and Senate Bill 594, introduced at the 1971 regular session. The proposed legislation set forth in this recommendation does, however, take into account legislation enacted at the 1971 session.

The Commission wishes to acknowledge the substantial contribution of its research consultants, Professor William D. Warren, UCLA Law School, who provided the background study that served as the basis for this recommendation, and Professor Stefan A. Riesenfeld, Boalt Hall, University of California at Berkeley. The Commission also is indebted to numerous other persons who contributed to the development of this recommendation by attending Commission meetings or by submitting written comments.

This is the second in a series of recommendations. For the first recommendation, see *Recommendation Relating to Attachment, Garnishment, and Exemptions From Execution: Discharge From Employment*, 10 CAL. L. REVISION COMM'N REPORTS 1147 (1971). See also Chapter 1607 of the Statutes of 1971.

Respectfully submitted,

THOMAS E. STANTON, JR.  
*Chairman*

# RECOMMENDATION OF THE CALIFORNIA LAW REVISION COMMISSION

*relating to*

## ATTACHMENT, GARNISHMENT, AND EXEMPTIONS FROM EXECUTION

### Employees' Earnings Protection Law

The past several years have witnessed increasingly critical review of the process of wage garnishment<sup>1</sup> leading to significant judicial<sup>2</sup> and legislative<sup>3</sup> activity—both federal and state—in this area. However, both the rapid pace of recent events and the involvement of different branches and levels of government have produced conflict and uncertainty, and the need for further reform in a number of areas remains. This recommendation reviews the area of wage garnishment and related matters and proposes solutions to the problems revealed.<sup>4</sup>

<sup>1</sup> In California alone, see, e.g., Brunn, *Wage Garnishment in California—A Study and Recommendations*, 53 CAL.L. REV. 1214 (1965); Western Center on Law and Poverty, *Wage Garnishment—Impact and Extent in Los Angeles County* (1968).

<sup>2</sup> See, e.g., *Sniadach v. Family Finance Corp.*, 395 U.S. 337 (1969); *McCallop v. Carberry*, 1 Cal.3d 903, 464 P.2d 122, 83 Cal. Rptr. 666 (1970).

<sup>3</sup> See, e.g., Consumer Credit Protection Act of 1968 (§§ 301-307), 15 U.S.C. §§ 1671-1677; Cal. Stats. 1970, Ch. 1523; Cal. Stats. 1971, Chs. 1607, 1684.

<sup>4</sup> The California Law Revision Commission is actively engaged in a general review of the California statutes relating to the entire field of attachment, garnishment, and exemptions from execution with a view to recommending the enactment of a comprehensive revision of this body of law at a future session of the Legislature. This recommendation deals with one aspect of that general subject.

# MODERNIZATION OF CALIFORNIA WAGE GARNISHMENT PROCEDURE

## Introduction

The primary objective of the measures recently enacted at the state and federal levels has been to secure—through restrictions on the amounts which can be withheld—adequate protection for the wage earner's day-to-day income. In addition, California enacted legislation modifying its archaic multiple levy wage garnishment procedure. However, serious defects remain in the California wage garnishment procedure, and the restrictions on the amounts that may be garnished do not adequately protect low income wage earners.

## Continuing Levy

California law formerly permitted only amounts owing to a debtor-wage earner at the time of service of the writ of execution to be reached by his creditor through wage garnishment.<sup>5</sup> Typically, therefore, to satisfy his claim, a creditor was required to use multiple levies. These levies imposed an unreasonable cost burden on the debtor<sup>6</sup> and on the public generally.<sup>7</sup> To alleviate this burden, Section 682.3 was added to the Code of Civil Procedure at the 1971 legislative session. This section provides that the levy of a writ of execution upon the earnings of a debtor imposes a continuing duty on the debtor's employer for a specified period to withhold and pay over the required amounts to the levying officer.<sup>8</sup> Adoption

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5. Cf. Cal. Stats. 1955, Ch. 793, at 1391 (former Code Civ. Proc. § 682(1)).

6. The following examples were cited to the Commission by Mr. Gordon H. Bishop, representing the California Department of Consumer Affairs:

A typical wage-earner makes \$4.00 per hour, \$160.00 per week. His "disposable income" is \$120.00, of which 25%, or \$30.00 is subject to garnishment. From that \$30.00 is deducted \$1.50 for the writ, \$10.00 sheriff's charges for service, and \$.70 interest, leaving \$17.80 for reduction of the judgment principal. If the debtor were to discharge a \$500 judgment through a series of such executions, he will have paid out in excess of \$800.

So much for the \$4.00 per hour man. Perhaps he can afford the premium. But consider the case of the "poor" whom the law is designed to give major relief.

A wage-earner makes \$2.00 per hour, \$80.00 per week. If his "disposable income" is \$54.00, \$16.00 is subject to garnishment. Subtracting the costs required to levy would leave just \$3.80 to reduce the judgment principal, assuming the costs in the above example. If the executions were to run for the next 2½ years, the \$500 judgment would be paid off at a cost to the debtor in excess of \$2000.

See Minutes, California Law Revision Commission, Meeting of January 15-16, 1971, on file at the Commission's office, School of Law, Stanford, California.

7. Despite the fact that the sheriffs and marshals charge a fee for each levy made, it has been estimated that the county—its taxpayers—pays 30 to 50 percent of the expenses of collection. Bruun, *supra* note 1, at 1222.

8. See Code Civ. Proc. § 682.3, added by Cal. Stats. 1971, Ch. 1684.

of a continuing levy procedure clearly represents a salutary step towards providing a practical and equitable wage garnishment procedure. Unfortunately, however, the scheme adopted did not deal comprehensively with the subject, and significant problems remain.

The major drawback of the continuing levy is that it gives a preferred position to the creditor who first resorts to legal process to enforce his claim.<sup>9</sup> If the levy is given effect indefinitely, the debt is large, and the debtor's earnings modest, subsequent creditors may be postponed for substantial periods of time. Some compromise between multiple levies and an unlimited continuing levy is necessary. Section 682.3 provides a basic 90-day period; however, subsequent creditors are given no priority when a prior levy expires. The prior creditor knows precisely when his prior levy will expire and accordingly when the next levy must be served to renew his priority. Thus, Section 682.3 may, in practice, be used to secure an unlimited preference.

The Commission recommends that a levy on an employee's earnings be made pursuant to an earnings withholding order and that an order generally<sup>10</sup>

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9. The statement in the text assumes that the first creditor to levy thereby achieves a priority over other creditors. Section 682.3 fails to deal with the question of priority of creditors. Subdivision (d) of Section 690.6, however, provides that "the court shall determine the priority and division of payment among all of the creditors of a debtor who have levied an execution upon nonexempt earnings upon such basis as is just and equitable." This latter provision may be interpreted to simply mean "first in time, first in right." On the other hand, if subdivision (d) requires apportionment between each of several creditors who have served a continuing levy, it could impose intolerable administrative burdens on both the judicial system and employers subject to levy.
  10. This rule should not apply to orders for support or for the collection of taxes. Such orders should, until satisfied, have a continuing priority over all other obligations. See discussion in the text, *infra*, under "Orders for Support or for the Collection of State Taxes."

be in effect for no longer than 120 days,<sup>11</sup> at the end of which time the creditor who secured such order would be precluded for a short period (10 days) from serving on the same employer another order based on the same debt. This moratorium period would permit another creditor to intervene with an order based on his debt, which would then continue in effect for a 120-day period.

#### Service by Mail

California law presently requires that writs of execution be levied by a sheriff, constable, or marshal.<sup>12</sup> However, the

use of the sheriff or marshal as a high-priced messenger when a creditor is attempting to reach an asset like earnings is generally an extravagant waste of time and money.<sup>13</sup> The United States Post Office can perform the same task for a very modest cost. It is in the interest of debtors, creditors, and the public generally that the function of service be performed in the most efficient and economical manner. The Commission accordingly recommends that service by mail of the various applications, notices, and orders required for this process be authorized and that recovery of the cost of personal service be permitted only where mail service has been refused.

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11. The period of 120 days was selected because the Commission was advised it would be adequate to permit complete satisfaction of the majority of consumer debts.
  12. Code Civ. Proc. §§ 682, 687.
  13. The fees charged by the levying officer may include a fee (\$5) for service of the writ (Govt. Code § 26722), an additional collection fee (not less than \$1)(Govt. Code § 26739), and charges for mileage one-way at 70 cents a mile (Govt. Code § 26746).
  14. See note 7 supra.

### Employer's Service Charge

The continuing levy procedure should substantially reduce the collection burdens imposed on employers.<sup>15</sup> To alleviate these burdens further, the Commission recommends that an employer be authorized to deduct a one-dollar service charge from the debtor's earnings each time that the employer is required to withhold on behalf of the creditor pursuant to a withholding order.

### Ex Parte Application; Judicial Review

Assuming that adequate limitations on the amount which may be garnished are provided automatically,<sup>16</sup> the Commission recommends that the levy procedure continue to be initiated by the creditor upon ex parte application. Provisions for notice and a preliminary judicial hearing in all cases would make the procedure unnecessarily complicated and expensive for all parties. Although the order requiring withholding of earnings should be issued ex parte, provision should be made for an expeditious judicial hearing as to whether the debtor is entitled to an exemption of all or a portion of his earnings on the grounds of hardship<sup>17</sup> or whether the order should be modified or terminated for some other reason. The debtor should be given adequate notice of his right to such a hearing.

<sup>15</sup> It has been estimated that, in 1968, employers in Los Angeles County alone expended nearly two million dollars to process wage garnishments—or almost \$20 per paycheck garnished. See Western Center on Law & Poverty, *supra* note 1, at 7. Present law provides virtually no relief to the employer from this burden. See CIVIL CODE § 4701 (employer authorized to deduct the one-dollar service charge for each payment made pursuant to child support order); CODE CIV. PROC. § 710 (authorizes public employer to deduct \$2.50 service charge where required to comply with levy made pursuant to that section).

16. See the text, infra, under "Postjudgment Restrictions on Wage Garnishment."
17. See the text, infra, under "Hardship Exemption."

## PREJUDGMENT RESTRICTIONS ON WAGE GARNISHMENT

In June 1969, the United States Supreme Court in *Sniadach v. Family Finance Corp.*<sup>18</sup> held that the prejudgment garnishment of wages under a Wisconsin statute constituted a taking of property in violation of the due process requirements of the Fourteenth Amendment to the United States Constitution. Six months later, the California Supreme Court, relying on *Sniadach*, held in *McCallop v. Carberry*<sup>19</sup> that California's then existing prejudgment wage garnishment procedure also constituted a taking of property in violation of procedural due process. In an attempt to conform to the relatively narrow holdings in these cases, Section 690.6 of the California Code of Civil Procedure was amended in 1970 to exempt from levy of attachment "all earnings" of the debtor *derived from* his personal services.<sup>20</sup> More recent decisions of the California Supreme Court have placed substantial constitutional limitations on prejudgment attachment procedures generally.<sup>21</sup> Regardless of what revisions in these procedures are made to satisfy these limitations, the Commission recommends that the complete and automatic exemption of wages from garnishment pursuant to prejudgment attachment procedures be preserved.

## POSTJUDGMENT RESTRICTIONS ON WAGE GARNISHMENT

### Introduction

At the same time that prejudgment garnishment of wages received the scrutiny of the courts, wage garnishment generally—including garnishment under postjudgment levy of execution—was the subject of Congressional action. Title III<sup>22</sup> was incorporated into the federal Consumer Credit Protection Act of 1968 restricting the "garnishment"<sup>23</sup> of "earnings"<sup>24</sup> of a debtor to certain limited amounts<sup>25</sup>—basically 25 percent of

<sup>18</sup> 395 U.S. 337 (1969).

<sup>19</sup> 1 Cal.3d 903, 464 P.2d 122, 83 Cal. Rptr. 666 (1970).

<sup>20</sup> Cal. Stats. 1970, Ch. 1523, § 19 (emphasis added).

<sup>21</sup> See, e.g., *Randone v. Appellate Department*, 5 Cal.3d 536, 488 P.2d 13, 96 Cal. Rptr. 709 (1971).

<sup>22</sup> 15 U.S.C. §§ 1671-1677.

<sup>23</sup> Subdivision (c) of Section 302 of the act (15 U.S.C. § 1672(c)) provides:

(c) The term "garnishment" means any legal or equitable procedure through which the earnings of any individual are required to be withheld for payment of any debt.

<sup>24</sup> Subdivision (a) of Section 302 of the act (15 U.S.C. § 1672(a)) provides:

(a) The term "earnings" means compensation paid or payable for personal services, whether denominated as wages, salary, commission, bonus, or otherwise, and includes periodic payments pursuant to a pension or retirement program.

<sup>25</sup> See Consumer Credit Protection Act of 1968 (§ 303(a), 15 U.S.C. § 1673(a)).

"disposable earnings."<sup>26</sup> These restrictions were made applicable nationwide, effective July 1, 1970.<sup>27</sup>

Subdivision (a) of Section 303 of the federal act provides, in part:<sup>28</sup>

(a) . . . [T]he maximum part of the aggregate disposable earnings of an individual for any workweek which is subjected to garnishment may not exceed

(1) 25 per centum of his disposable earnings for that week, or

(2) The amount by which his disposable earnings for that week exceed thirty times the Federal minimum hourly wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938 in effect at the time the earnings are

payable [currently \$1.60]

whichever is less.

This means that, if an individual's disposable earnings for a workweek are \$48 or less, his earnings may not be garnished in any amount. If his earnings are between \$48 and \$64, the entire amount above \$48 may be garnished. Above \$64, the 25 percent rule applies. Where debtors in low income brackets are concerned, the protection afforded by the federal law seems inadequate to permit even a subsistence level of existence for a debtor and his family faced with the high living costs prevailing in California.

To this deficiency in the federal law must be added the difficulty of determining what constitutes "disposable earnings." The federal law defines "disposable earnings" as those earnings remaining "after the deduction . . . of any amounts required by law to be withheld."<sup>29</sup> The latter amounts

include amounts withheld for federal and state income taxes, federal social security, state disability

insurance, and contributions to public retirement funds. Less clear is the

treatment of wage assignments. Amounts apparently not deductible include

deductions for union dues and for private health and retirement plans. The

ambiguities that exist can impose a difficult burden on the employer who must

determine what part of his employee's earnings are subject to garnishment.

<sup>26</sup> Subdivision (b) of Section 302 of the act (15 U.S.C. § 1672(b)) provides:

(b) The term "disposable earnings" means that part of the earnings of any individual remaining after the deduction from those earnings of any amounts required by law to be withheld.

<sup>27</sup> The federal act specifically provides that "no court of . . . any State may make, execute or enforce any order or process in violation of this section." 15 U.S.C. § 1673(c). Hence, the conformity of a state law may be challenged in either a state or a federal court if the state enforces a garnishment statute that fails to conform to the federal minimum requirements. To provide some measure of uniformity, the California Legislature amended subdivision (b) of Section 690.6 of the Code of Civil Procedure to exempt from levy of execution such portion of a debtor's earnings "as is allowed by statute of the United States." Cal. Stats. 1970, Ch. 1523, § 19.

<sup>28</sup> 15 U.S.C. § 1673(a).

<sup>29</sup> 15 U.S.C. § 1672(b).

Even where the disposable earnings test can be clearly applied, the results achieved can be disturbing. For example, amounts withheld for federal income tax purposes are clearly deductible in determining "disposable earnings." Presumably, this would permit a debtor who does not choose to claim all his exemptions to shield a certain amount of his earnings from his creditors. On the other hand, a debtor claiming a greater number of exemptions will have less withheld and, therefore, more subject to garnishment. Thus, a debtor with a large family and greater needs may have more earnings garnished than a single debtor with the same gross income but with more limited needs.

### Recommendations

To alleviate the problems outlined above,<sup>30</sup> the Commission makes the following recommendations.

#### Basic Restrictions; Withholding Tables

The Commission recommends that the amount of a debtor's earnings subject to withholding by the employer under a wage garnishment be limited by statute. The statute should prescribe a formula under which definite amounts would be deducted for federal and state income taxes, social security, and state disability insurance. Similar deductions are made under federal law; however, these deductions are based on the actual deductions taken from the wages of the particular debtor. The Commission recommends that, in all cases, the deductions for federal and state income taxes be based on the amount that would be withheld from the gross earnings of a single person who claims one tax exemption.

In addition to the deductions listed above, the Commission recommends that an additional deduction—based on the federal minimum hourly wage—be allowed in determining the amount of a debtor's earnings which are subject to garnishment. This additional deduction for any workweek would equal 30 times the federal minimum hourly wage. After making these deductions, the Commission recommends that 25 percent of the earnings remaining (*i.e.*, the debtor's "nonexempt earnings") be subject to withholding under an earnings withholding order,

subject, however, to the final condition that, where the amount withheld is less than five dollars per week, no withholding shall be permitted. This in effect means that a debtor who has 79 dollars or less of gross earnings per week will not be subject to wage garnishment.

<sup>30</sup> It should be noted that the enactment of a statute requiring withholding for state income taxes has magnified these problems.

(the Director of Industrial Relations)

Fixing the deductions in the manner stated permits the preparation of withholding tables which prescribe the maximum amount of earnings which may be withheld from a given amount of gross earnings. An employer would not have to make computations but would merely have to refer to such tables to determine the amount he is required to withhold under an earnings withholding order. For the employer's further convenience, the Commission recommends that the State Administrator be required to prepare withholding tables for weekly, monthly, and other common pay periods. A creditor serving an earnings withholding order should be required to accompany the order with a copy of these tables.<sup>31</sup>

The following table indicates the approximate amounts that would be withheld under the Commission's proposed Employees' Earnings Protection Law as compared to the approximate amounts that would be withheld under existing California law (and the federal Consumer Credit Protection Act (CCPA)).

### Withholding Comparison Table

Deductions have been made for federal withholding, social security, state disability insurance, and state income tax. The state income tax deduction is based on *withholding tables* for 1972. The federal social security tax rate is 5.2% on the first \$7,600 of annual gross earnings. The state disability insurance rate is 1% on the first \$7,400 of annual gross earnings. The amounts shown as disposable earnings in this table are based on a full deduction for social security and disability insurance respectively even though, under present law, in the higher earnings brackets this amount would not be deducted during the entire year. The one-dollar service charge, which an employer would be entitled to make for each payment under the Commission's proposed legislation, is in addition to the amount listed in the table.

GROSS EARNINGS (weekly/annual)	SINGLE PERSON (claiming 0 exemptions)		MARRIED + 2 CHILDREN (claiming 4 exemptions)		PROPOSED STATUTE
	Disposable earnings	Amount withheld (CCPA)	Disposable earnings	Amount withheld (CCPA)	Amount with- held (348 ex- empt. 25%)
\$60/3,120	\$48.78	\$0.78	\$56.28	\$8.28	-0-
70/3,640	55.96	7.96	65.56	16.39	-0-
80/4,160	63.14	15.14	73.54	18.39	\$ 5.00
90/4,680	70.32	17.58	81.52	20.38	6.00
100/5,200	77.20	19.30	89.00	22.25	8.00
110/5,720	84.48	21.12	96.68	24.17	10.00
120/6,240	91.66	22.92	104.36	26.09	12.00
135/7,020	102.33	25.58	115.93	28.98	14.00
150/7,800	112.00	28.00	127.00	31.75	17.00
170/8,840	125.56	31.39	142.16	35.54	20.00
200/10,400	145.40	36.35	161.50	41.13	25.00
250/13,000	176.80	44.20	200.40	50.10	33.00
300/15,600	207.60	51.90	235.70	58.93	41.00
400/20,800	278.60	67.15	302.80	75.70	56.00
600/31,200	385.20	97.05	427.10	106.78	86.00

<sup>31</sup> The State Administrator should be authorized to dispense with this requirement in cases where he determines that the employer already has this information.

As the withholding comparison table demonstrates, a major benefit of the Commission's proposals is that they would permit a low income debtor to retain a greater portion of his earnings than is permitted under existing law, thereby virtually eliminating his need to claim an exemption based on hardship for a greater amount of his earnings. This will not only protect an unsophisticated debtor unable to follow the procedures necessary to exempt additional earnings, but it will also avoid burdening the courts with claims of exemption. Because the amount of earnings withheld for the creditor is the same for all debtors with the same gross income, regardless of family size, the debtor who has claimed more than one dependent for tax purposes will have an actual take-home pay greater than that of a single debtor with the same gross earnings. The recommendation, in this way, recognizes and accommodates the greater need of the debtor with dependents.

