

Deceased Employees: Final Pay in Escape (updated 11/2021)

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 must end the assignment effective 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 Addon to reverse compensation
- ***Skip Step 8 and proceed to Step 9***

Step 8: 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 needs to be notified anytime these Z-addons are used*)
- Enter REPAY deduction to zero out net pay
- When processing AP payment, separate Gross and Net pay and flag the salary account component as 1099 – 3(Other income)

Step 9: ALERT Christy Arend in SCOE Business Services (carend@scoe.org or 524-2656) when 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 to process 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
 - i. 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 **Salary Object Account Component** record to report in Box 3 of 1099

IMPORTANT

Go to Finance – Purchasing – Vendors

Example for creating a new vendor to the estate

Complete section 6 – Payment Information to create a 1099 Form

6 - Payment Information	
Tax on Shipping	No
W9 Required?	Yes
W9 Received Date	12/1/2021
1099 Form	0 {N/A}
1099	Yes

Go to Finance – Setup – Chart of Accounts – Account Components

Changes in Account Components are based on user permissions

- Search for Salary Object Code
- Form 1099: **3 {Other Income}**
 - This flag can be changed back after 1099s are finalized

Component Value 1100, for FY 2006 - 9999, for Component Type: Object	
Account Component	
Object	1100
Description	Teachers' Salaries - Regular
Description Short	Teachers' Salar
SACS Rollup Value	1100
Fiscal Year From	2006
Fiscal Year Thru	9999
Next Year Value	
Prior Year Value	
Org Entered	Yes
PERS Recapture Disallowed	No
Restricted	No
Note	
Form 1099	3 {Other Income}
Encumber Emp Hrly Pay	No
Fixed Asset Required	No
Fixed Asset Threshold Amount	0.00

- When final payment is made in the **SAME YEAR** the employee passed:
 - ✓ Process payment using object code 9213 for the **net pay** and object 1XXX (Certificated) or 2XXX (Classified) for the **gross pay**. (done in Step 8)
 - ✓ The warrant should be issued no later than the date of the next payroll
 - ✓ Using a requisition will document the appropriate approvals.
 - ✓ 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 both a W2 and a 1099
 - **NOTE: This has changed from prior instructions provided**
- When final payment is made **AFTER** the year of death code, process payment using object codes 1XXX (Certificated) or 2XXX (Classified)
 - ✓ This warrant should be issued NO LATER than the date of the next payroll
 - ✓ 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)



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