

## **Deceased Employees: Checklist (NEW 11/2022)**

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:** The employee record will need to be updated and final compensation calculated. It is recommended to review and end tabs *left to right* in Employee Management

### **Employee Management Tabs:**

- Pay Cycle** – Should be ended the last day of the pay period
- Taxes** – Change the number of Federal and State tax exemptions to “99” so no income taxes are withheld
- Retirement** – Should be ended the last day of the month of death
- ACH** – Should be ended prior to pay date
- Deductions** – Should be ended in the current period, with the exception of Union Dues. Union dues should not be deducted in the month of death. (End union dues prior month)
- Assignment** – Must be ended effective the date of death
- Add-ons** – Review add-ons to determine if any stipends are owed
- Leaves** – Enter final leaves taken. Make certain the employee has enough sick leave to be in paid status, or else Payroll should enter a dock. Payroll should adjust leave balance to zero.
- Benefit Providers** – Determine the appropriate end date for Benefit Providers. Typically, this is the last day of the pay period which the employee passed away. 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 2:** Final Payment Adjustments in Adjust Payroll

- When final payment is made in the SAME year of death:**
  - Calculate pay in Escape on the next (final) regular payroll, triggering a DNP payout if applicable
  - Zero out Gross Pay by using the Regular Addon to reverse compensation
  - Add Z-MEDI and Z-OASDI to report Gross earnings and deductions for Medicare and OASDI if they apply (*Christy Arend and Jing Liu need to be notified anytime these Z-addons are used*)
  - Enter REPAY deduction to zero out net pay
- When final payment is made AFTER the year of death:**
  - Calculate pay in Escape on the next (final) regular payroll, triggering a DNP payout if applicable
  - Zero out Gross Pay by using the Regular Addon to reverse compensation
  - Do not** withhold Social Security and Medicare taxes
  - REPAY deduction code needed to zero out DNP if applicable

### Step 3: Create a New vendor to the Estate

- 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:
  - 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 Salary **Object Account Component** record to report in Box 3 of 1099

### Step 4: Update Department Record under **Finance – Setup – Department – Departments**

- Make sure **Account Object Code Filter** is set up to allow salary accounts (1XXX and 2XXX object codes)
- When payment is made, change settings back to exclude these objects

### Step 5: Create a Vendor Requisition

- Create vendor requisition with the Direct Payment Type to issue the warrant to the new vendor “Estate of \_\_\_\_\_(Employee name)”
- Process payment using object code 9213 for net pay and object 1XXX(certificated) or 2XXX(classified) for gross pay
- The warrant should be issued no later than the date of the next payroll

**NOTE:** It is recommended to process the final payment through AP rather than out of the district’s revolving account. However, should the district decide to pay the final payment outside of Escape, using the district’s revolving account, **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.

*Please Notify Christy Arend([Carend@scoe.org](mailto:Carend@scoe.org)) and Jing Liu([Jliu@scoe.org](mailto:Jliu@scoe.org)) if you have a deceased employee. This process affects taxes and needs to be verified before finalized in Escape.*



## Taxation of Payments after Death

### Paid in Same Year as Death

#### PAYROLL PROCESS

Social security and Medicare withheld and reported as SS/Medi wages on Employee Form W-2

Amount is not reported as federal income taxable wages

#### ACCOUNTS PAYABLE

Gross amount of payroll check is reported on Form 1099-MISC.(Box 3) of the employee's estate or to the beneficiary who received the payment

### Paid in the Next Calendar Year after Death

- No social security or Medicare tax withheld or
- No reporting on Form W-2

Gross amount of payroll check is reported on Form 1099-MISC.(Box 3) of the employee's estate or to the beneficiary who received the payment

**Make sure to get Beneficiary TIN**