#### Hardship Exemption

In the past, California has theoretically taken a more flexible approach to the protection of earnings than that evidenced by the federal law. Under subdivision (c) of Section 690.6 of the Code of Civil Procedure, a debtor may protect from execution

All earnings of the debtor received for his personal services rendered at any time within 30 days next preceding the levy of execution, if

necessary for the use of the debtor's family residing in this state and supported in whole or in part by the debtor, unless the debts are:

(1) Incurred by the debtor, his wife, or his family for the common necessities of life.

\* \* \* \* \*

In actual practice, the exemption provided for earnings necessary for the use of a debtor's family has proved to be of little value to the debtor. In order to obtain the exemption, the debtor must follow the procedure outlined in Section 690.50. If the creditor alleges that the debt was incurred for "common necessities," there follows a process of affidavit, counteraffidavit, hearing, and possible appeal; all of which takes time, effort, and some sophistication, and still may end with the debtor denied money currently necessary for his family's support. Perhaps, as a result, comparatively few debtors have availed themselves of the exemption although many more appear to be eligible for it.<sup>32</sup>

The Commission recommends that the "common necessary" exception be eliminated,<sup>33</sup> that the procedure for claiming an exemption of an additional amount essential for support of the debtor's family be simplified, and that the availability of this

<sup>32</sup> See Western Center on Law & Poverty, *supra* note 1, at 6, 122-123. See also Brunn, *supra* note 1, at 1219.

<sup>33</sup> The Commission also recommends elimination of the exception in subdivision (c) of Section 690.6 that permits a creditor who is a former employee of the debtor to take a portion of the debtor's wages even though the debtor can show the money is necessary for the support of his family. This exception is largely irrelevant to the low income debtor, for it is highly unlikely that such a debtor would have obligations to employees.

right be made clear to the debtor. However, in recognition of the greater liberality provided in the basic exemption, a stricter standard—"essential for support"—should be provided to make clear that the exemption is only intended for use in extraordinary circumstances and is not intended to shield a debtor from his judgment creditors while maintaining other than an austere life style. Only such additional amount as is required for the maintenance of a basic standard of living should be exempt.

## ORDERS FOR SUPPORT OR FOR THE COLLECTION OF STATE TAXES

### Introduction

Subdivision (b) of Section 303 of the federal Consumer Credit Protection Act specifically exempts (1) "any order of any court for the support of any person" and (2) "any debt due for any State or Federal tax" from the restrictions imposed on the amounts permitted to be withheld from earnings in the collection of all other types of debts.<sup>34</sup> The legislation recommended by the Commission recognizes the special nature of these two types of debts.

### Orders for Support

Enforcement of orders for support is accomplished in a variety of ways under existing law.<sup>35</sup> Perhaps most commonly, compliance is achieved under the threat of the exercise of the court's contempt power; however, execution may be levied for unpaid, accrued amounts.<sup>36</sup> In addition, Civil Code Section 4701 authorizes a court to enforce an order for child support by requiring a parent to assign future wages and then directing an order to the employer carrying out such assignment. Such order remains in effect until revoked by the court. Regardless of the enforcement procedure followed, orders for support are not generally subject to any fixed limitations<sup>37</sup> and obligations for support are often accorded some measure of priority over other types of debts.<sup>38</sup> The Commission recommends that such treatment be continued. Specifically, it is recommended that the court be authorized to issue an earnings withholding order to enforce a prior order or judgment for the support of any person, including a former spouse of the debtor. The order should continue in effect until terminated by the court; it should be unrestricted in amount (although the debtor should be permitted to have the order reduced by the amount he proves

<sup>34</sup> See 15 U.S.C. § 1673(b) (1), (3).

<sup>35</sup> See, e.g., CIVIL CODE § 4701; WELF. & INST. CODE § 11489.

<sup>36</sup> See, e.g., *Rankins v. Rankins*, 52 Cal. App.2d 231, 126 P.2d 125 (1942).

<sup>37</sup> See *id.* (exemption for 50% of person's earnings not available against execution issued upon a judgment for support). *But see* WELF. & INST. CODE § 11489 (exemption for 50% of earnings on execution issued upon judgment in action for aid to dependent child).

<sup>38</sup> See, e.g., CODE CIV. PROC. § 690.6 (earnings necessary for support of family exempt from execution).

is essential for the support of himself or his present family); and the order should be given priority over all other earnings withholding orders. An order for support should not, however, preclude simultaneous withholding under another order if the debtor's income is sufficiently large to enable withholding under both.

### Tax Orders

Under existing law, there are a number of procedures for the collection of unpaid, delinquent state taxes:

(1) The tax liability can be reduced to *judgment*; and, subject to the various exemptions from execution, the judgment can be collected in the same way any other judgment is collected.

(2) A *warrant*,<sup>39</sup> which has the same effect as a writ of execution, can be issued by the taxing agency. Collection under such a warrant also is subject to the same exemptions as a levy of execution.<sup>40</sup>

(3) A *notice or order to withhold*<sup>41</sup> may be given by mail to any person who has in his possession or control any credit or other personal property or thing of value belonging to the person alleged to be liable for the tax, and such person may not dispose of the property without the consent of the taxing agency unless the tax is paid in full. This is a type of attachment procedure. The person notified is required to make a report to the taxing agency of the credit or other personal property being withheld within a few days after receipt of the notice. The personal income tax law and bank and corporation tax law contain a significant additional feature: They require the person holding the property to deliver it to the Franchise Tax Board up to the amount of the delinquent taxes. In contrast with the warrant procedure, there are no exemptions applicable to property required to be withheld and delivered to the Franchise Tax Board pursuant to these two provisions. Accordingly, the board is encouraged to use this third alternative whenever it is available. The Commission has been advised that, in some cases, an employee's entire paycheck has been withheld and paid over to the Franchise Tax Board for delinquent personal income taxes, leaving the employee with nothing from his current earnings to cover the basic needs of his family.

<sup>39</sup> Provisions that authorize issuance of such warrants are: UNEMP. INS. CODE § 1785 (unemployment compensation contributions); REV. & TAX. CODE §§ 6776 (sales and use taxes), 7881 (vehicle fuel license tax), 9001 (use fuel tax), 10111 (motor transportation tax), 16071 (gift tax), 18906 (personal income tax), 26191 (bank and corporation taxes), 30341 (cigarette tax), 32365 (alcoholic beverage tax). See also REV. & TAX. CODE § 14321 (inheritance tax).

<sup>40</sup> See CODE CIV. PROC. § 690.51.

<sup>41</sup> Provisions that authorize the giving of a notice to withhold are: UNEMP. INS. CODE § 1755 (unemployment compensation contributions); REV. & TAX. CODE §§ 6702 (sales and use taxes), 7852 (vehicle fuel license tax), 8952 (use fuel tax), 10051 (motor transportation tax), 11451 (private car tax), 16101 (gift tax), 18807 (personal income tax), 26132 (bank and corporation taxes), 30311 (cigarette tax), 32381 (alcoholic beverage tax).

These tax collection procedures should be integrated with the procedures provided generally for levy upon an employee's earnings. While the protection of the public fisc justifies the preferential treatment of tax orders, it does not justify summarily depriving a tax debtor of the means for the current support of his family. The Commission recommends that taxing agencies which are authorized to issue warrants or notices to withhold be authorized to issue directly (without application to the court) withholding orders for the collection of state tax liabilities. The amount withheld under such orders should be limited to not more than 50 percent of the tax debtor's non-exempt earnings. In addition, the tax debtor should be permitted to claim an additional amount as "essential for the support of himself or his family." The taxing agency should also be authorized as an alternative to apply to the court for an order requiring the debtor's employer to pay all earnings other than that amount which the taxpayer proves is essential for the support of himself or his family. Orders issued under either procedure should have priority over all other earnings withholding orders except orders for support. However, regardless which procedure is followed, the tax liability should be required either to be shown on the face of the debtor's return or to have been determined in an administrative or judicial proceeding at which the tax debtor had notice and an opportunity to be heard.

tax

#### STATE EXEMPTION FROM FEDERAL LAW; STATE ADMINISTRATION

The federal Consumer Credit Protection Act invites each state to enact its own restrictions on the garnishment of earnings and to undertake its own enforcement of these provisions.<sup>42</sup> The advantages of exemption seem apparent. Nothing is gained by having two separate garnishment restriction laws, one state and one federal. An exemption from the federal restrictions would permit California debtors, creditors, and employers to refer to only one body of law to determine the extent to which earnings are subject to garnishment. To gain exemption, a state must enact a law with provisions at least as protective to the individual as the federal law.<sup>43</sup> The Commission recommends that an exemption from federal control in this area be sought and believes that the proposals it recommends would permit an exemption to be obtained. To obtain the exemption, a representative authorized to act on behalf of the state as a liaison with the federal administrator must be designated. The designated official should also be given the duties of rule making and similar administrative tasks. The Commission recommends that the Director of Industrial Relations be selected as the State Administrator to administer these procedures.

<sup>42</sup> Section 305 of the act (15 U.S.C. § 1675) provides:

305. The Secretary of Labor may by regulation exempt from the provisions of Section 303(a) garnishments issued under the laws of any State if he determines that the laws of that State provide restrictions on garnishment which are substantially similar to those provided in Section 303(a).

<sup>43</sup> 29 C.F.R. § 870.51 (1970) provides:

870.51. (a) It is the policy of the Secretary of Labor to permit exemption from Section 303(a) of the CCPA garnishments issued under the laws of a State if those laws considered together cover every case of garnishment covered by the Act, and if those laws provide the same or greater protection to individuals. Differences in text between the restrictions of State laws and those in Section 303(a) of the Act are not material so long as the State laws provide the same or greater restrictions on the garnishment of individuals' earnings.

To achieve uniformity, the Judicial Council should be authorized to prescribe forms necessary to carry out the prescribed procedures.

## RELATED PROBLEMS

### Savings and Checking Accounts

Section 690.7 of the Code of Civil Procedure provides an exemption of \$1,000 for savings accounts in savings and loan associations. A \$1,500 exemption is provided for credit union accounts by Section 15406 of the Financial Code. No similar protection from garnishment is provided for checking or savings accounts in a bank. In view of the almost universal use of personal checking accounts as at least the temporary depository of earnings and the increasingly common practice of employers to deposit earnings of an employee directly into the employee's account, this failure <sup>may</sup> result in the anomalous situation that unpaid earnings are protected but paid earnings

deposited in a bank account are not.<sup>44</sup> Title III of the federal Consumer Credit Protection Act fails to deal specifically with the problem of the proper treatment of bank accounts, and conflicting opinions concerning this problem have been issued by the federal administrator.<sup>45</sup>

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(b) In determining whether State-regulated garnishments should be exempted from Section 303(a) of the CCPA, or whether such an exemption should be terminated, the laws of the State shall be examined with particular regard to the classes of persons and of transactions to which they may apply; the formulas provided for determining the maximum part of an individual's earnings which may be subject to garnishment; restrictions on the application of the formulas; and with regard to procedural burdens placed on the individual whose earnings are subject to garnishment.

(c) Particular attention is directed to the fact that subsection (a) of Section 303, when considered with subsection (c) of that section, is read as not requiring the raising of the subsection (a) restrictions as affirmative defenses in garnishment proceedings.

<sup>44</sup>This anomaly was noted specifically in *Randone v. Appellate Department*, 5 Cal.3d 536, 559, 488 P.2d 13, 23, 96 Cal. Rptr. 709, 724 (1971).

<sup>45</sup> Compare Letter From Robert D. Moran, Administrator of the Workplace Standards Administration of the Department of Labor, to Richard Allan Weiss, February 26, 1971 (garnishment of bank account not restricted by federal statute) with Letter From Horace E. Menasco, Administrator of the Workplace Standards Administration of the Department of Labor, October 26, 1971 (garnishment of bank account restricted by federal statute where bank, acting as employer's agent, deposited employee's earnings directly in employee's checking account) (copies on file at office of California Law Revision Commission, School of Law, Stanford, California).

In an apparent attempt to secure through tracing an exemption for paid earnings comparable to that for unpaid earnings, Section 690.6 of the Code of Civil Procedure was amended by Chapter 1684 of the Statutes of 1971 to authorize a claim of exemption for earnings "received." Unfortunately, the amendment was combined with the addition of Section 682.3 in such a way that it may preclude the tracing and exemption of earnings deposited in a bank account. There remains, therefore, an obvious need to protect from execution earnings deposited in a bank account if any realistic and comprehensive measure of relief is to be provided for a debtor's earnings.

While it may be suggested that earnings should be protected in whatever form they may take, there are problems

inherent in the exemption of bank accounts that do not arise upon levy against an employer or even against the wage earner himself. Any attempt to exempt all or a specified percentage of *earnings* deposited in an account would necessarily involve such difficult issues as the tracing and identifying of funds deposited at different times, the allocation of withdrawals to respective deposits, and the claims of third persons to joint accounts. These issues are minimized by the approach taken in Section 690.7 of the Code of Civil Procedure (savings and loan association accounts) and Section 15406 of the Financial Code (credit union accounts). Adoption of the same approach with respect to bank accounts would give the wage earner reasonable assurance that garnishment would not leave him destitute and, at the same time, provide a relatively simple procedure for levy upon an account or accounts larger than the basic exemption.

Accordingly, the Commission recommends that Section 690.7 of the Code of Civil Procedure and Section 15406 of the Financial Code be repealed and that one uniform provision be enacted<sup>46</sup> to provide a \$500 aggregate exemption from execution for deposits or accounts of an individual debtor in any financial institution. This exemption would replace the present exemptions for savings and loan association accounts (\$1,000) and credit union accounts (\$1,500) and would provide

<sup>46</sup>There is no procedure provided by the California statutes permitting the debtor to obtain a hearing prior to a prejudgment levy of attachment, and the California Supreme Court has held that the existing statute fails to satisfy constitutional requirements. *Randone v. Appellate Department*, 5 Cal.3d 536, 483 P.2d 13, 96 Cal. Rptr. 709 (1971). Cf. *Sniadach v. Family Finance Corp.*, 395 U.S. 337 (1969). This recommendation does not deal with the constitutional problems involved in prejudgment levy of attachment; limitations on accounts that may be attached in circumstances where attachment may be constitutionally permitted is a

the matter currently under study by the Commission and will be the subject of a future Commission recommendation.

protection to bank deposits and checking accounts that is not now provided. The Commission can perceive no justification for the present diverse treatment of deposits and accounts and believes that an exemption should not depend upon whether the debtor is astute enough to deposit his funds with a savings and loan association or credit union.

The \$500 exemption for deposits and accounts in financial institutions should be available only if it is claimed by the debtor pursuant to Section 690.50 of the Code of Civil Procedure. Moreover, the debtor should be permitted to claim as exempt only that portion of an account levied upon which, when added to all other amounts held by the debtor in other accounts on the date of the levy, equals \$500. In claiming the exemption, the debtor should be required to list in his claim for exemption the amount he holds in all other accounts on the date of the levy even though the other accounts are not levied on. Thus, for example, if the account levied on has \$300, but the debtor has \$500 on deposit in another account, none of the \$300 account would be exempt. A husband and wife should be entitled to only one \$500 exemption, and accounts standing in the name of either or both of them should be listed in the claim of exemption even though only one of them is the judgment debtor.

The basic \$500 exemption should prove adequate in the majority of cases. However, additional protection seems justified and a debtor should be permitted to claim a greater exemption where he can prove that the additional amount is essential for the support of himself or his family.

#### Paid Earnings

In 1970, Code of Civil Procedure Section 690.6 was amended in an attempt to conform that section to the recently announced judicial constitutional rulings and the new federal statutory restrictions. However, the section as amended was restricted to earnings "due and owing." This amendment constituted a change from the former California law which protected earnings "received" by the debtor.<sup>47</sup> In 1971, Section 690.6 was amended by Chapter 1684 of the Statutes of 1971 to restore "received"; however, as noted above, the exemption is now combined with the new levy procedure provided by Section 682.3 in a way which may make the exemption unworkable. To exempt earnings payable by an employer but to permit these same earnings to be subject to levy as soon as they pass into the hands of the employee-debtor seems inconsistent with, if not contrary to, the rationale of *Snidach*

<sup>47</sup> Between 1937 and 1970, California granted a wage exemption to earnings "received." Cal. Stats. 1937, Ch. 578, § 1, at 1623. Prior to 1937, the exemption was accorded to earnings without reference to their status as "owing" or paid over. The word "received" was construed early as including accrued but unpaid wages. See *Medical Finance Ass'n v. Rambo*, 33 Cal. App.2d Supp. 756, 757, 86 P.2d 159, 160 (Sup. Ct. L.A., App. Dep't 1938) ("We are not to be understood as saying that the exemption would not also attach to the proceeds of his earnings in the judgment debtor's hands, so long as they could be identified as such. That question is not before us and we express no opinion on it."). In subsequent cases, the California courts at least sub silentio applied the wage exemption to a paycheck in the hands of the employee or deposited by him in a bank account. See *Medical Finance Ass'n v. Short*, 36 Cal. App.2d Supp. 745, 92 P.2d 961 (Sup. Ct. L.A., App. Dep't 1939) (W.P.A. worker's paycheck); *Le Font v. Rankin*, 167 Cal. App.2d 433, 334 P.2d 608 (1959) (bank account); *Carter v. Carter*, 55 Cal. App.2d 13, 130 P.2d 186 (1942) (bank accounts). However, elimination of the word "received" probably destroyed the ability of a debtor to continue such tracing. See *Randone v. Appellate Department*, 5 Cal.3d 536, 559 n.22, 486 P.2d 13, 28 n.22, 96 Cal. Rptr. 709, 724 n.22 (1971).

and *McCallop* and the purpose of the federal legislation. To avoid this inconsistency and to carry out the apparent purpose of the 1971 amendment to Section 690.6,

the Commission recommends that earnings in the possession of the debtor be afforded statutory protection comparable to that given wages earned but unpaid. The exemption may be granted automatically where the earnings are readily identifiable as such. Where this is not the case, the debtor should be required to claim and show that he is entitled to an exemption.

#### Retirement Funds

The federal restrictions on garnishment imposed by Title III also apply to "periodic payments pursuant to a pension or retirement program."<sup>46</sup> California law regarding such payments is less clear. As for payments held or in the process of distribution from public pension and retirement plans, subdivision (b) of Section 690.18 of the Code of Civil Procedure provides a complete and automatic exemption. As for similar payments held or in the process of distribution from certain private plans, subdivision (c) of that section seems to provide an exemption only from garnishment "in any bankruptcy proceeding." Moreover, the exemption must be claimed, and subdivision (c) purports to deny an exemption to moneys held under a Keogh Act plan. This denial conflicts, however, with the exemption provided such plans under Sections 28002 and 28005 of the Corporations Code.

The Commission recommends that Section 690.18 be revised to delete the reference to Keogh Act plans contained therein, thus resolving the conflict with the exemption provided in the Corporations Code. The Commission further recommends that a provision be added exempting periodic payments payable by a pension or retirement plan that are not otherwise exempt to the same extent that wages are exempt. Such provision should satisfy the federal restrictions imposed by Title III.

Finally, a provision should be added which makes clear that the exemptions provided in Section 690.18 are not exclusive and in no way limit similar, or overlapping, exemptions provided in other codes.

#### Wage Assignments

Section 300 of the Labor Code presently grants a valid prior voluntary wage assignment preference over subsequent assignments and levies of execution. Continuation of such a preference would permit a judgment debtor to give preference to one creditor and to defeat the claims of other creditors who seek to collect on their judgments under the proposed earnings withholding procedure. To integrate wage assignments with the operation of the latter procedure, the Commission recommends that a prior wage assignment be granted priority only until the end of the pay period during which an earnings withholding order is served. The operation of the earnings

<sup>46</sup> 15 U.S.C. § 1672(a), quoted in note 24 *supra*.

withholding order should be suspended during this period, thus permitting the debtor an opportunity to put his affairs in order. Such action may include revocation of the prior assignment. In this regard, wage assignments should be made revocable at will as to *unearned* wages. Thus, where an assignment becomes too onerous—for example, after service of an earnings withholding order—such an assignment may be revoked.

#### OPERATIVE DATE

In order to allow sufficient time for state and local public officials and the public to become familiar with the new law and to develop the necessary forms and procedures, the Commission recommends that the new statute become operative on July 1, 1973.

