

## **DECEASED EMPLOYEES: Final Pay in Escape (updated 10/2020)**

It is necessary for LEAs to use the correct process for paying and reporting compensation for deceased employees. Guidelines can be found in IRS Publication 15 and in the Instructions for Form W2

**Step 1:** HR should end the assignment as of the date of death. Make certain the employee has enough sick leave to be in paid status, or else Payroll should enter a dock.

**Step 2:** After entering the final sick leave taken, vacation pay out, etc., Payroll should adjust all leave balances to zero.

**Step 3:** Determine whether any class size overages or other stipends and/or earnings are owed.

**Step 4:** Work with HR to figure out the appropriate end dates for health benefits, dues and other deductions. Normally the deductions should end as of the last day of the month during which the employee passed away.

◇ ***Exception: CTA Dues are not taken in the month of death***

**Step 5:** Change the number of Federal and State tax exemptions to "99" so no income taxes are withheld.

**Step 6:** Review the benefit inflation and refund any additional amounts taken from the start of the fiscal year to the date of death that would have covered any future months of coverage (i.e. July and August premiums).

**Step 7:** When final payment is made AFTER the year of death:

- ◇ Do not withhold Social Security and Medicare taxes
- ◇ Do not process through payroll
- ◇ Zero out Gross Pay by using the Regular add-on to reverse compensation
- ◇ Skip Step 8 and proceed to Step 9

**Step 8:** When final payment is made in the SAME YEAR the employee passed:

- ◇ Calculate pay in Escape on the next (final) regular payroll, triggering a DNP payout if applicable

- ◇ Enter the REPAY deduction to zero out net pay
- ◇ When the regular payroll runs, the subject grosses will be correct for retirement and W2 reporting
- ◇ **EXCEPTION:** An adjustment will need to be made to Box 1 and Box 16 of the W2 to reduce FIT and SIT subject wages by the final payment amount

**Step 9: ALERT** Christy Arend in SCOE Business Services (carend@scoe.org or 524-2656) you have a deceased employee. When applicable, she will work with you to correct the Federal and State W2 boxes prior to the last payroll of the calendar year. Usually these adjustments will be done with Z-type addons.

- ◇ **NOTE: It is recommended processing the final payment through AP rather than out of the district's revolving account. However, should the district decide to pay the deceased outside of Escape, using the district's revolving account, skip steps 10 and 11. Instead you will need to manually enter the vendor and payment information for 1099 reporting at calendar year end. Put a tickler in your calendar year end 1099 file as a reminder.**

**Step 10:** When making final payment through Escape's AP, **create a NEW vendor** in accounts payable to **"The Estate of (employee)"**

- ◇ Have the family complete a W9 in order to obtain the TIN or SSN for the beneficiary or estate
  - It is best to have a Designation of Beneficiary for Pay Warrant form on file for all employees as provided by Government Code 53245:
    1. In the event of death, the employee may designate a beneficiary to receive all warrants or checks that will be payable to the employee
- ◇ Flag the vendor "Yes" for 1099
- ◇ Set the vendor (Estate or Beneficiary) to report in Box 3 of 1099.
  - **IMPORTANT:** The amount in Box 3 of the 1099 will need to be edited and changed to reflect the "gross" amount from payroll

**Step 11:** Accounts Payable creates a direct payment req to issue the warrant to the new vendor "Estate of"

- ◇ When final payment is made in the SAME YEAR the employee passed:
  - ✓ Code payment to object 9213 to clear the REPAY that was created through payroll (done in Step 8)
  - ✓ The amount of the warrant needs to be the "net" amount from the payroll calculation
  - ✓ The warrant should be issued no later than the date of the next payroll
  - ✓ Using a req will document the appropriate approvals.
  - ✓ Include a letter with the warrant explaining the pay and that they will receive both a W2 and a 1099
  
- ◇ When final payment is made AFTER the year of death code payment to object 1XXX and 2XXX
  - ✓ This warrant should be issued NO LATER than the date of the next payroll
  - ✓ Can set these objects to report in Box 3 of Form 1099 since this is the only occasion to issue AP warrants coded to these accounts
  - ✓ Include a letter with the warrant explaining the pay and that they will receive a 1099 (only)