

INTER-OFFICE MEMORANDUM

Office of Accounts and Control

**TO: Chief Payroll Officers
All State Agencies**

DATE: January 7, 2013

**FROM: Louise M. Anderson
Associate Controller - Operations**

**SUBJECT: Updated Procedure for Payments to Deceased Employees
CPO 13-12**

Please follow the guidelines below for payments issued to deceased employees. Any questions, please call my office 222-2704.

For deceased Employees Paid within the calendar year of their death:

Any regular payroll check issued PRIOR to the employee's death gets processed through the payroll system as usual. If no further payments are due or payable, the deceased employee receives a non-adjusted W2 under their SS# for all payroll checks issued while the employee was living.

For any regular payroll check to be issued AFTER the date employee dies, process it through the regular payroll system but DO NOT WITHHOLD FEDERAL OR STATE INCOME TAXES. FICA and FICA HI taxes are still deducted. These payments are processed as a condition code 9.

For any unused vacation/sick time check issued AFTER the date the employee dies, process it through the regular payroll system but DO NOT WITHHOLD FEDERAL OR STATE INCOME TAXES. FICA and FICA HI taxes are still deducted. These payments are processed as a condition code 9.

Only the GROSS amount of any payroll check issued AFTER the date of death gets reduced from the W2 Box 1 wages. The GROSS amount will still appear in W2 Box 3 Social Security wages and W2 Box 5 Medicare wages.

If the estate or beneficiary requests the check be issued (or re-issued) in their name, obtain a W-9 from the estate or beneficiary. A 1099-MISC using the TIN or SS# provided will be issued for the GROSS wages.

For deceased Employees Paid AFTER the calendar year of their death:

Payments due to employees AFTER the calendar year of the employee's death should not be processed through the payroll system. No FEDERAL, STATE, OR FICA TAXES should be withheld. The payment should be made through the "vendor" payment system. Please forward the retro form to Accounts Payable, including all pertinent backup, for processing using natural account 654500. This will generate a Form 1099-MISC showing the GROSS amount of the payment due the employee in box 3. If the "vendor" check is issued in the name of the deceased employee, then issue the 1099-MISC using the deceased employee's SS#.

If the estate or beneficiary requests the check be issued (or re-issued) in their name, obtain a W-9 from the estate or beneficiary. Issue both the check and the 1099-MISC using the estate or beneficiary's TIN or SS#.

If the payment does get processed through the payroll system in error, then a W2 will be generated and taxes will be deducted. The following actions will need to be taken to correct the situation:

- Issue a W2 correction form reducing all fields to zero
- Any deductions taken need to be refunded to the deceased employee's estate/beneficiary
- Issue a 1099-MISC with the GROSS amount of the payment entered in box 3. If the gross payment is issued in the name of the deceased employee, then issue the 1099-MISC using the deceased employee's SS#. If the estate or beneficiary requests the check be issued (or re-issued) in their name, obtain a W-9 from the estate or beneficiary. Issue both the check and the 1099-MISC using the estate or beneficiary's TIN or SS#.