#### PROPOSED LEGISLATION

The Commission's recommendations would be effectuated by enactment of the following measure:

*An act to amend Section 4701 of the Civil Code, to amend Sections 682, 688, 690.6, 690.18, 690.50, and 710 of, to add Sections 690.5½, 690.7 to, to add Chapter 2.5 (commencing with Section 723.010) to Title 9 of Part 2 of, and to repeal 690.7 of, the Code of Civil Procedure, to repeal Section 15406 of the Financial Code, to amend Sections 300 and 2929 of the Labor Code, and to amend Section 11489 of the Welfare and Institutions Code, relating to attachment, garnishment, and execution.*

and

Sections  
682.3 and

*The people of the State of California do enact as follows:*

#### Civil Code

§ 4701 (amended). Continuing withholding order for support

SECTION 1. Section 4701 of the Civil Code is amended to read:

4701. In any proceeding where the court has ordered either or both parents to pay any amount for the support of a minor child, the court may order either parent or both parents to assign to the county clerk, probation officer, or other officer of the court or county officer designated by the court to receive such payment, that portion of salary or wages of either parent due or to be due in the future as will be sufficient to pay the amount ordered by the court for the support, maintenance and education of the minor

child. Such order shall be binding upon an employer upon the service of a copy of such order upon such employer and until further order of the court. The employer may deduct the sum of one dollar (\$1) for each payment made pursuant to such order. Any such order may be modified or revoked at any time by the court. Any such assignment made pursuant to court order shall have priority as against any attachment, execution, or other assignment, unless otherwise ordered by the court. In any proceeding where the court has ordered a parent to pay any amount for the support, maintenance, or education of a minor child, the court may issue an earnings withholding order under Section 723.030 of the Code of Civil Procedure for the amount so ordered. The withholding order may require the parent's employer to pay the withheld earnings to the county clerk, probation officer, or other officer of the court, to a county officer, to the person having custody of the child, or to such other person as is specified in the order to receive such payment.

Comment. Section 4701 is amended to reflect the enactment of the comprehensive procedure for earnings withholding set forth in the Employees' Earnings Protection Law. See CODE CIV. PROC. § 723.010 *et seq.*

While the wage assignment procedure formerly used under Section 4701 is not continued, the substantive effect of the prior law is continued. Thus, the order for support continues to have priority over other withholding orders and assignments and is binding until modified or terminated by the court. See CODE CIV. PROC. § 723.030; LABOR CODE § 300. As under prior law, the court may require withholding from the earnings of either or both parents. Authorization for the employer to deduct a one-dollar fee also is continued under Section 723.024. Under prior law, withheld earnings were required to be paid to a court officer or county officer specified by the court; this authority is continued in the amended section and expanded to permit the court to order the employer to pay the withheld earnings directly to the person having custody of the child or to such other person as the court specifies in the order. Section 4701 applies to orders directed to both public and private employers. See CODE CIV. PROC. § 723.011 (c), (g), and Comment thereto.

#### Code of Civil Procedure

##### § 682 (technical amendment)

SEC. 2. Section 682 of the Code of Civil Procedure is amended to read:

682. The writ of execution must be issued in the name of the people, sealed with the seal of the court, and

subscribed by the clerk or judge, and be directed to the sheriff, constable, or marshal, and it must intelligibly refer to the judgment, stating the court, the county, and in municipal and justice courts, the judicial district, where the judgment is entered, and if it be for money, the amount thereof, and the amount actually due thereon, and if made payable in a specified kind of money or currency, as provided in Section 667, the execution must also state the kind of money or currency in which the judgment is payable, and must require the officer to whom it is directed to proceed substantially as follows:

1. If it be against the property of the judgment debtor, it must require such officer to satisfy the judgment, with interest, out of the personal property of such debtor, or if it is against the earnings of such debtor, ~~such levy shall be made in accordance with Section 682.3,~~ *out of the earnings subject to execution under subdivision (e) of Section 690.5½ and subdivision (c) of Section 690.6,* and if sufficient personal property cannot be found, then out of his real property; or if the judgment be a lien upon real property, then out of the real property belonging to him on the day when the abstract of judgment was filed as provided in Section 674 of this code, or at any time thereafter.

2. If it be against real or personal property in the hands of the personal representatives, heirs, devisees, legatees, tenants, or trustees, it must require such officer to satisfy the judgment, with interest, out of such property.

3. If it be against the person of the judgment debtor, it must require such officer to arrest such debtor and commit him to the jail of the county until he pay the judgment, with interest, or be discharged according to law.

4. If it be issued on a judgment made payable in a specified kind of money or currency, as provided in Section 667, it must also require such officer to satisfy the same in the kind of money or currency in which the judgment is made payable, and such officer must refuse payment in any other kind of money or currency; and in case of levy and sale of the property of the judgment debtor, he must refuse payment from any purchaser at such sale in any other kind of money or currency than that specified in the execution. Any such officer collecting money or currency in the manner required by this chapter, must pay to the plaintiff or party entitled to recover the same, the same kind of money or currency received by him, and in case of neglect or refusal to do so, he shall be liable on his official bond to the judgment creditor in three times the amount of the money so collected.

5. If it be for the delivery of the possession of real or personal property, it must require such officer to deliver the possession of the same, describing it, to the party entitled thereto, and may at the same time require such officer to satisfy any costs, damages, rents, or profits recovered by the same judgment, out of the personal property of the person against whom it was rendered, and the value of the property for which the judgment was rendered to be specified therein if a delivery thereof cannot be had; and if sufficient personal property cannot be found, then out of the real property, as provided in the first subdivision of this section.

Comment. Section 682 is amended to reflect the fact that levy of execution upon earnings is limited in the amounts and in the manner provided by Sections 690.5½ and 690.6. It should be noted, however, that generally speaking earnings, which are due or owing are not subject to levy of execution but may only be levied upon in the amounts and in the manner provided by the Employees' Earnings Protection Law. See generally Chapter 2.5 (commencing with Section 723.010).

of an employee

See subdivision (b) of Section 690.5-1/2.

§ 682.3 (repealed)

Sec. 3. Section 682.3 of the Code of Civil Procedure is repealed.

~~682.3.-- (a) - Whenever the levy of execution is against the earnings of a judgment debtor, the employer served with the writ of execution shall withhold the amount specified in the writ from earnings then or thereafter due to the judgment debtor and not exempt under Section 690.6, and shall pay such amount, each time it is withheld, to the sheriff, constable or marshal who served the writ. If such person shall fail to pay each amount to the sheriff, constable or marshal, the judgment creditor may commence a proceeding against him for the amounts not paid. The execution shall terminate and the person served with the writ shall cease withholding sums thereunder when any one of the following events takes place:~~

~~(1) - Such person receives a direction to release from the levying officer. Such release shall be issued by the levying officer in any of the following cases:~~

~~(a) - Upon receipt of a written direction from the judgment creditor.~~

~~(b) - Upon receipt of an order of the court in which the action is pending, or a certified copy of such order, discharging or recalling the execution or releasing the~~

~~property. This subdivision shall apply only if no appeal is perfected and undertaking executed and filed as provided in Section 917.2 or a certificate to that effect has been issued by the clerk of the court.~~

~~(c) In all other cases provided by law.~~

~~(2) Such person has withheld the full amount specified in the writ of execution from the judgment debtor's earnings.~~

~~(3) The judgment debtor's employment is terminated by a resignation or dismissal at any time after service of the execution and he is not reinstated or reemployed within 90 days after such termination.~~

~~(4) A period of 90 days has passed since the time such person was served with the writ of execution.~~

~~(b) At any time after a levy on his earnings the judgment debtor may proceed to claim a full exemption of his earnings in accordance with the provisions of Sections 690.6 and 690.50 within 10 days of the date of the levy of execution. The exemption so claimed shall extend to any wages withheld pursuant to the levy of execution whether or not withheld after the claim of exemption is filed.~~

~~(c) Subject to the provisions of Section 690.50, the sheriff, constable or marshal who serves the writ of execution and receives the amounts withheld from the judgment debtor's earnings, shall account for and pay to the person entitled thereto, all sums collected under the writ, less his lawful fees and expenses at least once every 30 days, and make return on collection thereof to the court.~~

Comment. Section 682.3 is superseded by Chapter 2.5 (commencing with Section 723.010).

§ 688 (technical amendment)

SEC. 4. Section 688 of the Code of Civil Procedure is amended to read:

688. *Except as provided in Chapter 2.5 (commencing with Section 723.010):*

(a) All goods, chattels, moneys or other property, both real and personal, or any interest therein, of the judgment debtor, not exempt by law, except as provided for in Section 690.6, and all property and rights of property seized and held under attachment in the action, are liable

*subject to execution.*

(b) Shares and interests in any corporation or company, and debts and credits, and all other property, both real and personal, or any interest in either real or personal property, and all other property not capable of manual delivery, may be levied upon or released from levy in like manner as like property may be attached or released from attachment, except that a copy of the complaint in the action from which the writ issued need not accompany the writ; provided, that no cause of action nor judgment as such, nor license issued by this state to engage in any business, profession, or activity shall be subject to levy or sale on execution. ~~Gold dust must be returned by the officer as so much money collected at its current value, without exposing the same to sale.~~

(c) Until a levy, the property is not affected by the execution; but no levy shall bind any property for a longer period than one year from the date of the issuance of the execution, except a levy on the interests or claims of heirs, devisees, or legatees in or to assets of deceased persons remaining in the hands of executors or administrators, thereof prior to distribution and payment. However, an alias execution may be issued on said judgment and levied on any property not exempt from execution.

Comment. Section 688 is amended to make clear that, although earnings of an employee-debtor are "not exempt by law" from all collection procedures, they are exempt from levy of execution and are subject to levy only under the Employees' Earnings Protection Law. See subdivision (b) of Section 690.5½. See generally Chapter 2.5 (commencing with Section 723.010). The phrase "except as provided for in Section 690.6" is deleted as unnecessary. The sentence relating to gold dust is deleted as obsolete.

§ 690.5½ (added). Earnings for personal services of employees

SEC. 5. Section 690.5½ is added to the Code of Civil Procedure, to read:

690.5½. (a) As used in this section, "earnings" means compensation paid or payable by an employer to an employee for personal services performed by such employee whether denominated as wages, salary, commission, bonus, or otherwise.

(b) All earnings of the debtor which are due or owing to him are exempt from levy of attachment and execution without filing a claim for exemption as provided in Section 690.50 and are subject to levy only by means of an earnings withholding order in the manner and to the extent provided in Chapter 2.5 (commencing with Section 723.010).

(c) All earnings of the debtor which have been paid to him and are in his possession in a form identified by the

levying officer as earnings are exempt from levy of attachment without filing a claim for exemption as provided in Section 690.50.

(d) All earnings of the debtor which have been paid to him and are retained in the form in which paid or as cash but which are not identified by the levying officer as earnings are exempt from levy of attachment.

(e) The earnings of the debtor for his pay period immediately preceding the levy which have been paid to him and are retained in the form in which paid or as cash are subject to levy of execution only in an amount not to exceed the maximum amount of such earnings that could be withheld by his employer under Section 723.050 less any amounts withheld from such earnings by the debtor's employer pursuant to any earnings withholding order.

(f) Such additional portion of the earnings described in subdivision (e) which a debtor proves is essential for the support of himself or his family is exempt from levy of execution.

(g) A levying officer is not liable for any injury resulting from any identification or misidentification of assets made pursuant to this section, whether or not such identification or misidentification be negligent, unless he is guilty of actual fraud, corruption, or actual malice.

Comment. Section 690.5½ is added to make clear the relationship between new Chapter 2.5 (commencing with Section 723.010) and the remaining attachment and execution procedures and to satisfy the restrictions upon the attachment of and execution upon earnings imposed by recent judicial decisions and federal legislation. See, e.g., *Sniadach v. Family*

*Finance Corp.*, 395 U.S. 337 (1969); *McCallop v. Carberry*, 1 Cal.3d 903, 464 P.2d 122, 83 Cal. Rptr. 666 (1970); Consumer Credit Protection Act of 1968 (§§ 301-307), 15 U.S.C. §§ 1671-1677. Cf. *Randone v. Appellate Department*, 5 Cal.3d 536, 488 P.2d 13, 96 Cal. Rptr. 709 (1971). See also *Recommendation Relating to Attachment, Garnishment, and Exemptions From Execution: Employees' Earnings Protection Law*, 10 CAL. L. REVISION COMM'N REPORTS 701 (1971).

Section 690.5½ states the exemptions from prejudgment levy of attachment for *all* earnings of an employee, both paid and payable. This section is also the source of exemption from postjudgment levy of execution for *paid* earnings of an employee. The exemptions for *unpaid* earnings—i.e., earnings "due and owing"—are provided in Chapter 2.5 (commencing with Section 723.010).

*Subdivision (a).* Subdivision (a) is based on the definition of "earnings" stated in Section 723.011, and Section 690.5½ is applicable therefore only to persons ("employees") protected under the Employees' Earnings Protection Law. Compare Section 690.6. See also Comment to Section 723.011. However, the definition of earnings used here includes earnings "paid or payable"; Section 723.011 refers only to earnings "payable" by an employer. Earnings which are "payable" are those which are referred to as "due or owing" under this section. "Paid" earnings are covered here by reference to earnings which have been paid to the debtor—whether or not they are still in a form identifiable as "earnings." It should be noted that certain analogous types of periodic payments—for example, retirement payments, welfare assistance, and unemployment benefits—are not covered here but by other provisions of the 690 series. See, e.g., Sections 690.175 (unemployment compensation), 690.18 (payments pursuant to a pension or retirement program), 690.19 (public assistance).

*Subdivision (b).* Subdivision (b) provides an automatic, total exemption from prejudgment levy of attachment of all earnings "due or owing" to any employee. This continues prior law under former subdivision (a) of Section 690.6.

Subdivision (b) also makes clear that the levy of execution may no longer be used to garnish the wages of an *employee* while they are still in the hands of his employer. A judgment creditor now may only reach this asset of a debtor pursuant to Chapter 2.5 (commencing with Section 723.010).

*Subdivision (c).* Subdivision (c) exempts from attachment all earnings of the debtor which "are in his possession in a form identified by the levying officer as earnings." It would be inconsistent to exempt earnings payable by an employer but to make these same earnings subject to attachment as soon as they pass into the hands of the employee-debtor. (The term "debtor" is used here to include a defendant or cross-defendant subject to attachment. See Section 690(c).) Accordingly, to avoid such an anomaly, subdivision (c) provides the same total exemption from attachment for all paid earnings still in a form identified as earnings. Included in the latter category would, for example, be an uncashed paycheck. The identification is done by the levying officer—sheriff, constable, or marshal. Where the levying officer mistakenly attaches earnings, the debtor may still claim an exemption under subdivision (d). Under subdivision (c), however, the exemption is automatic; no claim pursuant to Section 690.50 is required. Subdivision (c) is

consistent with prior law under former subdivision (a) of Section 690.6.

*Subdivision (d).* Subdivision (d) provides an exemption from attachment for earnings paid but not in a form identifiable as earnings or, at least, not in fact so identified by the levying officer. Subdivision (d) is intended to cover the relatively rare case where the officer cannot or does not properly identify earnings as earnings. This can happen, for example, where cash in the possession of the debtor is attached. Circumstances may clearly indicate that the money is "earnings"—for example, cash in a pay envelope attached shortly after the debtor leaves his place of employment upon a payday. Nevertheless, in other circumstances, subdivision (d) affords the debtor an opportunity at least to claim an exemption pursuant to Section 690.50 by showing that "earnings" have been attached. Subdivision (d) does not, however, protect earnings after they have been converted into another form. Protection of assets in these other forms must be sought under other exemption provisions. See, e.g., CIVIL CODE § 1240 (homestead); CODE CIV. PROC. §§ 690.1 (household furnishings and appliances), 690.2 (motor vehicles). Subdivision (d) is consistent with

prior law under former subdivision (a) of Section 690.6.

*Subdivision (e).* As noted above, subdivision (b) makes clear that the levy of execution may no longer be used to garnish the wages of an *employee* while they are still in the hands of his employer. A judgment creditor now may only reach this asset under Chapter 2.5. However, Chapter 2.5 deals primarily with unpaid earnings, *i.e.*, earnings which are "due and owing." For a very limited exception to this rule with regard to tips, see

Section 723.106 and Comment thereto. Earnings, once paid, are subject to levy of execution. Subdivisions (e) and (f), therefore, provide exemptions from execution for paid earnings comparable to the exemptions provided for unpaid earnings by Sections 723.050 and 723.051. It should be emphasized, however, that subdivision (e) protects only earnings from the employee's most recent pay period and, as noted above, does not protect earnings after they have been converted into another form. Compare Section 690.7 (money deposited in bank, credit union, or savings and loan association). The amount of the exemption under subdivision (e) is based upon the total amount of the nonexempt earnings of the debtor from his last paycheck—not upon the amount of earnings in his possession at the time of levy. The exemptions provided under subdivisions (e) and (f) must be claimed by the debtor.

*Subdivision (f).* Subdivision (f) provides an exemption from execution for amounts essential for support comparable to that provided by subdivision (d) of Section 690.6 and Section 723.051. See the Comment to subdivision (e), *supra*, and the Comments to Sections 690.6 and 723.051.

*Subdivision (g).* Subdivision (g) provides an immunity from liability comparable to that provided by Government Code Section 822.2 (misrepresentation by public employee).

§ 690.6 (amended). Earnings for personal services of persons other than employees

SEC. 6. Section 690.6 of the Code of Civil Procedure is amended to read:

690.6. (a) ~~Except as provided in Section-11489-of the-Welfare-and-Institutions-Code,~~ all of *As used in this section, "earnings" means those earnings not included within the definition of "earnings" stated in subdivision (a) of Section 690.5½.*

(b) All the earnings of the debtor received for his personal services shall be exempt from levy of attachment without filing a claim for exemption as provided in Section 690.50.

~~(b)~~

(c) One-half or such greater portion as is allowed by statute of the United States, of the earnings of the debtor received for his personal services rendered at any time within 30 days next preceding the ~~date-of-a-with-holding-by-the-employer-under-Section-682.3,~~ levy of execution

shall be exempt from execution without filing a claim for exemption as provided in Section 690.50.

(c) All earnings if necessary for the use of the debtor's family residing in this state and supported in whole or in part by the debtor, unless the debts are:

(1) Incurred by the debtor, his wife, or his family for the common necessities of life.

(2) Incurred for personal services rendered by any employee or former employee of the debtor.

(d) Such additional portion of his earnings which a debtor proves is essential for the support of himself or his family shall be exempt from levy of execution.

(e) The court shall determine the priority and division of payment among all of the creditors of a debtor who have levied an execution upon nonexempt earnings upon such basis as is just and equitable.

(e)

(f) Any creditor, upon motion, shall be entitled to a hearing in the court in which the action is pending or from which the writ issued for the purpose of determining the priority and division of payment among all the creditors of the debtor who have levied an execution upon nonexempt earnings pursuant to this section.

Comment. Section 690.6 is amended to limit its application to those persons and earnings *not* protected under Section 690.5½ and the Employees' Earnings Protection Law—Chapter 2.5 (commencing with Section 723.010). Section 690.5½ and the Employees' Earnings Protection Law apply only to "employees." See, e.g., Sections 690.5½, 723.011, and 723.106. Section 690.6 does not attempt to define or characterize those persons or earnings that remain. However, they could be categorized generally as independent contractors. See Le Font

v. Rankin, 167 Cal. App.2d 433, 334 P.2d 608

(1959)(tax consultant). As to these persons,

Section 690.6 generally continues prior law.

The references to Welfare and Institutions Code

Section 11489 and to former Section 682.3 have

been deleted because Section 11489 applies only

to earnings of employees and Section 682.3 has

been repealed.)

Subdivision (d) has been revised in conformity with Section 723.051 to provide an exemption for those earnings which the

of-the-debtor  
received-for-his  
personal-services  
rendered-at-any  
time-within-30-days  
next-preceding-the-levy  
of-execution,

debtor proves are essential for support. The standard provided is stricter than the standard under former law; however, the exceptions to the exemption formerly provided in subdivision (c) of Section 690.6 have been eliminated.

See Comment to Section 723.051. See also *Recommendation Relating to Attachment, Garnishment, and Exemptions From Execution: Employees' Earnings Protection Law*, 10 CAL. L. REVISION COMM'N REPORTS 701 (1971).

§ 690.7 (repealed)

SEC. 7. Section 690.7 of the Code of Civil Procedure is repealed.

~~690.7. (a) To the maximum aggregate value of one thousand dollars (\$1,000), any combination of the following: savings deposits in, shares or other accounts in, or shares of stock of, any state or federal savings and loan association; "savings deposits" shall include "investment certificates" and "withdrawable shares" as defined in Section 5061 and 5067 of the Financial Code, respectively.~~

~~(b) Such exemption set forth in subdivision (a) shall be a maximum of one thousand dollars (\$1,000) per person; whether the character of the property be separate or community.~~

Comment. Section 690.7 is superseded by new Section 690.7. See the Comment to that section.

§ 690.7 (added). Deposit account; exemption from  
*execution*

SEC. 8. Section 690.7 is added to the Code of Civil Procedure, to read:

690.7. (a) As used in this section, "debtor" means an individual and does not include a corporation, partnership, or unincorporated association. For the purposes of this section, a husband and wife shall be treated as one individual except (1) after the rendition of a judgment decreeing their legal separation or (2) while they are living separate and apart after the rendition of an interlocutory judgment of dissolution of their marriage.

(b) As used in this section, "deposit account" means any of the following:

(1) A deposit or account in any "bank" described in Section 102 of the Financial Code.

(2) A savings deposit in, share or other account in, or share of stock of any state or federal savings and loan association. As used in this paragraph, "savings deposit" includes "investment certificate" and "withdrawable share" as defined in Sections 5061 and 5067 of the Financial

Code.

(3) A share or certificate for funds received of the member of a credit union and all the accumulation on such share or certificate.

(c) A deposit account owned by a debtor is exempt from execution to the extent of the lesser of (1) five hundred dollars (\$500) or (2) the amount by which five hundred dollars (\$500) exceeds the amounts in all other deposit accounts owned by the debtor on the date of levy.

(d) A deposit account owned by a debtor is exempt from execution in the amount essential for the support of the debtor or his family.

(e) Any debtor claiming an exemption under this section shall list in his claim for exemption under Section 690.50 all deposit accounts standing in his name whether alone or with others and all amounts held in such accounts on the date of the levy.

(f) For the purposes of this section, it shall be presumed that all amounts in all deposit accounts standing in the name of the debtor either alone or with others are owned by the debtor. The presumption established by this subdivision is a presumption affecting the burden of proof.

(g) The exemptions provided by this section are not applicable where the execution is sought to enforce a court order for the support of any person or to collect a state tax liability as that term is defined in paragraph (2) of subdivision (a) of Section 723.031.

(h) Nothing in this section shall affect the rights of a banker under Section 3054 of the Civil Code.

(i) The exemptions provided by this section are exclusive. A debtor may claim no greater amount is exempt by showing that such amount was derived from his earnings or any other source.

*Comment.* Section 690.7 provides an exemption from *execution for* various types of savings and commercial accounts.

*Accounts protected.* The accounts protected under Section 690.7 include savings and loan association accounts, credit union accounts, and bank accounts—whether savings or checking accounts. See subdivision (b) (defining “deposit account”). Under prior law, the amount exempt depended on the type and holder of the account: Checking accounts and bank accounts generally were not protected; \$1,000 in a savings and loan association account and \$1,500 in a credit union account were exempt. See former Section 690.7 and former Financial Code Section 15406. These exemptions were cumulative so that a single debtor could exempt a total of \$2,500 by proper allocation of his money. Section 690.7, on the other hand, provides a single aggregate exemption applicable to all types of accounts, including bank savings and checking accounts.

The exemption provided by Section 690.7 is exclusive. It is in no way dependent upon a showing by the debtor that the amount claimed as exempt represents his earnings. On the other hand, the debtor may not claim a greater amount as exempt by showing that amounts deposited were derived from earnings or other exempt sources. See subdivision (i).

*Persons protected.* Only an individual may take advantage of the exemption provided by Section 690.7. See Section 690.7(a).

A husband and wife are generally treated as one person for the purposes of Section 690.7. See subdivision (a). Accordingly, they are entitled to only one exemption, and accounts standing in the name of either or both of them must be listed in the claim of exemption even though only one of them is the judgment debtor.

*Exemption must be claimed.* The exemption provided by Section 690.7 must be claimed pursuant to Section 690.50. See Section 690(a). This requirement makes it possible to limit the amount to be exempted by taking into consideration all other accounts owned by the debtor. Nevertheless, in the ordinary case, it is anticipated that the release of funds pursuant to the exemption provided by Section 690.7 will be expeditiously accomplished. Where only the basic exemption is claimed, it will be easy to compute the exempt amount and there should be little occasion for the filing of counteraffidavits by a creditor; the attaching officer will be able to make the necessary distributions on the basis of the debtor's affidavit alone.

*Basic exemption.* As much as \$500 in the debtor's account is exempt under Section 690.7(c).

This basic exemption is an aggregate one, however. Hence, a debtor may claim as exempt only that portion of an account levied upon which, when added to all other amounts held by the debtor in other accounts on the date of the levy, equals \$500. The exemption must be claimed and the burden of proof is on the debtor to show that he is in fact entitled to exempt the amount claimed. See subdivision (f). See also Section 690.50.

In claiming the exemption, the debtor must list in his claim for exemption the amount he holds in all other accounts on the date of the levy even though the other accounts are not levied on. See subdivision (e). In computing the amount of the debtor's exemption, any account standing in the debtor's name, including all joint accounts, are presumed to be the debtor's. This presumption is one affecting the burden of proof. See subdivision (f). See also EVID. CODE §§ 605, 606. Some or all of such accounts may in fact not be subject to execution to satisfy the debtor's obligation because of the nature of the account or the character of the funds in the account. See *Tinsley v. Bauer*, 125 Cal. App.2d 724, 271 P.2d 116 (1954); *Spear v. Farwell*, 5 Cal. App.2d 111, 42 P.2d 391 (1935). Section 690.7 does not affect this immunity; a nondebtor may make his third-party claim pursuant to Section 690.

*Additional exemption for family support.*

The debtor is given an additional exemption

in subdivision (d) of Section 690.7 that

permits him to protect an amount in excess of the basic \$500 exemption if he is able to show such amount is essential for the support of himself or his family (compare Section 723.051).

Orders for support; state tax liabilities.

Subdivision (g) eliminates the exemptions otherwise provided by this section where ~~execution~~ is sought to enforce a court order for support or to collect a state tax liability. This special consideration for such creditors is consistent with the special treatment accorded them under the Employees' Earnings Protection Law (Chapter 2.5 of this title) as well as under Title III of the federal Consumer Credit Protection Act. See 15 U.S.C. § 1673(b) (1), (3).

*Banker's lien.* The exemption provided by Section 690.7 ~~is a~~ limitation on garnishment procedures only; ~~it does~~ not in any way affect the exercise of rights pursuant to Civil Code Section 3054 (banker's lien). See subdivision (h).

§ 690.18 (amended). Exemptions; public and private pension, retirement, disability, or death benefits; vacation credits

SEC. 9. Section 690.18 of the Code of Civil Procedure is amended to read:

690.18. (a) All money received by any person, a resident of the state, as a pension, or as an annuity or retirement or disability or death or other benefit, or as a return of contributions and interest thereon, from the United States government, or from the state, or any county, city, or city and county, or other political subdivision of the state, or any public trust, or public corporation, or from the governing body of any of them, or from any public board or boards, or from any retirement, disability, or annuity system established by any of them pursuant to statute, whether the same shall be in the actual possession of such pensioner or beneficiary, or deposited by him.

(b) All money held, controlled, or in process of distribution by the state, or a city, city and county, county, or other political subdivision of the state, or any public trust or public corporation, or the governing body of any of them, or by any public board or boards, derived from the contributions by the state or such city, county, city and county, or other political subdivision, or such public trust, public corporation, governing body, or public board or boards, or by any officer or employee thereof, for retirement or pension purposes or the payment of disability, death, or other benefits, or the payment of benefits payable to, or the reimbursement of benefits paid

to, employees thereof under the provisions of the Unemployment Insurance Code, and all rights and benefits accrued or accruing to any person under any system established pursuant to statute by the state, city, city and county, county, or other political subdivision of the state, or any public trust or public corporation for retirement, annuity, or pension purposes or payment of disability or death benefits, and all vacation credits accumulated by a state employee pursuant to the provisions of Section 18050 of the Government Code, or any other public employee pursuant to any law for the accumulation of vacation credits applicable to such employee. Such moneys, benefits, and credits shall be exempt without filing a claim of exemption as provided in Section 690.50.

(c) All money held, controlled, or in process of distribution by any private retirement plan, including, but not limited to, union retirement plans, or any profit-sharing plan designed and used for retirement purposes, or the payment of benefits as an annuity, pension, retirement allowance, disability payment or death benefit from such retirement or profit-sharing plans, and all contributions and interest thereon returned to any member of any such retirement or profit-sharing plan, are exempt from execution, attachment, or garnishment in any bankruptcy proceeding. ~~This subdivision shall not apply to any moneys held in any retirement program established pursuant to the federal "Self-Employed Individuals Tax Retirement Act of 1962" (P.L. 87/792; 76 Stat. 809); nor to any moneys received in any manner by persons from any such retirement program so established.~~

*(d) All periodic payments payable by a pension or retirement plan that are not otherwise exempt by law are exempt from levy of execution in the amount that is exempted by Section 723.050 without filing a claim for exemption as provided in Section 690.50.*

*(e) Nothing in this section limits the applicability of any exemption otherwise provided by statute.*

Comment. Subdivision (c) of Section 690.18 formerly excluded Keogh Act plans from the exemption provided by this section. Such exclusion conflicted with the exemption provided such plans under Sections 28002 and 28005 of the Corporations Code. The conflict has been resolved by deletion of the reference to Keogh Act plans from Section 690.18.

Subdivision (d) has been added to Section 690.18 to satisfy the federal restrictions on garnishment of "periodic payments pursuant to a pension or retirement program" provided by Title III of the Consumer Credit Protection Act of 1968. See 15 U.S.C. §§ 1672, 1673.

Subdivision (e) has been added to make clear that this section is not the exclusive source of exemptions for retirement funds. See, e.g., CORP. CODE § 28005; EDUC. CODE § 13808 (State

Teachers' Retirement System); GOVT. CODE §§ 21201 (State Employees' Retirement Law), 31452 (County Employees' Retirement Law of 1937).

§ 690.50 (technical amendment)

SEC. 10. Section 690.50 of the Code of Civil Procedure is amended to read:

690.50. (a) If the property mentioned in Sections 690.1 to 690.29, inclusive, shall be levied upon under writ of attachment or execution, the defendant or judgment debtor (herein referred to as "the debtor"), in order to avail himself of his exemption rights as to such property, shall within 10 days from the date such property was levied upon deliver to the levying officer an affidavit of himself or his agent, together with a copy thereof, alleging that the property levied upon, identifying it, is exempt, specifying the section or sections of this code on which he relies for his claim to exemption, and all facts necessary to support his claim, and also stating therein his address within this state for the purpose of permitting service by mail upon him of the counteraffidavit and any notice of the motion herein provided.

(b) Forthwith upon receiving the affidavit of exemption, the levying officer shall serve upon the plaintiff or the person in whose favor the writ runs (herein referred to as "the creditor"), either personally or by mail, a copy of the affidavit of exemption, together with a writing, signed by the levying officer, stating that the claim to exemption has been received and that the officer will release the property unless he receives from the creditor a counteraffidavit within five days after service of such writing.

(c) If the creditor desires to contest the claim to exemption, he shall, within such period of five days, file with the levying officer a counteraffidavit alleging that the property is not exempt within the meaning of the section or sections of this code relied upon, or if the claim to exemption be based on Sections 690.2, 690.3, 690.4, 690.5½, 690.6, 690.7, 690.18, alleging that the value of the property claimed to be exempt is in excess of the value stated in the applicable section or sections, together with proof of service of a copy of such counteraffidavit upon the debtor.

(d) If no such counteraffidavit, with such proof of service, is so filed with the levying officer within the time allowed, the officer shall forthwith release the property.

(e) If such counteraffidavit, with such proof of service, is so filed, either the creditor or the debtor shall be entitled to a hearing in the court in which the action is pending or from which the writ issued for the purpose of determining the claim to exemption, the priority or division of payment

between one or more creditors from nonexempt earnings under the provisions of Section 690.6 or the value of the property claimed to be exempt. Such hearing shall be granted by the court upon motion of either party made within five days after the counteraffidavit is filed with the levying officer, and such hearing must be had within 15 days from the date of the making of such motion unless continued by the court for good cause. The party making the motion for hearing shall give not less than five days' notice in writing of such hearing to the levying officer and to the other party, and specify therein that the hearing is for the purpose of determining the claim to exemption. The notice may be of motion or of hearing and upon the filing of the notice with the clerk of court, the motion is deemed made.

(f) If neither party makes such motion within the time allowed, or if the levying officer shall not have been served with a copy of the notice of hearing within 10 days after the filing of the counteraffidavit, the levying officer shall forthwith release the property to the debtor.

(g) At any time while the proceedings are pending, upon motion of either party or upon its own motion, the court may (1) order the sale of any perishable property held by such officer and direct disposition of the proceeds of such sale, and (2) make such other orders as may be proper under the particular circumstances of the case. Any orders so made may be modified or vacated by the court or judge granting the same, or by the court in which the proceedings are pending, at any time during the pendency of the proceedings, upon such terms as may be just.

(h) The levying officer in all cases shall retain physical possession of the property levied upon if it is capable of physical possession, or in the case of property not capable of physical possession, the levy shall remain in full force and effect, pending the final determination of the claim to exemption. However, no sale under execution shall be had prior to such final determination unless an order of the court hearing the claim for exemption shall so provide.

(i) At such hearing, the party claiming the exemption shall have the burden of proof. The affidavits and counteraffidavits shall be filed by the levying officer with the court and shall constitute the pleadings, subject to the power of the court to permit an amendment in the interests of justice. The affidavit of exemption shall be deemed controverted by the counteraffidavit and both shall be received in evidence. Nothing herein shall be construed to deprive anyone of the right to a jury trial in any case where, by the Constitution, such right is given, but a jury trial may be waived in any such case in like manner as in the trial of an action. No findings shall be required in a proceeding under this section. When the hearing is before the court sitting without a jury, and no

evidence other than the affidavit and counteraffidavit is offered, the court, if satisfied that sufficient facts are shown thereby, may make its determination thereon. Otherwise, it shall order the hearing continued for the production of other evidence, oral or documentary, or the filing of other affidavits and counteraffidavits. At the conclusion of the hearing, the court shall give judgment determining whether the claim to exemption shall be allowed or not, in whole or in part, and may give judgment determining the priority or division of payment between one or more creditors from nonexempt earnings under the provisions of Section 690.6, which judgment shall be determinative as to the right of the creditor to have the property taken and held by the officer or to subject the property to payment or other satisfaction of his judgment. In such judgment the court shall make all proper orders for the disposition of such property or the proceeds thereof.

(j) A copy of any judgment entered in the trial court shall be forthwith transmitted by the clerk to the levying officer in order to permit such officer to either release the property attached or to continue to hold it to sell it, in accordance with the provisions of the writ previously delivered to him. Such officer, unless an appeal from the judgment is waived, or the judgment has otherwise become final, shall continue to hold such property under attachment or execution, continuing the sale of any property held under execution until such judgment becomes final. However, if a claim to exemption under Section 690.5½ or 690.6 is allowed by such judgment, the debtor shall be entitled to a release of the earnings so exempted at the expiration of three days, unless otherwise ordered by the court, or unless the levying officer shall have been served with a copy of a notice of appeal from the judgment.

(k) When any documents required hereunder are served by mail, the provisions of this code relating to service by mail shall be applicable thereto.

(l) Whenever the time allowed for an act to be done hereunder is extended by the court, written notice thereof shall be given promptly to the opposing party, unless such notice be waived, and to the levying officer.

(m) An appeal lies from any judgment under this section. Such appeal to be taken in the manner provided for appeals in the court in which the proceeding is had.

*Comment.* Section 690.50 is revised to include appropriate references to Sections 690.5½, 690.7, and 690.18.

#### § 710 (technical amendment)

SEC. 11. Section 710 of the Code of Civil Procedure is amended to read:

710. (a) Whenever a judgment for the payment of money is rendered by any court of this state against a defendant to whom money is owing and unpaid by this state or by any county, city and county, city or

municipality, quasi-municipality, district or public corporation, the judgment creditor may file a duly authenticated abstract or transcript of such judgment together with an affidavit stating the exact amount then due, owing and unpaid thereon and that he desires to avail himself of the provisions of this section in the manner as follows:

1. If such money ; ~~wages or salary~~ is owing and unpaid by this state to such judgment debtor, said judgment creditor shall file said abstract or transcript and affidavit with the state department, board, office or commission owing such money ; ~~wages or salary~~ to said judgment debtor prior to the time such state department, board, office or ~~commission~~ commission presents the claim of such judgment debtor therefor to the State Controller. Said state department, board, office or commission in presenting such claim of such judgment debtor to said State Controller shall note thereunder the fact ~~that~~ *of* the filing of such abstract or transcript and affidavit and state the amount unpaid on said judgment as shown by said affidavit and shall also note any amounts advanced to the judgment debtor by, or which the judgment debtor owes to, the State of California by reason of advances for expenses or for any other purpose. Thereupon the State Controller, to discharge such claim of such judgment debtor, shall pay into the court which issued such abstract or transcript by his warrant or check payable to said court the whole or such portion of the amount due such judgment debtor on such claim, after deducting from such claim an amount sufficient to reimburse the state department, board, ~~office~~ *office* or commission for any amounts advanced to said judgment debtor or by him owed to the State of California, ~~and after deducting therefrom an amount equal to one-half or such greater portion as is allowed by statute of the United States, of the earnings owing to the judgment debtor for his personal services to the state rendered at any time within 30 days next preceding the filing of such abstract or transcript,~~ as will satisfy in full or to the greatest extent the amount unpaid on said judgment and the balance thereof, if any, to the judgment debtor.

2. If such money ; ~~wages or salary~~ is owing and unpaid to such judgment debtor by any county, city and county, city or municipality, quasi-municipality, district or public corporation, said judgment creditor shall file said abstract or transcript and affidavit with the auditor of such county,

city and county, city or municipality, quasi-municipality, district or public corporation (and in case there be no auditor then with the official whose duty corresponds to that of auditor). Thereupon said auditor (or other official) to discharge such claim of such judgment debtor shall pay into the court which issued such abstract or transcript by his warrant or check payable to said court the whole or such portion of the amount due on such claim of such judgment debtor; ~~less an amount equal to one-half or such greater portion as is allowed by statute of the United States, of the earnings of the debtor owing by the county, city and county, city, municipality, quasi/municipality, district or public corporation to the judgment debtor for his personal services to such public body rendered at any time within 30 days next preceding the filing of such abstract or transcript;~~ as will satisfy in full or to the greatest extent the amount unpaid on said judgment and the balance thereof, if any, to the judgment debtor.

(b) The judgment creditor upon filing such abstract or transcript and affidavit shall pay a fee of two dollars and fifty cents (\$2.50) to the person or agency with whom the same is filed.

(c) Whenever a court receives any money hereunder, it shall pay as much thereof as is not exempt from execution under this code to the judgment creditor and the balance thereof, if any, to the judgment debtor. The procedure for determining the claim of exemption shall be governed by the procedure set forth in Section 690.50 of this code and the court rendering the judgment shall be considered the levying officer for the purpose of that section.

(d) In the event the moneys owing to a judgment debtor by any governmental agency mentioned in this section are owing by reason of an award made in a condemnation proceeding brought by the governmental agency, such governmental agency may pay the amount of the award to the clerk of the court in which such condemnation proceeding was tried, and shall file therewith the abstract or transcript of judgment and the affidavit filed with it by the judgment creditor. Such payment into court shall constitute payment of the condemnation award within the meaning of Section 1251 of this code. Upon such payment into court and the filing with the county clerk of such abstract or transcript of judgment and affidavit, the county clerk shall notify by mail, through their attorneys, if any, all parties interested in said award of the time and place at which the court which tried the condemnation proceeding will determine the conflicting claims to said award. At said time and place the court shall make such determination and order the distribution of the money held by the county clerk in accordance therewith.

(e) The judgment creditor may state in the affidavit any fact or facts tending to establish the identity of the judgment debtor. No public officer or employee shall be liable for failure to perform any duty imposed by this section unless sufficient information is furnished by the abstract or transcript together with the affidavit to enable him in the exercise of reasonable diligence to ascertain such identity therefrom and from the papers and records on file in the office in which he works. The word "office" as used herein does not include any branch or subordinate office located in a different city.

(f) ~~Nothing in this section shall authorize the filing of any abstract or transcript and affidavit against any wages, or salary owing to the Governor, Lieutenant Governor, Secretary of State, Controller, Treasurer, and Attorney General.~~

~~(g) Any fees received by a state agency under this section shall be deposited to the credit of the fund from which payments were, or would be, made on account of a garnishment under this section. For the purpose of this paragraph, payments from the State Pay Roll Revolving Fund shall be deemed payments made from the fund out of which moneys to meet such payments were transferred to said revolving fund.~~

~~(g) This section does not authorize the withholding of earnings of a public employee. The earnings of a public employee may be withheld only pursuant to Chapter 2.5 (commencing with Section 723.010).~~

~~(h) (1) In the event the moneys owing to a judgment debtor by any governmental agency mentioned in this section are for wages or salary, the judgment creditor shall mail under a separate cover at the time of filing the affidavit with the governmental agency, in an envelope marked "Personal and Confidential," a copy of the affidavit and a Notice to Judgment Debtor as provided in paragraph (2) of this subdivision, addressed to the judgment debtor at his place of employment.~~

~~(2) The Notice to Judgment Debtor shall be in 10/point bold type, and in substantially the following form:~~

~~You may be entitled to file a claim exempting your salary or wages from execution. You may seek the advice of any attorney or may, within 10 days from the date your salary or wages were levied upon, deliver an affidavit to the court rendering the judgment to exempt such salary or wages, as provided in Section 690.50 of the Code of Civil Procedure.~~

Comment. Section 710 is amended to eliminate the use of the abstract of judgment procedure as a means of garnishing the wages or salary of a public employee. The earnings of such employees may be withheld pursuant to the Employees' Earnings Protection Law only. See Chapter 2.5 (commencing with Section 723.010).

CHAPTER 2.5. EMPLOYEES' EARNINGS  
PROTECTION LAW

SEC. 12. Chapter 2.5 (commencing with Section 723.010) is added to Title 9 of Part 2 of the Code of Civil Procedure, to read:

CHAPTER 2.5. EMPLOYEES' EARNINGS  
PROTECTION LAW

Article 1. Definitions

Article 1. Definitions

§ 723.010. Short title

723.010. This chapter shall be known and may be cited as the "Employees' Earnings Protection Law."

§ 723.011. Definitions

723.011. As used in this chapter:

(a) "Earnings" means compensation payable by an employer to an employee for personal services performed by such employee whether denominated as wages, salary, commission, bonus, or otherwise.

(b) "Employee" means an individual who performs services subject to the control of an employer as to both what shall be done and how it shall be done.

(c) "Employer" means a person for whom an individual performs services as an employee.

(d) "Judgment" includes a support order.

(e) "Judgment creditor" means the person in favor of whom a judgment is rendered and includes his representative. As applied to the state, "judgment creditor" means the specific state agency seeking to collect a judgment or tax liability.

(f) "Judgment debtor" means the person against whom a judgment is rendered.

(g) "Person" includes an individual, a corporation, a partnership or other unincorporated association, and a public entity.

(h) "State Administrator" means the Director of Industrial Relations.

Comment. Section 723.011 states definitions used in applying this chapter. *This* chapter deals only with the garnishment or withholding of earnings for services rendered in an employer-employee relationship. Subdivisions (b) and (c) are based on the common law requirements for such relationship. It should be noted that an employee may be given considerable discretion and still be an employee as long as his employer has the legal right to control both method and result. However, no attempt is made

See  
Section  
723.020.

here to incorporate specific case law arising out of situations involving problems and issues unrelated to the purposes and procedures relevant in applying this chapter. "Employee" includes both private and public employees. See subdivision (g). See also Section 710.

"Earnings" embraces all remuneration "whether denominated as wages, salary, commission, bonus, or otherwise." The infinite variety of forms which such compensation can take precludes a more precise statutory definition. Accordingly, the State Administrator, who is authorized and directed to adopt "such rules and regulations as are reasonably necessary for the purpose of administering this chapter," will be required in some circumstances to provide rulings consistent with the statutory definition as to whether certain items are an employee's earnings and, if so, the earnings period to which such earnings are attributable. See Section 723.151. One such item will probably be vacation credits or pay. Different employers will treat this form of compensation differently. Generally speaking, however, vacation pay should be subject to withholding only when paid, *i.e.*, when the employee goes on vacation or terminates his employment in circumstances where he has the right to be paid his accrued benefits.

Unlike the definition of "earnings" used in Title III of the federal Consumer Credit Protection Act of 1968, the term used here does not include "periodic payments pursuant to a pension or retirement program." Separate treatment is accorded such payments under Section 690.18.

The Director of Industrial Relations is named in subdivision (h) as the State Administrator. He may, of course, delegate powers, duties, and responsibilities within the Department of Industrial Relations in the manner which he deems most suitable. See GOVT. CODE § 7; LABOR CODE §§ 7, 55.

## Article 2. General Provisions

### Article 2. General Provisions

#### § 723.020. Exclusive procedure for withholding earnings

723.020. The earnings of an employee shall not be required to be withheld for payment of a debt by means of any judicial procedure other than pursuant to the provisions of this chapter.

Comment. Section 723.020 makes the Employees' Earnings Protection Law the exclusive judicial method of compelling an employer to withhold earnings. Attachment of earnings before judgment is abolished by subdivisions (b) and (c) of Section 690.5½. For provisions relating to voluntary wage assignments, see Labor Code Section 300. For issuance of an earnings withholding order to enforce an order for support, see Section 723.030, Civil Code Section 4701, and Welfare and Institutions

Code Section 11489. This chapter has no effect on judgment collection procedures that do not involve the withholding of an employee's *earnings*. See, *e.g.*, Section 690.7 (bank and savings accounts) and Section 690.18 (retirement funds). See also Section 690.5-1/2 (paid earnings). As to garnishment of earnings of a person who is not an employee, see Section 690.6.

However, where an employee's earnings are sought to be garnished, the creditor must comply with the provisions of this chapter. This rule applies to public entities as well as private persons. This chapter, for example, imposes significant limitations on the state's ability to garnish wages for tax delinquencies pursuant to its warrant and notice procedures. See Section 723.031.

The Employees' Earnings Protection Law has no effect on matters that are preempted by the federal law, such as federal bankruptcy proceedings—including proceedings under Chapter XIII of the Bankruptcy Act—and federal tax collection procedures. *E.g.*, INT. REV. CODE of 1954, § 6334(c). Nor does this chapter apply to deductions which an employer is authorized by statute to make for such items as insurance premiums and payments to health, welfare, or pension plans. See, *e.g.*, GOVT. CODE §§ 1158, 12420; LABOR CODE §§ 224, 300. Finally, this chapter does not affect the procedures for the examination of a debtor of the judgment debtor provided in Chapter 2 (Sections 717-723) of this part. See Comment to Section 723.156.

§ 723.021. Levy made by earnings withholding order

723.021. A levy upon the earnings of a judgment debtor shall be made by an earnings withholding order, directed to his employer, in accordance with this chapter.

§ 723.022. Employer's duty to withhold; withholding period

723.022. (a) As used in this section, "withholding period" means the period which commences on the fifth day after service of an earnings withholding order upon the employer and which continues until the first of the following dates:

- (1) The 125th day after the order was served.
- (2) The date of termination requested by the creditor or ordered by the court.
- (3) The date the employer has withheld the full amount specified in the order.

(b) Except as otherwise provided by statute, an

employer shall withhold the amounts required by an earnings withholding order from all earnings of the employee payable for any pay period of such employee which ends during the withholding period.

(c) Notwithstanding subdivision (b), an employer shall cease withholding pursuant to an earnings withholding order whenever he is served with a certified copy of a satisfaction of the judgment upon which the order is based.

(d) An employer is not liable for any amounts withheld and paid over to a judgment creditor pursuant to an earnings withholding order prior to service upon the employer of a written notice of termination of such order or a certified copy of a satisfaction of the judgment upon which the order is based.

(e) For the purposes of this section, service shall be deemed complete on the date the paper served is actually first received at either the branch or office where the employee works or the office from which he is paid.

*Comment.* Section 723.022 states the basic rules governing the employer's duty to withhold pursuant to an earnings withholding order.

Subdivision (b) requires the employer to withhold from all earnings of an employee payable for any pay period of such employee which *ends* during the "withholding period." See Section 723.151 (State Administrator authorized to adopt rules regarding the pay period to which commissions, bonuses, and the like are attributable). The "withholding period" is described in subdivision (a). It should be noted that *only* earnings for a pay period ending during the withholding period are subject to levy. Earnings for prior periods, even though still in the possession of the employer, are not subject to the order. An employer may not, however, defer or accelerate any payment of earnings to an employee with the intent to defeat or diminish the satisfaction of a judgment pursuant to this chapter. See Section 723.155.

The withholding period generally commences five calendar days (not working or business days) after service of an earnings withholding order is completed. Subdivision (e) makes clear that, for the purposes of this section, service is completed when the particular paper is actually received at the proper office. Compare Section 723.101. For example, if an order is served on Friday, the withholding period would commence on the following Wednesday. See CODE CIV. PROC. § 12. The five-day delay affords the employer time to process the order within his organization, *i.e.*, deliver the order to the employer's bookkeeper, make bookkeeping adjustments, and so on. The introductory clause to subdivision (b) recognizes certain exceptions to this general rule. An employer is not generally required to withhold pursuant to two orders at the same time; thus, a subsequent order will not be given effect. See Section

723.023 (priority of orders) and Comment thereto. Moreover, withholding may be delayed beyond the normal five-day period where a prior assignment of wages is in effect. However, this

delay does not affect the date the withholding

period terminates under subdivision (a)(1). See LABOR CODE § 300 and Comment thereto.

The withholding period does not end until the first of the events described in paragraphs (1) through (3) of subdivision (a) occurs; thus, the employer has a *continuing* duty to withhold.

Paragraph (1) provides a general expiration date 125 days after the date of service—thus, the employer will usually be required to withhold for 120 days.

Paragraph (2) reflects the fact that a creditor may voluntarily terminate an order or the court may order termination. See Section 723.105. Of course, in some situations, the court will only modify the prior order, and the employer then must comply with the order as modified.

Paragraph (3) requires the employer to stop withholding when he has withheld the full amount specified in the order.

Again, it should be noted that there are certain exceptions to these rules. One of these is stated in subdivision (c) which requires the employer to stop withholding after he has been served with a certified copy of a satisfaction of the judgment upon which the order is based. See Section 723.101. The judgment creditor has an affirmative duty to so inform the employer of the satisfaction. See Section 723.027. Service of an order for the collection of state taxes suspends the duty of an employer to withhold pursuant to a prior order (other than an order for support). See Section 723.031 (tax orders). However, this is only a suspension. After the tax order is satisfied, if the withholding period for the prior order has not ended and the duty to withhold has not ended under subdivision (c), the employer must again withhold pursuant to the prior order.

(manner of service).

Similarly, the duty to withhold is not terminated by the discharge or suspension of an employee and, if the employee is rehired or returns to work during the withholding period, the employer must resume withholding pursuant to the order. Finally, the termination of certain types of orders—orders for the collection of state taxes and support orders—are governed by separate rules. See Sections 723.030 (support orders); 723.031 (tax orders).

Sometimes an order will be terminated or the judgment upon which it is based will be satisfied without the employer's prior knowledge. Subdivision (d) makes clear that an employer will not be subject to liability for having withheld and paid over amounts pursuant to an order prior to service of a written termination of the order or a certified copy of a satisfaction of judgment. The employee must look to the creditor for the

recovery of amounts previously paid out.  
See Section 723.156 (employer entitled to rely on documents actually served). See also Section 723.105

(recovery from creditor of amounts received after order terminated).

An earnings withholding order may also be affected by federal bankruptcy proceedings.

§ 723.023. Priority of orders generally

723.023. (a) Except as otherwise provided in this chapter:

(1) An employer shall comply with the first withholding order served upon him.

(2) If the employer is served with two or more orders on the same day, he shall comply with the order issued pursuant to the judgment first entered. If two or more orders served on the same day are also based on judgments entered upon the same day, the employer shall comply with whichever one of such orders he selects.

(3) If an earnings withholding order is served during the period that an employer is required to comply with another earnings withholding order for the same judgment debtor, the employer shall not withhold earnings pursuant to the subsequent order.

(b) For the purposes of this section, service of an earnings withholding order shall be deemed complete on the date it is actually first received at either the branch or office where the employee works or the office from which he is paid.

**Comment.** Section 723.023 establishes the general rules governing priority of earnings withholding orders. Generally speaking, the first order served is given priority. Occasionally, two or more orders will be served on the same day. In this situation, the employer must comply with the order which was issued pursuant to the judgment first entered. The date of entry of judgment will be indicated on the face of the order. See Section 723.125. In rare instances, orders served the same day will also be based on judgments entered the same day. In this situation, the employer has complete discretion to choose the order with which he will comply. He must, of course, comply with one of these orders. For exceptions to these basic priority rules, see Sections 723.030 (support orders) and 723.031 (state taxes) and the Comments thereto. Unless the subsequent earnings withholding order is for state taxes or for support, an order is void if the employer receives the order while he is required to comply with another.

It should be noted that, in some circumstances, the operation of an order may be suspended, but the duty to withhold is not terminated. See, e.g., Section 723.031 (tax order suspends operation of prior order); Labor Code Section 300 (suspension

where prior assignment in effect). See also Comment to Section 723.022. In such cases, as well as in cases where the subsequent order is not given effect, the employer is required to advise the creditor who has served the order that is suspended or not given effect of the reason for the employer's action. See Sections 723.031 (f) (3), 723.108, 723.127.

An employer is generally entitled to rely upon what is served upon him. See Section 723.156 and Comment thereto. He is not required to inquire as to whether or not a creditor has either obtained or served an order improperly.

should

An earnings withholding order may be served either personally or by certified or registered mail. See Section 723.101. In the latter case, the employer should refuse service (thus forcing the creditor to serve personally) Section 723.101 makes clear that this action does not cause the creditor to lose his priority and outlines the rights of the various parties in such circumstances.

#### § 723.024. Employer's service charge for withholding

723.024 Each time an employer makes a deduction from an employee's earnings pursuant to an earnings withholding order, he may make an additional deduction of one dollar (\$1) and retain it as a charge for his services in complying with the earnings withholding order.

Comment. Section 723.024 authorizes, but does not require, an employer to deduct an additional dollar as a service charge each time he is required to withhold a portion of his employee's earnings pursuant to an earnings withholding order. For example, if the employee is paid weekly and an amount is withheld each week pursuant to the earnings withholding order, the employer may deduct an additional service charge of one dollar each week. A similar one-dollar charge was formerly authorized under Civil Code Section 4701. A charge of \$2.50 was authorized under Code of Civil Procedure Section 710 when earnings of a public employee were levied on under that section. However, there was no provision authorizing an employer to make a service charge in connection with wage garnishments generally.

#### § 723.025. Payment to judgment creditor

723.025. (a) The amount required to be withheld pursuant to an earnings withholding order shall be paid to the person specified in the order within 15 days after each payment of earnings is made to the employee unless the employer elects to pay in regular monthly payments made not later than the 15th day of each month. In the latter case, the initial monthly payment shall include all amounts required to be withheld from the earnings of the employee during the preceding calendar month up to the close of the employee's pay period ending closest to the last day of that month, and thereafter each monthly payment shall include amounts withheld from the employee's earnings for services rendered in the interim up to the close of the employee's pay period ending closest to the last day of the preceding calendar month.

(b) Notwithstanding the provisions of subdivision (a), an employer is not required to pay over an amount withheld until the accumulated amount that has been withheld and not paid over equals or exceeds ten dollars (\$10) unless it appears that no additional money will be withheld from the employee's earnings pursuant to the particular earnings withholding order.

Comment. Section 723.025 specifies when the amounts withheld pursuant to an order must be paid over to the creditor. Generally, this must be done within 15 days after the employee is paid the amount remaining after withholding. See subdivision (a). Subdivision (a), however, permits the employer to elect to make monthly remittances, and subdivision (b) gives him

another alternative where small amounts are being withheld.

Regardless of when, or if, payment is required, the employer is required to send an employer's return to the judgment creditor. See Sections 723.108 and 723.127.

§ 723.026. Judgment creditor to furnish receipt for payment

723.026. Within 35 days after he receives any payment pursuant to an earnings withholding order, the judgment creditor shall send the judgment debtor a receipt for such payment by first-class mail.

Comment. The receipt required by Section 723.026 not only provides the judgment debtor with a record of payments made on the judgment but also enables the judgment debtor to determine whether his employer has paid the amount withheld from his earnings to the judgment creditor.

§ 723.027. Creditor required to notify employer when judgment satisfied

723.027. If the judgment pursuant to which the earnings withholding order is issued is satisfied prior to the end of the withholding period provided in Section 723.022, the judgment creditor shall promptly file a satisfaction of judgment in the court which issued such order and shall send a certified copy of such satisfaction to the judgment debtor's employer.

Comment. Section 723.027 requires the filing of a satisfaction of judgment and service of a copy thereof on the employer if the judgment is satisfied "prior to the end of the withholding period." In some cases, the employer will be aware of the satisfaction by virtue of having himself withheld the amount necessary to satisfy the judgment. See Section 723.022(a)(3). In this case, Section 723.027 does not apply. However, the judgment may be satisfied by additional payments from the debtor or through other debt collection procedures instituted by the creditor. If this is the case, Section 723.027 applies, and the creditor has the duty to notify the employer promptly of the

satisfaction by serving on him a certified copy of such satisfaction. As to the general duty of a creditor to furnish a debtor a satisfaction of judgment, see Section 675. As to manner of service, see Section 723.101.

§ 723.028. Withholding order for costs and interest

723.028. Subject to Section 723.109, after the amount stated as owing in the earnings withholding order is paid, the judgment creditor may apply for issuance of another earnings withholding order covering costs and interest that may have accrued since application for the prior order.

Comment. Section 723.028 makes clear that a judgment creditor must apply for another earnings withholding order to recover costs and interest that accrue following the application for a prior order. To illustrate: A creditor obtains a judgment which his debtor does not pay. The creditor applies for and secures an earnings withholding order directed to the debtor's employer. The application and order require payment of only those amounts owing at the time of the application for this order. See Sections 723.121 (application for issuance of earnings withholding order) and 723.125 (content of earnings withholding order). After the application for this order, further costs may, and interest on the judgment will, accrue. If the creditor wishes to recover these amounts by wage garnishment, he must apply for another earnings withholding order, following the same procedure as before. This application and order is subject to the same general requirements as any other withholding order. It is not entitled to any priority over the orders of other creditors, and the creditor is required to comply with the waiting period prescribed by Section 723.109.

§ 723.029. Lien created by service of earnings withholding order

723.029. Service of an earnings withholding order creates a lien upon the earnings required to be withheld pursuant to such order. Such lien shall continue for a period of one year from the date such earnings became payable.

Comment. Section 723.029 is the counterpart of subdivision (c) of Section 688. Section 688(c) provides that the levy under a writ of execution creates a lien on the property levied upon for a period of one year from the date of the issuance of the execution. Service of an earnings withholding order also constitutes a levy (see Section 723.021), but it is not a levy of a writ of execution. Therefore, a separate provision is required to regulate the existence, commencement, and duration of the lien.

The purpose of Section 723.029 is to protect the employer against stale claims and to give the levying creditor priority over competing claims by third parties where the priority questions are not already regulated by other provisions of this chapter. See Section 723.023; see also Labor Code Section 300. For example, if installments are not promptly paid, competing

claims may arise under conflict-of-laws rules (see *Sanders v. Armour Fertilizer Works*, 292 U.S. 190 (1934)) or in supervening proceedings under the Bankruptcy Act (§ 67(a)).

Since the lien is created upon periodic payments, the one-year period is measured from the date when each installment required to be withheld becomes payable. This rule is comparable to that provided for judgment liens for alimony and child support payments by Section 674.5 of the Code of Civil Procedure.

Although the lien is limited to one year, it will not expire if, before the end of the one-year period, the levying creditor brings suit against the employer for the payment of the sums the creditor claims should have been paid to him. See *Boyle v. Hawkins*, 71 Cal.2d 229, 455 P.2d 97, 78 Cal. Rptr. 161 (1969).

#### § 723.030. Orders for support

723.030. (a) A "withholding order for support" is an earnings withholding order to enforce a court order for the support of any person. A withholding order for support shall be denoted as such on its face.

(b) Notwithstanding any other provision of this chapter:

(1) The restrictions on earnings withholding contained in Section 723.050 do not apply to a withholding order for support.

(2) An employer shall continue to withhold pursuant to a withholding order for support until it expires by its terms or the court orders its termination.

(3) An employer who receives a withholding order for support shall withhold and pay over earnings of the employee pursuant to such order even though he is already required to comply with another earnings withholding order.

(4) An employer shall withhold earnings of an employee pursuant to both a withholding order for support and another earnings withholding order simultaneously. The amount to be withheld under the withholding order for support shall be deducted first from the earnings of the employee; the amount to be withheld pursuant to the other withholding order shall then be computed, based on the earnings remaining after this deduction.

**Comment.** Section 723.030 provides special rules for an earnings withholding order to enforce a court order for the support of any person, including a former spouse of the judgment debtor. An earnings withholding order for support is given a different effect than other withholding orders: It is effective until terminated by the issuing court (it may, of course, be modified); it is unrestricted in amount; even when in effect, it does not necessarily preclude withholding on either a prior or subsequent order.

The amount specified in the earnings withholding order for support is always withheld first from the support obligor's earnings and paid over to the person specified in that order.

However, a prior order remains in effect, and a judgment creditor may still obtain an earnings withholding order even where there is already in effect a prior earnings withholding order for support. Thus, where there are two orders in effect—one for support and one for another obligation—the amount withheld for support is deducted from the employee's earnings first. The amount to be withheld pursuant to the other order is then computed, based on the earnings remaining after this deduction. See Sections 723.031 and 723.050 and the Comments thereto.

Paragraph (1) of subdivision (b) is consistent with prior law. Under prior law, the exemption for 50 percent of a person's earnings did not apply to a judgment based on a support obligation. *E.g., Bruton v. Tearle*, 7 Cal.2d 48, 57, 59 P.2d 953, 957 (1936) (dictum); *Rankins v. Rankins*, 52 Cal. App.2d 231, 126 P.2d 125 (1942). Compare WELF. & INST. CODE § 11489 as enacted by Cal. Stats. 1971, Ch. 578. Also, under prior law, the court had the power to make an equitable division of the debtor's earnings between, for example, his first wife and children and himself and his second family. See *Rankins v. Rankins, supra*. Paragraph (1) makes the exemption provided by Section 723.050 inapplicable. However, the exemption provided by Section 723.051 is not affected and is therefore applicable to an earnings withholding order for support. Paragraph (1) thus continues the substance of the prior case law. A determination that the exemption provided by Section 723.051 applies has no effect on the support order upon which the earnings withholding order is based; application for modification of the original order for support must be made separately. See CIVIL CODE § 4801. See also *Thomas v. Thomas*, 14 Cal.2d 355, 94 P.2d 810 (1939). Accordingly, the obligation imposed by the original support order will continue and amounts required to be paid under that order will accumulate until such amounts are paid or the order is modified.

§ 723.031. Orders for state taxes

723.031. (a) As used in this section:

(1) "State" means the State of California and includes any officer, department, board, or agency thereof.

(2) "State tax liability" means a liability, including any penalties and accrued interest and costs, for which the state would be authorized to issue (i) a warrant pursuant to Section 1785 of the Unemployment Insurance Code, or Section 6776, 7881, 9001, 10111, 16071, 18906, 26191, 30341, or 32365 of the Revenue and Taxation Code or (ii) a notice or order to withhold pursuant to Section 1755 of the Unemployment Insurance Code, or Section 6702, 7851, 8952, 10051, 11451, 16101, 18807, 26132, 30311, or 32381 of the Revenue and Taxation Code.

(b) A "withholding order for taxes" is one issued pursuant to this section and shall be denoted as such on its face.

(c) A withholding order for taxes may be issued whether or not the state tax liability has been reduced to judgment.

(d) A withholding order for taxes may only be issued where the existence of the state tax liability either appears on the face of the taxpayer's return or has been determined in either an administrative or judicial proceeding in which the taxpayer had notice and an opportunity to be heard. No review of the taxpayer's tax liability shall be permitted in proceedings under this section.

(e) Except as otherwise provided in this section, the provisions of this chapter shall apply to a withholding order for taxes and shall govern the procedures and proceedings concerning such order.

(f) The following special provisions apply to a withholding order for taxes:

(1) The state may itself issue a withholding order for taxes to collect a state tax liability. The amount required to be withheld pursuant to an order issued under this paragraph shall be specified in the order and shall be not more than two times the maximum amount that is permitted to be withheld under Section 723.050. At the time of issuance, the state shall serve upon the taxpayer (i) a copy of the order and (ii) a notice informing the taxpayer of the effect of the order and his right to review and modification of such order. The taxpayer may apply in the manner provided in Section 723.105 to a court of record in his county of residence for a hearing to claim the exemption provided by Section 723.051. No fee shall be charged for filing such application. After hearing, the court may modify the withholding order for taxes previously issued, but in no event shall the amount required to be withheld be less than that permitted to be withheld under Section 723.050.

(2) The state may, at any time, apply to a court of record in the county where the taxpayer was last known to reside for the issuance of a withholding order for taxes to collect a state tax liability. Such application shall include an affidavit stating that the state has served upon the taxpayer (i) a copy of the application and (ii) a notice informing the taxpayer of the purpose of the application and his right to appear with regard to such application. The court shall immediately set the matter for hearing and the court clerk shall notify the state and the taxpayer at least 10 days before the hearing of its time and place. After hearing, the court shall issue a withholding order for taxes which shall require the taxpayer's employer to withhold and pay over all earnings of the taxpayer other than that amount which the taxpayer proves is exempt under

Section 723.051, but in no event shall the amount required to be withheld be less than that permitted to be withheld under Section 723.050.

(3) Subject to paragraph (4), an employer who receives a withholding order for taxes shall withhold and pay over earnings of the employee pursuant to such order and shall cease to withhold earnings pursuant to any prior order except a withholding order for support. When an employer is required to cease withholding earnings pursuant to a prior order, he shall notify the judgment creditor who obtained the prior order that a supervening withholding order for taxes is in effect.

(4) An employer shall not withhold earnings of an employee pursuant to a withholding order for taxes if a prior withholding order for taxes is in effect.

(5) An employer shall continue to withhold pursuant to a withholding order for taxes until the amount specified in the order has been paid in full.

(g) No method of collection of an unpaid tax liability from the earnings of an employee may be used by the state, except as provided in this chapter.

*Comment.* Section 723.031 provides special rules governing earnings withholding orders for the collection of certain state taxes. As to taxes not within the scope of Section 723.031, the tax obligation must be reduced to judgment, and the taxing authority may then obtain an earnings withholding order like any other creditor and such order is treated the same as any other earnings withholding order.

*Tax liabilities within scope of Section 723.031.* Section 723.031 applies to those tax liabilities for which a warrant may be issued pursuant to Section 1785 of the Unemployment Insurance Code (unemployment compensation contribution) or Section 6776 (sales and use taxes), 7881 (vehicle fuel license tax), 9001 (use fuel tax), 10111 (motor transportation tax), 16071 (gift tax), 18906 (personal income tax), 26191 (bank and corporation taxes), 30341 (cigarette tax), or 32365 (alcoholic beverage tax) of the Revenue and Taxation Code or for which a notice or order to withhold may be given pursuant to Section 1755 of the Unemployment Insurance Code (unemployment compensation contributions) or Section 6702 (sales and use tax), 7852 (vehicle fuel license tax), 8952 (use fuel tax), 10051 (motor transportation tax), 11451 (private car tax), 16101 (gift tax), 18807 (personal income tax), 26132 (bank and corporation taxes), 30311 (cigarette tax), or 32381 (alcoholic beverage tax) of the Revenue and Taxation Code.

*Procedure for issuance of order.* Special procedures for issuing withholding orders for taxes are provided in Section 723.031. The state taxing authority may either issue a withholding order for taxes directly without application to the court or may apply to the proper court for a withholding order. Under the first procedure, the order may require the employer to withhold not

more than twice the amount permitted to be withheld pursuant to Section 723.050. However, the taxpayer may apply to the appropriate court and secure a reduction of the amount required to be withheld upon proof that these earnings are essential for support. Under the second procedure, the taxing authority can obtain an order, after court hearing, that requires the employer to withhold all of the employee's earnings in excess of the amount essential for the support of the taxpayer and his family. This latter grant of authority is not intended as a directive that such authority be used generally. This extreme remedy could be harsh in its application and should be used sparingly. Regardless of which procedure is followed, the state taxing authority is entitled to a withholding order in an amount not less than the amount permitted to be withheld under Section 723.050 even though there is a court hearing on the employee's claim that his earnings are essential for support. e/

Subdivision (d) makes clear that, regardless of which procedure is followed, no withholding order for taxes may be issued unless the state tax liability either appears on the face of the taxpayer's return or has been determined in either an administrative or judicial proceeding in which the taxpayer had notice and an opportunity to be heard concerning such liability. However, no review of the taxpayer's tax liability is permitted in proceedings under this section. i/

Few state tax liabilities are reduced to judgment. Subdivision (c) recognizes this and permits continuation of the present practice.

*Form of order.* The withholding order for taxes must be denoted as such on its face. The form of the order must comply with rules of the Judicial Council. See Section 723.126.

*Priority.* A withholding order for taxes takes priority over any prior order except one for support or another withholding order for taxes. As indicated in the Comment to Section 723.030, a support order always takes priority over any other order. Thus, where a support order is in effect and a subsequent tax order is received, the employer will continue to withhold for support, and the amount withheld pursuant to the tax order will be dependent upon the amount of earnings left after subtracting the amount withheld pursuant to the support order. Similarly, where a tax order is in effect and a support order is served, the support order again takes priority. The employer will withhold pursuant to the support order first, and the amount withheld pursuant to the tax order will be dependent upon the amount of earnings left after subtracting the amount withheld pursuant to the support order. See the Comments to Sections 723.030 and 723.050. However, where the prior order is for the collection of a debt other than for taxes or support, the tax order displaces the prior order, and the employer must withhold only pursuant to the tax order until the tax debt is completely paid. If the earnings withholding order for taxes is satisfied during the withholding period of the prior order (Section 723.022), the employer must then again withhold pursuant to the prior order. Where there is a prior tax order in effect, the second tax order is void; the employer may not withhold pursuant to the second order and must promptly notify the agency which issued or obtained the second order of the reason for his action. See Section 723.108.

*Procedure provided exclusive.* The procedure for withholding earnings for the collection of state tax liability provided in the Employees' Earnings Protection Law is exclusive. The authorization, for example, to direct orders to third persons who owe the taxpayer money found in Section 18807 (personal income tax) and Section 26132 (bank and corporation tax) of the Revenue and Taxation Code is limited by Section 723.031. Subdivision (g) of Section 723.031 makes this clear. Section 723.031 deals, however, only with orders for the collection of certain state taxes. The collection of federal taxes is accomplished pursuant to federal law and cannot be limited by state law. See INT. REV. CODE of 1954, § 7334(c). As to state and local taxes not within the scope of Section 723.031, the tax liability is treated the same as any other obligation. See discussion *supra*.

### Article 3. Restrictions on Earnings Withholding

#### Article 3. Restrictions on Earnings Withholding

§ 723.050. Maximum amount of earnings that may be withheld

723.050. (a) As used in this section, "nonexempt earnings" for any workweek means the earnings of the judgment debtor for that workweek less the sum of all the following:

(1) An amount equal to the amount that would be withheld for federal income tax purposes from the same amount of earnings of a single person who claims one exemption.

(2) An amount determined by the State Administrator which is representative of the amount that would be withheld for federal social security tax purposes from such amount of earnings.

(3) An amount determined by the State Administrator which is representative of the amount that would be withheld for state disability insurance taxes from such amount of earnings.

(4) An amount equal to the amount that would be withheld for state income tax purposes from the same amount of earnings of a single person who claims one exemption.

(5) An amount equal to 30 times the federal minimum hourly wage prescribed by Section 6(a)(1) of the Fair Labor Standards Act of 1938 in effect at the time the earnings are payable.

(b) Except as otherwise provided in Sections 723.030, 723.031, and 723.106, the maximum amount of the earnings of a judgment debtor in any workweek which can be withheld pursuant to this chapter is 25 percent of his nonexempt earnings. If the amount computed under this subdivision is not a multiple of one dollar (\$1), fractional amounts less than one-half dollar (\$0.50) shall be

disregarded and fractional amounts of one-half dollar (\$0.50) or more shall be rounded upward to the next higher whole dollar. If the total amount withheld is less than five dollars (\$5), nothing shall be withheld.

(c) The State Administrator shall prescribe by regulation the method of computing the amount to be withheld in the case of earnings for any pay period other than a week, which method shall be substantially equivalent in effect to that prescribed in subdivision (b).

(d) The State Administrator shall prepare withholding tables for determining the amount to be withheld from the earnings of employees for representative pay periods. The tables may prescribe the amounts to be withheld according to reasonable earnings brackets. The tables prepared by the State Administrator pursuant to this subdivision shall be used to determine the amount to be withheld in all cases where the tables permit computation of the amount to be withheld.

Comment. Section 723.050 provides the standard exemption applicable to all earnings withholding orders other than orders for support, certain orders for taxes, and orders based on multiple sources of earnings. See Sections 723.030 (support); 723.031 (taxes); 723.106 (multiple sources of earnings). See also Section 723.051 (exemption obtained by special hardship showing).

Section 723.050 reflects policies similar to those underlying Sections 302 and 303 of the federal Consumer Credit Protection Act in determining the amount of the debtor's earnings subject to garnishment, under both this section and the federal law, certain basic amounts withheld pursuant to law are first deducted. If federal law requires the deduction of all amounts actually "required by law to be withheld." For example, the amount actually withheld for federal income tax purposes from the debtor's earnings is deducted in determining his earnings subject to garnishment ("disposable earnings"). Thus, a debtor claiming a greater number of exemptions will have less withheld and therefore more subject to garnishment. This produces the anomalous situation that a debtor with a large family and greater needs may have more earnings garnished than a single debtor with the same gross income and with more limited needs. Moreover, the federal statute does not elaborate upon what are considered to be "amounts required by law to be withheld." To alleviate these problems, Section 723.050 either specifies precisely the amounts to be deducted in determining the portion of the debtor's earnings which are subject to garnishment ("nonexempt earnings") or directs the State Administrator to fix such specific deductions. These items are related to the types of deductions made under federal law; *i.e.*, they are based on the amounts withheld for federal and state income taxes, social security, and state disability insurance. See paragraphs (1)-(4) of subdivision (a). However, the amount deducted to determine nonexempt earnings is fixed according to formula and is not necessarily the amount actually deducted from the debtor's earnings. One of the major benefits of this

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scheme is that it permits tables to be prepared which indicate the exact amount to be withheld from any given amount of earnings. Subdivision (d) directs the State Administrator to prepare tables which will be distributed to every employer required to withhold earnings. See Section 723.107. An employer therefore generally need not make any computations but will simply withhold pursuant to an earnings withholding order the amount listed in the tables provided him. e/

Both the federal scheme and Section 723.050 make some provisions for the effect of inflation. The federal statute, however, merely provides a floor based on the federal minimum wage. That is, the federal statute does not permit the creditor to reduce the debtor's weekly disposable earnings below an amount equal to 30 times the federal minimum wage. As the federal minimum wage is increased, this floor is increased accordingly. (Under the current federal law, if a debtor's disposable earnings are less than \$48 per week, no garnishment is permitted; if his disposable earnings are between \$48 and \$64, all his disposable earnings above \$48 are subject to garnishment; if his disposable earnings are more than \$64 a week, 25 percent of his disposable earnings are subject to garnishment.) This floor is not an exemption excluded from every debtor's earnings. In contrast, paragraph (5) of subdivision (a) provides a basic minimum exemption that is always deducted in determining nonexempt earnings.

Where an earnings withholding order for support is in effect, the amount withheld pursuant to such order is deducted from the earnings of the employee before computing the amount to be withheld pursuant to any other order. See Sections 723.030 and 723.031 and Comments thereto. Suppose, for example, that an employee's earnings are \$150 and a withholding order for support is in effect which requires \$40 to be withheld. In determining the maximum amount which may be withheld pursuant to another earnings withholding order, the debtor is treated as having \$110 of earnings. The employer should refer to the appropriate withholding table and determine how much is to be withheld from \$110 of earnings and withhold that amount under the ordinary withholding order. See *Recommendation Relating to Attachment, Garnishment, and Exemptions From Execution: Employees' Earnings Protection Law*, 10 CAL. L. REVISION COMM'N REPORTS 701, 700 (1971). e/

§ 723.051. Amounts essential for family support exempt

723.051. The portion of his earnings which a judgment debtor proves is essential for the support of himself or his family is exempt from levy under this chapter. This standard recognizes that the exemption provided by Section 723.050 should be adequate except in rare and unusual cases. Neither the judgment debtor's accustomed standard of living nor a standard of living "appropriate to his station in life" is the criterion for measuring the debtor's claim for exemption under this section.

*Comment.* Section 723.051 is based on the exemption formerly provided by subdivision (c) of Section 690.6. However, the standard for the exemption provided here is more restrictive

than former subdivision (c) of Section 690.6 ("essential for support" as compared to "necessary for the use"). This strict standard recognizes that the liberal exemption provided by Section 723.050 should be adequate except in extremely rare and unusual cases. This section is not intended to be used for the maintenance of a life style appropriate to the debtor's station in life or an accustomed standard while the debtor owes money on unsatisfied judgments against him.

Former subdivision (c) of Section 690.6 prevented the debtor from claiming the support exemption if the debt sought to be collected was:

- (1) Incurred by the debtor, his wife, or his family for the common necessities of life.
- (2) Incurred for personal services rendered by any employee or former employee of the debtor.

In actual operation, the effect of the "common necessities" rule in California was to decide the question whether competing creditors could reach a debtor's earnings neither from the debtor's point of view (the needs of the debtor's dependents were ignored) nor from the creditor's viewpoint (no consideration was given to whether the creditor was careful to advance credit to the debtor only after ascertaining that his credit worthiness showed an ability to pay or whether the creditor provided the debtor with quality goods or services). Rather, the claims of competing creditors for earnings could be decided on the technical, and usually irrelevant, issue of what was a "common necessary of life." See, e.g., *Los Angeles Finance Co. v. Flores*, 110 Cal. App.2d Supp. 850, 243 P.2d 139 (Sup. Ct. L.A., App. Dep't. 1952). The "common necessary" exception has accordingly been eliminated.

The exception which permitted a creditor who was a former employee of the debtor to take a portion of the debtor's wages even though the debtor could show the money was necessary for the support of his family has also been eliminated. This exception was largely irrelevant to the low income debtor, for such a debtor has no employees, and there is no indication that this provision was actually used by creditors.

#### Article 4. Procedure for Issuance of Earnings Withholding Orders

#### Article 4. Procedure for Issuance of Earnings Withholding Orders

§ 723.100. Judicial Council authorized to prescribe practice and procedure

723.100. The Judicial Council may provide by rule, not inconsistent with this chapter, for practices and procedures in proceedings under this chapter.

Comment. Article 4 outlines generally the procedure for issuance and review of an earnings withholding order; however, Section 723.100 authorizes the Judicial Council to provide by rule for such special practices and procedures which it believes necessary or desirable for judicial proceedings under this chapter.

§ 723.101. Service; recovery of costs

723.101. (a) Service under this chapter shall be by personal delivery or by registered or certified mail, postage prepaid with return receipt requested. When service is made by mail, service is completed at the time the return receipt is executed by the recipient or his representative.

(b) Notwithstanding Section 1032.6, except as provided in subdivision (c), a judgment creditor is not entitled to the costs of service under this chapter which exceed the cost of service by certified mail with return receipt requested.

(c) If the employer of the judgment debtor refuses to accept service by registered or certified mail, the cost of service by personal delivery may be recovered from the judgment debtor.

(d) Where the employer of the judgment debtor refuses to accept service by mail of an earnings withholding order and the judgment creditor subsequently serves such order by personal delivery and his order is denied effect because an intervening order has been given effect, upon application of the judgment creditor, the court which issued the judgment creditor his original earnings withholding order shall make a special order directed to the employer to cease withholding under the intervening order and to comply with the original order. In these circumstances, for the purposes of Section 723.022, service of the original order shall be deemed complete on the date of service of the special order directing the employer to comply with the original order.

Comment. Subdivision (a) of Section 723.101 specifies the means by which service must be accomplished under this chapter. Although personal service is authorized, it is anticipated that the convenience and economy of service by mail will result in the overwhelming use of this method. In any event, subdivisions (b) and (c) make clear that, regardless of which means is actually used, the recovery of the costs of service is limited to the cost of service by certified mail with return receipt requested unless this form of service is first refused by the person being served. Only in such circumstances may the cost of personal delivery be recovered. See subdivision (c). *i/*

Subdivision (d) provides certain special rules for problems which can arise where mail service has been refused. For example, suppose creditor *A* mails an earnings withholding order to his debtor's employer and the employer refuses to accept such mail. Creditor *A* then serves his order by personal delivery but, in the meantime, creditor *B* has served an order requiring the withholding of the wages of the same debtor and *B*'s order has gone into effect. It would be unfair to *A* to deny him his priority because of the employer's refusal. Accordingly,

subdivision (d) permits A to apply to the court which issued A's original earnings withholding order for an order to the employer directing him to stop withholding pursuant to B's order and to give effect to A's earnings withholding order. So that A may have the benefit of a full 120-day withholding period, A's earnings withholding order is deemed to have been served on the date of service of the special court order made pursuant to subdivision (d). It should be noted that subdivision (d) only preserves the priority which A would have had if the employer had accepted the mail service. Thus, where the intervening order is a withholding order for taxes, A is not entitled to displace the taxing agency. See Section 723.031. The remedy provided by subdivision (d) is exclusive. A is not entitled to recover amounts previously paid to B from either B or the employer, and A's order is not given retroactive effect.

§ 723.102. Application for issuance of earnings withholding order

723.102. A judgment creditor may apply for the issuance of an earnings withholding order by filing an application, in the form prescribed by the Judicial Council, with the clerk of the court which entered the judgment pursuant to which the earnings withholding order is sought.

Comment. Section 723.102 requires a judgment creditor to apply for an earnings withholding order to the court which granted him the judgment. For the required content of the application, see Section 723.121. For special provisions regarding the issuance of a withholding order for taxes, see Section 723.031. /

§ 723.103. Notice to judgment debtor

723.103. (a) At the time of filing an application for issuance of an earnings withholding order, the judgment creditor shall mail the following to the judgment debtor:

(1) A copy of the application for the earnings withholding order.

(2) A notice of the application.

(b) The papers specified in subdivision (a) shall be mailed to the judgment debtor at his last known residence address or, if no such address is known to the judgment creditor, such papers may be mailed to the judgment debtor in an envelope marked "Personal—Important Documents" addressed to him at his place of employment.

(c) The failure of the judgment debtor to receive the papers specified in subdivision (a) does not affect the validity of a properly issued earnings withholding order.

Comment. Section 723.103 is designed to give the judgment debtor notice of the imminence of an earnings withholding order so that he will be able to attack the order or assert any facts which may affect the amount of the order as soon as

conveniently possible. For requirements for the application for an order and the notice of application, see Sections 723.121 and 723.122.

If the judgment creditor fails to comply with this section, he may be subject to the ordinary sanctions for abuse of process and contempt, and any order issued may be subject to attack on grounds of intrinsic fraud. However, subdivision (c) makes clear that, even though the judgment debtor fails to receive the notice and forms, the validity of the earnings withholding order is not affected.

§ 723.104. Issuance of earnings withholding order

723.104. Upon application of a judgment creditor, the court clerk shall promptly issue an earnings withholding order in the form prescribed by Section 723.125.

Comment. Section 723.104 makes clear that an earnings withholding order shall be promptly issued on the ex parte application of a judgment creditor. The debtor may request a hearing pursuant to Section 723.105, have such order modified or terminated, and even recover from the creditor amounts withheld and paid over pursuant to such order; but this does not affect the initial issuance of the order.

§ 723.105. Hearing on application of judgment debtor; court order after hearing; recovery of amounts already withheld and paid over

723.105. (a) A judgment debtor may apply for a hearing to claim an exemption under this chapter if:

(1) No prior hearing has been held with respect to the earnings withholding order; or

(2) There has been a material change in circumstances since the time of the last prior hearing on the earnings withholding order.

(b) Application for a hearing shall be made by filing an original and one copy of (1) the judgment debtor's application for hearing and (2) if he claims the exemption provided by Section 723.051, his financial statement.

(c) The hearing shall be held within 15 days after the date the application is filed. The court clerk shall notify the judgment debtor and the judgment creditor at least 10 days before the hearing of its time and place and shall include with the notice to the judgment creditor a copy of the application for hearing and the financial statement, if any.

(d) If, after hearing, the court orders that the earnings withholding order be modified or terminated, the clerk shall promptly send a copy of the modified earnings withholding order to the employer of the judgment debtor or notify the employer in writing that the earnings withholding order has been terminated. The court may order that the earnings withholding order be terminated as of a date which precedes the date of hearing.

(e) Except as provided in Section 723.106, if the earnings withholding order is terminated by the court, unless the court otherwise orders or unless there is a material change of circumstances since the time of the last prior hearing on the earnings withholding order, the judgment creditor may not apply for another earnings withholding order directed to the same employer with respect to the same judgment debtor for a period of 125 days following the date of service of the earnings withholding order.

(f) If an employer has withheld and paid over amounts pursuant to an earnings withholding order after the date of termination of such order but prior to the receipt of notice of its termination, the judgment debtor may recover such amounts only from the judgment creditor. If the employer has withheld amounts pursuant to an earnings withholding order after termination of the order but has not paid over such amounts to the judgment creditor, the employer shall pay over such amounts to the judgment debtor.

Comment. Section 723.105 outlines generally the procedure for the hearing of a debtor's claims in opposition to withholding his earnings pursuant to an earnings withholding order. Section 690.50 is not applicable.

A debtor is not limited as to when he may apply for a hearing; however, unless there has been a material change in either his income or his needs, he may apply only once during the period the order is in effect. See subdivision (a). A similar limitation applies to a judgment creditor who may not apply for the issuance of an earnings withholding order directed to the same employer for the same debtor for 125 days following the date of service of a prior terminated order except in connection with a multiple employment or unless the court orders otherwise or there is a material change in circumstances. See subdivision (e).

An application is made by the debtor by filing an original and one copy of his application and, if necessary, his financial statement. Subdivision (b). For the form of these documents, see Sections 723.123 and 723.124. Upon receipt of these documents, the matter is set for a prompt hearing and the clerk is required to send the copies of the application and financial statement to the creditor and notice of the hearing to both parties. See subdivision (c).

After hearing, the court may order that the earnings withholding order be modified or even terminated. The date fixed for termination of the order may precede the date of the hearing. See subdivision (d). Where the date of termination is made retroactive, an employer may have already withheld and paid over pursuant to the earnings withholding order prior to receipt of notice of termination. Subdivision (d) of Section 723.022 makes clear that the employer is not liable to the debtor for such amounts, and subdivision (f) of this section authorizes the debtor to recover such amounts from his creditor.

Where amounts have been withheld but not yet paid over to the

creditor, the employer is required to pay those amounts to the employee-judgment debtor. See subdivision (f).

§ 723.106. Multiple sources of earnings

723.106. (a) As used in this section, "earnings" includes all compensation (whether denominated as wages, salary, commission, bonus, tips, or otherwise) for personal services performed by an employee, whether paid or payable by the employer or by any other person.

(b) Where a judgment debtor has earnings from more than one source, an earnings withholding order may be issued based on the debtor's total earnings but directed to one employer.

(c) An employer shall not be required to withhold pursuant to this section an amount in excess of the lesser of either of the following:

(1) The amount of earnings payable to the judgment debtor by the employer after deducting all amounts required to be withheld by law or by any contract which is not revocable by the employee or at his instance.

(2) An amount equal to that which would be permitted to be withheld if the total earnings of the debtor from all sources were used in computing the amount that is permitted to be withheld under Section 723.050.

(d) A judgment creditor may, at any time, request a hearing to prove that the judgment debtor receives earnings from more than one source and that the judgment creditor should be granted an order requiring one employer to withhold a greater amount from the earnings payable by that employer than he would have to withhold were he the judgment debtor's only source of earnings. The request shall set out the facts on which the judgment creditor's claim is based. The request shall be made to the court to which application is made for the earnings withholding order.

(e) The court shall set the matter for hearing after receiving the written request together with an affidavit stating that the judgment creditor has served a copy of the request for hearing in the manner provided in Section 723.101. The court clerk shall notify the judgment debtor and the judgment creditor at least 10 days before the hearing of its time and place.

(f) The judgment creditor has the burden of proof on the issue of his right to have a greater amount withheld by one employer pursuant to this section. If the court finds that the judgment creditor is entitled to an order requiring an employer to withhold a greater amount from the

judgment debtor's earnings than the employer would have had to withhold were he the judgment debtor's only source of earnings, the court shall make an appropriate order.

(g) The hearing provided by this section may be combined with a hearing under Section 723.105. If an earnings withholding order has previously been issued under this section, the court, after hearing held at the request of either the judgment debtor or the judgment creditor, may modify the prior order, and the clerk shall promptly send a copy of the revised order to the employer of the judgment debtor.

Comment. Section 723.106 affords a creditor an opportunity to require an employer to withhold more than he would otherwise withhold by a showing that the debtor has a greater source of earnings than that one employer. This can occur both where the debtor has two or more employers and where he is receiving "earnings," such as tips which are included under this section as earnings for the purpose of computing the amount of earnings which may be garnished. It should be noted that the term "earnings" used here is still limited to compensation for services rendered by an *employee, i.e.,* an employee-employer relationship is involved, even though the compensation for the work performed may not come directly from the employer. Where there are two employers, the creditor may, of course, apply for separate withholding orders directed to each; however, there may be advantages for both the creditor and debtor in having only one of these two employers withhold the total amount garnishable from the debtor's combined earnings from both employers.

*i/* Subdivision (c) provides limitations on the amounts required to be withheld under this section. Paragraph (1) makes clear that an employer is never required to withhold more than the basic net pay of the employee, *i.e.,* "the amount of earnings payable to the judgment debtor by the employer after deducting all amounts required to be withheld by law or by any contract which is not revocable by the employee or at his instance." Paragraph (2) carries out the policy of Section 723.050 with regard to the debtor's total earnings.

Although subdivision (d) permits a creditor to request a hearing under this section "at any time," after the matter has been heard once a second hearing should not be required unless and until there has been a change in circumstances that warrants reconsideration of the issues.

Occasionally, in the multiple employment situation, only one employer will be withholding pursuant to an order based on the combined earnings of a debtor and a second employer will be served with an earnings withholding order by a second creditor—both of the latter being unaware of the prior order. In such circumstances, it is up to the debtor to claim relief from the second order pursuant to Section 723.105. It should be noted in this regard that Section 723.105 authorizes the court to terminate the second order retroactively, and the debtor may recover amounts already paid over to the second creditor.

§ 723.107. Transmittal of order and information to employer

723.107. (a) The earnings withholding order, together with the form for an employer's return, shall be served upon the designated employer by the judgment creditor.

(b) At the time he makes service pursuant to subdivision (a), the judgment creditor shall provide the employer with a copy of the informational pamphlet and the withholding tables published by the State Administrator.

(c) The State Administrator may promulgate rules and regulations permitting waiver of or variances from the requirements of subdivision (b).

(d) An order not served upon the employer within 45 days after its date of issuance is void.

*Comment.* Section 723.107 prescribes what must be served upon the employer by the judgment creditor and when such service must be accomplished to be effective. The form for the employer's return is prescribed in Section 723.127. See also Section 723.128 (informational pamphlet and withholding tables).

§ 723.108. Employer's return

723.108. Any employer who is served with an earnings withholding order shall complete the employer's return on the form provided by the judgment creditor and shall mail it to the judgment creditor within 15 days from the date of service.

*Comment.* Section 723.108 directs every employer to fill out and mail an employer's return to every judgment creditor who serves an earnings withholding order. Such a return must be made even though the order is not given effect. See Comment to Section 723.023. For the form of the return, see Section 723.127.

§ 723.109. Limitation on obtaining additional earnings withholding orders

723.109. If an employer withholds earnings pursuant to an earnings withholding order, the judgment creditor who obtained such withholding order may not serve another withholding order on the same employer requiring him to withhold earnings of the same employee during the 10 days following the expiration of the prior earnings withholding order.

*Comment.* Section 723.109 precludes a creditor who has obtained an earnings withholding order which has gone into effect from serving another order during the 10-day period following the expiration of his prior order. The purpose of this limitation is to give other creditors a 10-day period during which they can serve their earnings withholding orders while the original creditor is precluded from competing with them. The original creditor may apply for the second earnings withholding

order either before or after his prior order expires. But service of the second order while the original order is in effect will be ineffective under Section 723.023, and service during the 10-day period following expiration of the original order is prohibited by Section 723.109. Even though a creditor violates the 10-day moratorium period, the employer may act pursuant to what has been served upon him. See Section 723.156. Of course, after the expiration of the 10-day period, the original creditor is treated like any other creditor.

It should be noted that each agency of the state is considered a separate entity for the purposes of this chapter. See Section 723.011 (e). Hence, even though one agency has been making collection, a second agency may serve an earnings withholding order within the 10-day period provided in this section.

Article 5. Forms; Instructional Pamphlet; Withholding Table

Article 5. Forms; Instructional Pamphlet;  
Withholding Table

§ 723.120. Judicial Council to prescribe forms

723.120. The Judicial Council shall prescribe the form of the applications, notices, orders, and other documents required by this chapter and only such forms may be used to implement this chapter. Such forms shall require the information prescribed by this chapter and such additional information as the Judicial Council requires.

*Comment.* Section 723.120 requires the Judicial Council to prescribe the forms necessary for the purposes of this chapter. Various sections prescribe information to be contained in the forms; but, subject to these minimum requirements, the Judicial Council has complete authority to adopt and revise the forms as necessary and may require additional information in the forms.

§ 723.121. Application for earnings withholding order

723.121. The "Application for Issuance of Earnings Withholding Order" shall be executed under oath and shall include all of the following:

- (a) The name and address of the judgment debtor and, if known, his social security number.
- (b) The name and address of the judgment creditor.
- (c) The date and place where the judgment is entered.
- (d) The amount sought to be collected, indicating the amount of the judgment, plus additional accrued items, less partial satisfactions, if any.
- (e) The name and address of the employer to whom the order will be directed.
- (f) The name and address of the person to whom the withheld money is to be paid.
- (g) The name and address of the person designated by the judgment creditor to receive notices.

(h) A statement that the applicant has no information or belief that the indebtedness for which the order is sought has been discharged by a discharge granted to the judgment debtor under the National Bankruptcy Act or that the prosecution of the proceeding has been stayed in a proceeding under the National Bankruptcy Act.

(i) A statement that the applicant has complied with the requirements of Section 723.103.

*Comment.* Although Section 723.121 requires the application to be executed "under oath," this may generally be done by a statement signed under penalty of perjury. See Section 2015.5. The actual form for the application is prescribed by the Judicial Council. See Section 723.120.

§ 723.122. Notice of application

723.122. In addition to other information required by the rules and regulations of the State Administrator, the "Notice of the Application for Issuance of an Earnings Withholding Order" shall inform the judgment debtor of all of the following:

(a) The judgment creditor has asked the court to order

the named employer to withhold from the earnings of the judgment debtor the maximum amounts allowed by law and to pay these amounts over to the person specified in the application for the order in payment of the judgment described in the application.

(b) The maximum amounts allowed by law to be withheld pursuant to Section 723.050 on illustrative amounts of earnings.

(c) No amount can be withheld from the earnings of a judgment debtor (1) for a debt which he can prove has been discharged by a discharge granted to him under the National Bankruptcy Act or (2) where he can prove that further proceedings for the collection of such debt have been stayed in a proceeding under the National Bankruptcy Act.

(d) No amount can be withheld from the earnings of a judgment debtor which he can prove is essential for the support of himself or his family.

(e) If a judgment debtor wishes a court hearing to prove that amounts should not be withheld from his earnings, he shall file with the clerk of court two copies of the "Application of Judgment Debtor for Hearing," and, in addition, if he claims the exemption referred to in paragraph (d), he shall also file with the clerk two copies of the "Judgment Debtor's Financial Statement."

*Comment.* The actual form for the notice of application is prescribed by the Judicial Council. See Section 723.120.

§ 723.123. Form for application of judgment debtor for hearing

723.123. The "Application of Judgment Debtor for Hearing" shall be executed under oath. Where the judgment debtor claims the exemption provided by Section 723.051, his application for a hearing shall indicate how much he believes should be withheld from his earnings each pay period by his employer pursuant to the earnings withholding order.

Comment. Although Section 723.123 requires the application to be executed "under oath," this may generally be done by a statement signed under penalty of perjury. See Section 2015.5. The actual form for the application is prescribed by the Judicial Council. See Section 723.120.

§ 723.124. Judgment debtor's financial statement

723.124. The "Judgment Debtor's Financial Statement" shall be executed under oath and shall include all of the following information:

(a) Name, age, and relationship of all persons dependent upon judgment debtor's income.

(b) All sources of the judgment debtor's earnings and other income and the amounts of such earnings and other income.

(c) All sources and the amounts of earnings and other income of the persons listed in subdivision (a).

(d) A listing of all assets of the judgment debtor and of the persons listed in subdivision (a) and the value of such assets.

(e) All outstanding obligations of the judgment debtor.

(f) Any extraordinary prospective expenses that would justify a reduction in the amount of earnings that would otherwise be withheld pursuant to Section 723.050.

(g) Whether any earnings withholding orders are in effect for the judgment debtor or the persons listed in subdivision (a).

Comment. Although Section 723.124 requires the financial statement to be executed "under oath," this may generally be done by a statement signed under penalty of perjury. See Section 2015.5. The actual form for the financial statement is prescribed by the Judicial Council. See Section 723.120.

§ 723.125. Earnings withholding order

723.125. The "Earnings Withholding Order" shall include all of the following:

(a) The name and address of the judgment debtor and, if known, his social security number.

(b) The name and address of the employer to whom the order is directed.

(c) The date and place where the judgment was entered and the name of the judgment creditor.

(d) The maximum amount that may be withheld pursuant to the order (the amount of the judgment, plus additional accrued items, less partial satisfactions, if any).

(e) A description of the withholding period and an order to the employer to withhold from the earnings of the judgment debtor the amount required by law to be withheld or the amount specified in the order, as the case may be, during such period.

(f) An order to the employer to pay over to the judgment creditor or his representative at a specified address the amount required to be withheld pursuant to the order in the manner and within the times provided by law.

(g) An order that the employer fill out the "Employer's Return" and return it by first-class mail to the judgment creditor or his representative at a specified address within 15 days after service of the earnings withholding order.

Comment. Section 723.125 specifies the information to be included in the earnings withholding order. The form of the order is prescribed by the Judicial Council. See Section 723.120. Special forms are prescribed for earnings withholding orders for support or taxes. See Section 723.126.

§ 723.126. Earnings withholding orders for support or taxes

723.126. The requirements of Section 723.125 do not apply to an earnings withholding order for taxes or for support. The Judicial Council shall prescribe the form and contents of withholding orders for taxes or for support.

Comment. Although the information listed in Section 723.125 will be necessary in an earnings withholding order for support or taxes, such orders have special rules concerning priority, duration, and amounts that may be withheld. See Sections 723.030 and 723.031. Accordingly, the form and content of these special orders is left to determination by the Judicial Council.

§ 723.127. Employer's return

723.127. (a) The "Employer's Return" shall be executed under oath and, in addition to other matters required by rules and regulations of the State Administrator, the form for the return provided to the employer shall state all of the following information:

(1) The name and address of the person to whom the form is to be returned.

(2) A direction that the form be mailed to such person no later than 15 days after the date of service of the

earnings withholding order.

(3) The name and address of the judgment debtor and, if known, his social security number.

(b) In addition, the employer's return form shall require the employer to supply all of the following information:

(1) Whether the judgment debtor is now employed by the employer or whether the employer otherwise owes him earnings.

(2) If the judgment debtor is employed by the employer or the employer otherwise owes him earnings, the amount of his earnings for the last pay period and the length of this pay period.

(3) Whether the employer is presently required to comply with a prior earnings withholding order and, if so, the name of the judgment creditor who secured the prior order, the court which issued such order, the date it was issued, the date it was served, and the expiration date of such order.

Comment. Section 723.127 specifies the information to be included in the employer's return. The form for the return is prescribed by the Judicial Council. See Section 723.120. Although Section 723.127 requires the employer's return to be executed "under oath," this may generally be done by a statement signed under penalty of perjury. See Section 2015.5.

§ 723.128. Informational pamphlet and withholding tables

723.128. (a) The State Administrator shall prepare an informational pamphlet for employers and revise or supplement it to reflect changes in the law or rules regulating the withholding of earnings.

(b) The State Administrator shall publish the informational pamphlet and the withholding tables adopted by him pursuant to Section 723.050. He may impose a charge for copies sufficient to recover the cost of printing.

Comment. Subdivision (a) of Section 723.128 requires the preparation of an informational pamphlet that contains the information necessary so that an employer may comply with the law. The creditor provides the employer with a copy of the pamphlet with the earnings withholding order. See Section 723.107.

Subdivision (b) authorizes, but does not require, the State Administrator to recover the cost of printing informational pamphlets and withholding tables from persons required or desiring to obtain such materials.

Article 6. Administration and Enforcement

Article 6. Administration and Enforcement

§ 723.150. State Administrator

723.150. Except for those duties required of the Judicial Council, the State Administrator shall administer this chapter.

Comment. The State Administrator is the Director of Industrial Relations. See Section 723.011 (defining "State Administrator") and the Comment to that section.

§ 723.151. Rules and regulations

723.151. (a) The State Administrator, in accordance with the provisions of Chapter 4.5 (commencing with Section 11371) of Part 1 of Division 3 of Title 2 of the Government Code, shall adopt, amend, and repeal such rules and regulations as are reasonably necessary for the purpose of administering this chapter and as are not inconsistent with this chapter.

(b) The State Administrator shall prescribe by regulation the pay period or periods to which various forms of compensation, such as commissions, bonuses, retroactive pay increases, and the like, are to be allocated and the method of computing the amount to be withheld from such forms of compensation under Section 723.050.

Comment. Section 723.151 requires that rules and regulations be adopted, amended, and repealed in accord with the Administrative Procedure Act. Such rules include specific requirements regarding the treatment of various forms of "back pay." See subdivision (b).

§ 723.152. Liaison with federal administrator

723.152. The State Administrator may perform all acts required by the Administrator of the Wage and Hour Division of the United States Department of Labor as conditions to exemption of this state from the earnings garnishment provisions of the Consumer Credit Protection Act of 1968 (15 U.S.C. Secs. 1671-1677), including, but not limited to:

(a) Representing and acting on behalf of the state in relation to the Administrator of the Wage and Hour Division and his representatives with regard to any matter relating to, or arising out of, the application, interpretation, and enforcement of the laws of this state regulating withholding of earnings.

(b) Submitting to the Administrator of the Wage and Hour Division in duplicate and on a current basis, a certified copy of every statute of this state affecting

earnings withholding, and a certified copy of any decision in any case involving any of those statutes, made by the Supreme Court of this state.

(c) Submitting to the Administrator of the Wage and Hour Division any information relating to the enforcement of earnings withholding laws of this state which he may request.

Comment. Section 723.152 authorizes the State Administrator to do whatever is required by the federal administrator to obtain and maintain a state exemption from the earnings garnishment provisions of the Consumer Credit Protection Act. A similarly broad grant of power as that contained in the first paragraph of Section 723.152 is found in Government Code Section 25210 (county participation in Economic Opportunity Act of 1964). Subdivisions (a), (b), and (c) are based on the language of 29 Code of Federal Regulations Section 870.55(a), requiring the State Administrator to act as liaison with the federal administrator. m/

§ 723.153. Enforcement of orders

723.153. Any order of the court made pursuant to this chapter may be enforced by the court by contempt or other appropriate order.

Comment. Section 723.153 makes clear the power of the court to compel obedience to its orders. See Sections 128 and 1209(5). See generally Part 3, Title 5 (Sections 1209-1222).

§ 723.154. Fraudulent withholding by employer

723.154. If an employer withholds earnings pursuant to this chapter and, with the intent to defraud either the judgment creditor or the judgment debtor, fails to pay such withheld earnings over to the judgment creditor, the employer is guilty of a misdemeanor.

Comment. Section 723.154 is based on Labor Code Section 227 (failure to make agreed payments to health, welfare, or similar fund).

§ 723.155. Employer not to defer or accelerate payment of earnings

723.155. No employer shall defer or accelerate any payment of earnings to an employee with the intent to defeat or diminish the satisfaction of a judgment pursuant to the procedures provided by this chapter.

Comment. Section 723.155 simply makes clear that an employer may neither defer nor accelerate payment of earnings to an employee in an attempt to avoid compliance with an earnings withholding order.

§ 723.156. Remedies of judgment creditor

723.156. (a) If an employer fails to withhold or to pay over the amount he is required to withhold and pay over pursuant to this chapter, the judgment creditor may bring a civil action against such employer to recover such amount.

(b) Notwithstanding subdivision (a), an employer who complies with any written order or written notice which purports to be given or served in accordance with the provisions of this chapter is not subject to any civil or criminal liability for such compliance unless he has actively participated in a fraud.

**Comment.** Section 723.156 authorizes suit by a creditor against an employer both where the employer fails to withhold properly and where he fails to pay over amounts withheld. This remedy is independent of the procedure provided in Chapter 2 (Sections 717-723) of this part, and Section 723.156 makes clear that supplemental proceedings under Chapter 2 are not a prerequisite to suit by the creditor against the employer.

Whether or not the court can order the employer to withhold and pay over in a Chapter 2 proceeding is a matter not dealt with in the Employees' Earnings Protection Law.

Of course, in addition to the remedy Section 723.156 provides to the judgment creditor, the court has the power to compel obedience to its orders through exercise of the contempt power. See Section 723.153 and Comment thereto.

Subdivision (b), however, makes clear that an employer is protected from liability where he complies with an order or written notice which appears proper on its face. Occasionally, through mistake, inadvertence, or even deliberate misconduct, an employer may be sent an order or notice which appears valid but which has been improperly obtained or served. For example, a creditor may violate the 10-day moratorium on service of a second earnings withholding order. See Section 723.109 and Comment thereto. The employer is not required in such circumstances to go beyond the document itself and is not subject to liability where he complies with its directions and is not actively participating in a fraud. The remedy of the injured party in such a case is to proceed against the person who sent the improperly obtained or falsified document.

This section also makes clear that, where an employer is complying with a prior order, he is not liable for failing to comply with a subsequent valid order—even though the prior order is in fact invalid—unless he is actively participating in a fraud.

#### § 723.157. Fees of clerk

723.157. The fee for filing an application for an earnings withholding order under Section 723.102 is two dollars (\$2). No other filing fees may be charged under this chapter.

#### Financial Code

#### § 15406 (repealed)

SEC. 13. Section 15406 of the Financial Code is repealed.

~~15406. The shares and certificates for funds received of~~

members of any credit union and all the accumulation on such shares and certificates are exempt from sale on execution and proceedings supplementary thereto, to the amount of one thousand five hundred dollars (\$1,500). The procedure set forth in Section 690.50 of the Code of Civil Procedure shall be followed in claiming the exemption from execution pursuant to this section.

Comment. Section 15406 is superseded by the provisions of Section 690.7 of the Code of Civil Procedure. See Section 690.7 and Comment thereto.

## Labor Code

### § 300 (amended). Wage assignments

SEC. 14. Section 300 of the Labor Code is amended to read:

300. (a) *As used in this section, the phrase "assignment of wages" includes the sale or assignment of, or giving of an order for, wages or salary.*

(b) *No assignment of, or order for wages or salary, earned or to be earned, shall be valid unless all of the following conditions are satisfied:*

~~(a)~~ *Such (1) The assignment is contained in a separate written instrument, signed by the person by whom the said wages or salary have been earned or are to be earned, and identifying specifically the transaction to which the assignment relates; and.*

~~(b)~~ *(2) Where such the assignment of, or order for wages or salary is made by a married person, the written consent of the husband or wife spouse of the person making such the assignment or order is attached to such the assignment or order; and. No such consent is required of any married person (i) after the rendition of a judgment decreeing his legal separation from his spouse or (ii) if the married person and his spouse are living separate and apart after the rendition of an interlocutory judgment of dissolution of their marriage, if a written statement by the person making the assignment, setting forth such facts, is attached to or included in the assignment.*

~~(c)~~ *(3) Where such the assignment or order for wages or salary is made by a minor, the written consent of a parent or guardian of such the minor is attached to such order or the assignment; and.*

~~(d)~~ *(4) Where such the assignment of or order for wages or salary is made by a person who is unmarried or who is an adult or who is both unmarried and adult, a written statement by the person making such the assignment or order, setting forth such facts, is attached to or included in such the assignment or order;.*

~~(e)~~ (5) No other assignment ~~or order~~ exists in connection with the same transaction or series of transactions and a written statement by the person making such ~~the~~ assignment ~~or order~~ to that effect; is attached thereto ~~to~~ or included therein; ~~and in the assignment.~~

~~(f)~~ (6) A copy of ~~such an~~ the assignment ~~or order~~ and of the written statement provided for in ~~subdivision (d)~~ hereof *paragraphs 1, 2, 4, and 5*, authenticated by a notary public, shall ~~have been~~ *is* filed with the employer, accompanied by an itemized statement of the amount then due to the assignee; .

(2), (4), and  
(5)

(7) ~~provided;~~ that at such time *At the time the assignment is filed with the employer,* no other assignment ~~or order~~ for the payment of any wages ~~or salary of the employee~~ is subject to payment; and no attachment ~~or levy on execution earnings withholding order~~ against ~~said his~~ wages or salary is in force. Any valid assignment, when filed in accordance with the provisions contained herein, shall have priority with respect to any subsequently filed assignment ~~or order~~ or subsequent attachment ~~or levy on execution.~~ Any power of attorney to assign or collect wages or salary shall be revocable at any time by the maker thereof.

(c) A valid assignment of wages in effect at the time an earnings withholding order is served suspends the operation of the earnings withholding order until after the end of the pay period during which the earnings withholding order is served. Thereafter the employer

shall withhold from the employee's wages or salary pursuant to the earnings withholding order without regard to whether the assignment remains in effect.

No assignment of, or order for wages or salary shall be valid unless at the time of the making thereof, such wages or salary have been earned, except for the necessities of life and then only to the person or persons furnishing such necessities of life directly and then only for the amount needed to furnish such necessities.

(d) Under any assignment of, or order for wages or salary to be earned, a sum not to exceed 50 per centum of the assignor's wages or salary; and not to exceed 25 per centum of the assignor's wages or salary, upon the showing that such wages or salary are necessary for the support of his mother, father, spouse, children or other members of his family, residing in this State and supported in whole or in part by his labor, shall be withheld by, and be collectible from, the assignor's employer at the time of each payment of such wages or salary.

(e) The employer ~~shall be~~ *is* entitled to rely upon the statements of fact in the written statement provided for in ~~subdivisions (d) and (e) hereof~~ *paragraphs (2), (4), and (5) of subdivision (b)*, without the necessity of inquiring into the truth thereof, and the employer shall incur no liability whatsoever by reason of any payments made by him to an assignee under any assignment ~~or order~~, in reliance upon the facts so stated.

(f) *An assignment of wages to be earned is revocable at any time by the maker thereof. Any power of attorney to assign or collect wages or salary is revocable at any time by the maker thereof. No revocation of such an assignment or power of attorney is effective as to the employer until he receives written notice of revocation from the maker.*

(g) No assignment of ~~or order for~~ wages ~~or salary~~, earned or to be earned, ~~shall be~~ *is* valid under any circumstances; if the wages or salary earned or to be earned are paid under a plan for payment at a central place or places established under the provisions of Section 204a ~~of this code~~.

(h) This section ~~shall~~ *does* not apply to deductions which the employer may be requested by the employee to make for the payment of life, retirement, disability or unemployment insurance premiums, for the payment of taxes owing from the employee, for contribution to funds, plans or systems providing for death, retirement, disability, unemployment, or other benefits, for the payment for goods or services furnished by the employer to the employee or his family at the request of the employee, or for charitable, educational, patriotic or similar purposes.

Comment. Section 300 is amended to make the section consistent with the Employees' Earnings Protection Law (CODE CIV. PROC. § 723.010 *et seq.*).

*Subdivision (a).* Subdivision (a) simply makes clear that the shortened phrase "assignment of wages" continues prior law as to the kind of instrument dealt with in this section.

*Subdivision (b).* Paragraphs (1) through (6) of subdivision (b) continue generally without substantive change provisions formerly contained in Section 300. A sentence has been added to paragraph (2) to provide a limited exception from the requirement of spousal consent. Paragraph (7) continues without substantive change a provision formerly contained in Section 300 except that the former reference to the attachment or levy on execution against wages or salary is replaced by a reference to an earnings withholding order to conform to the procedure provided by the Employees' Earnings Protection Law, and the former reference to priority of wage assignments has been superseded by paragraph (7) and subdivision (c).

*Subdivision (c).* Subdivision (c) clarifies the relationship between a valid wage assignment and a subsequently served earnings withholding order. Where a wage assignment is in effect and an earnings withholding order is served, the employer shall not withhold pursuant to the order until after

the end of the pay period during which the order was served. Thus, the wage assignment is, in effect, given an exclusive preference for that pay period and the debtor is given an opportunity to put his affairs in order. Such action may include revoking the wage assignment as to unearned wages pursuant to subdivision (f). Even where the debtor revokes the wage assignment prior to the end of the pay period (but after receipt of an earnings withholding order), the operation of the order is suspended until after the current pay period. Hence, the debtor is afforded an opportunity to retain his unearned wages for the current pay period only. After such moratorium, the earnings withholding order has a priority over the assignment and the latter remains in effect. The unlimited preference formerly given to an assignment of unearned wages or salary is not continued because this preference would permit a judgment debtor to give preference to one creditor and to defeat the claims of other creditors who seek to collect on their judgments under the Employees' Earnings Protection Law.

*Subdivision (d).* See the Comment to subdivision (f).

*Subdivision (e).* Subdivision (e) continues the substance of a provision formerly found in Section 300 and extends the scope of the former provision to cover the statement provided for in paragraph (2) of subdivision (b).

*Subdivision (f).* The first sentence of subdivision (f), which makes an assignment of unearned wages or salary revocable at any time by the maker thereof, replaces the former provision of Section 300 which invalidated an assignment of wages or salary unless such wages were earned or the assignment was for necessities or for support. The former provision also restricted the amount of unearned wages or salary that could be assigned. The former 50-percent limitation on the amount of wages or salary that can be assigned has been continued in subdivision (d). The former 25-percent "hardship" limitation has not been continued because subdivision (f) permits the person making the assignment of wages or salary to be earned to revoke the assignment at any time. Thus, where an assignment becomes too onerous, especially after service of an earnings withholding order, the assignment may be revoked. The delayed preference given the earnings withholding order under subdivision (c) will generally require persons having judgments, including support orders, to use the procedure provided in the Employees' Earnings Protection Law—rather than Section 300—to enforce their judgments; but it avoids conflict between wage assignments and orders issued pursuant to the Employees' Earnings Protection Law.

*Subdivisions (g) and (h).* Subdivisions (g) and (h) continue without substantive change provisions formerly contained in Section 300. Other statutes may authorize deductions from employees' wages or salary without compliance with this section. *E.g.*, GOVT. CODE §§ 1158, 12420, 13922, 20135. It should be noted that the inapplicability of Section 300 to the deductions referred to in subdivision (h) means not only that compliance with the formalities and limitations provided in Section 300 is not required but also that Section 300 provides no special preferences for such deductions.

§ 2929 (amended). Discharge from employment because of wage garnishment

SEC. 15. Section 2929 of the Labor Code is amended to read:

2929. (a) As used in this section:

(1) "Garnishment" means any judicial procedure through which the wages of an employee are required to be withheld for the payment of any debt.

(2) "Wages" has the same meaning as that term has under Section 200.

(b) No employer may discharge any employee by reason of the fact that the garnishment of his wages has been threatened.

(c) No employer may discharge any employee by reason of the fact that his wages have been subjected to garnishment for the payment of one judgment.

*(d) No employer may discharge any employee by reason of the fact that his wages have been subjected to garnishment pursuant to Section 723.030 of the Code of Civil Procedure (support order), and the fact that an employee's wages have been subjected to garnishment pursuant to that section shall not be counted for the purposes of subdivision (c).*

(e) A provision of a contract of employment that provides an employee with less protection than is provided by ~~this subdivision~~ subdivisions (b), (c), and (d) is against public policy and void.

~~(e)~~

(f) Unless the employee has greater rights under the contract of employment, the wages of an employee who is discharged in violation of this section shall continue until reinstatement notwithstanding such discharge, but such wages shall not continue for more than 30 days and shall not exceed the amount of wages earned during the 30 calendar days immediately preceding the date of the levy of execution upon the employee's wages which resulted in his discharge. The employee shall give notice to his employer of his intention to make a wage claim under this subdivision within 30 days after being discharged; and, if he desires to have the Labor Commissioner take an assignment of his wage claim, the employee shall file a wage claim with the Labor Commissioner within 60 days after being discharged. The Labor Commissioner may, in his discretion, take assignment of wage claims under this subdivision as provided for in Section 96. A discharged employee shall not be permitted to recover wages under this subdivision if a criminal prosecution based on the same discharge has been commenced for violation of

Section 304 of the Consumer Credit Protection Act of 1968 (15 U.S.C. Sec. 1674).

~~(d)~~

(g) Nothing in this section affects any other rights the employee may have against his employer.

~~(e)~~

(h) This section is intended to aid in the enforcement of the prohibition against discharge for garnishment of earnings provided in the Consumer Credit Protection Act of 1968 (15 U.S.C. Secs. 1671-1677) and shall be interpreted and applied in a manner which is consistent with the corresponding provisions of such act.

Comment. Subdivision (d) is added to Section 2929 to prohibit discharge of an employee because his wages have been subjected to garnishment pursuant to an order for support. This subdivision also makes clear that such a garnishment, even though made pursuant to a judgment, is not to be considered under subdivision (c).

### Welfare and Institutions Code

#### § 11489 (technical amendment)

SEC. 16. Section 11489 of the Welfare and Institutions Code is amended to read:

11489. After judgment in any court action brought to enforce the support obligation of an absent parent pursuant to the provisions of this chapter, ~~a writ of execution may be issued against one-half of the earnings of the absent parent due or owing for his personal services and no claim for exemption shall be effective against the enforcement of such writ of execution. the court may issue an earnings withholding order under Section 723.030 of the Code of Civil Procedure to enforce such obligation.~~

Comment. Section 11489 has been amended to conform to changes made by Chapter 2.5 (commencing with Section 723.010) of the Code of Civil Procedure. Compare Civil Code Section 4701. See also Section 723.030 of the Code of Civil Procedure and the Comment to that section.

#### Operative Date

SEC. 17. This act shall become operative on July 1, 1973, but the Director of Industrial Relations and the Judicial Council may, prior to that date, do whatever is necessary so that this act may go into effect on July 1, 1973. The Director of Industrial Relations shall publish the earnings withholding tables and informational pamphlets referred to in Section 723.128 before July 1, 1973. The Judicial Council shall prescribe by rule the necessary forms as required by Section 723.120 before July 1, 1973.

Comment. The operative date of this act is delayed until July 1, 1973, to allow sufficient time for state and local public officials and the public to become familiar with the new law and to develop the necessary forms and procedures.

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wages in supplementary proceedings without regard to the restrictions contained in section 303(a) of the Act. To hold that an employee loses the protection of the Act merely because his wages are paid by the bank deposit method of payment would completely frustrate the purposes of the Act. The credit in the bank is simply a convenient method which the employer has devised for his own convenience to facilitate payment of the wages and it should not be used to deprive the employee of his right to receive that portion of his earnings guaranteed to be exempt from garnishment under the Act. The garnishment restrictions were designed to "relieve countless debtors driven by economic depression from plunging into bankruptcy and insure a continued means of support for themselves and their families", (H. Rept. No. 1040, p. 211) and they should be construed to carry out the intent and purpose of Congress.

In numerous cases adjudicated under other State and Federal statutes, the courts, in order to effectuate the purposes of a statute, have held that exempt earnings of a debtor or other exempt funds do not lose their exempt character by being deposited in a bank account. Moreover, these cases we have found so far involve situations where the exempt funds have been voluntarily placed in a bank account by the debtor. This principle would apply a fortiori to situations where, as here, the crediting of the account is the method chosen by the employer to effectuate the payment of wages and acceptance of the plan is a condition precedent to employment. Nor do we believe that the restrictions contained in section 303(a) of the Act are limited to situations where the exempt wages are still in the hands of the employer. The restrictions apply to earnings paid or payable, and the maximum amount which may be subjected to garnishment, defined as any procedure through which the earnings are required to be withheld in payment of any debt, "may not exceed" the amounts prescribed in the Act. Certainly we should not impose upon the statute restrictions or limitations which would tend to defeat or restrict the manifest purposes of the Act.

In conclusion, we are of the opinion that the garnishment of earnings in a bank account under the circumstances of this case is an unrestricted garnishment of earnings prohibited by section 303(a) of the Act. Further, if the earnings are subjected to garnishment while in the hands of the employer or its agent, the bank, before they are credited to the employee's account the earnings are not subject to further attachment after the transfer is made.

In order to effect a remedy for this problem, we shall have one of our compliance officers contact you to investigate this matter.

Sincerely,

/s/ Horace E. Menasco

Horace E. Menasco  
Administrator