

Manual Updates for Deceased Employee Reporting

(See IRS Publication Instructions for Forms W-2 and W-3; Deceased Employee's Wages)

Wages that were constructively received by the employee while he or she was alive are reported on Form W-2 as any other regular wages payment, even if you may have to reissue the payment in the name of the estate or beneficiary. Procedures as follows for a payment made in the same year the employee died:

WE RECOMMEND DOING INDIVIDUAL SCREEN SHOTS OF EACH SCREEN YOU ARE WORKING IN—BOTH 'BEFORE' AND 'AFTER' SHOTS—INCLUDING BIOSCNs AND DEDSCNs

1. Enter stop dates on all voluntary deductions that should not be withheld. Check pre-paid insurance deductions to determine if a refund of deduction is required. (i.e., health insurance premiums withheld a month in advance)
2. Enter stop dates on the Ohio Tax Deductions as well as OSDI Tax Deductions.
3. Enter a stop date for the City deductions if they DO NOT tax the payment. (check with the local taxing authority on this)
4. Change the Federal Tax record to "P" (percentage) and enter 0% (zero) in the 'Tax Percent' field. This prevents Federal tax from being withheld. These payments are subject to Medicare taxes (or Social Security taxes if applicable).
5. If retirement should not be withheld from ANY of the payment, remove the retirement code from JOBSCN. (i.e., unused leave) However, if accrued wages need to be paid along with unused leave, you will need to leave the retirement code intact and pay the unused leave reimbursement as a Miscellaneous pay with no retirement withheld for that particular pay.
6. Calculate amount due to employee for most recent payroll: accrued wages (amount earned but not yet paid), unused vacation, etc.
7. Change name in BIOSCN to "Estate of....." or the beneficiary's name. Check with a Legal or Tax Advisor to be sure of the proper usage of name. *(The check will not be able to be cashed if made out to the deceased employee. If it's made out to the spouse then the spouse can cash the check. If it's made out to "Estate of....." then the compensation becomes part of the deceased's estate.)*
8. If the employee had life insurance at the time of death and the policy was valued at \$50,000 or higher, add the NC1 payment to UPDCAL.
9. Process payroll as normal.
10. After pay is complete, change name in BIOSCN back to original name. (W2 reflects the employee's name.)
11. Using the deduction screens, reduce the total gross and taxable gross wages on the Federal Tax record by the amount of the gross paid to the estate. This amount is reportable on the 1099. (Fields to change are YTD, QTD, FYTD.) The taxable gross would be the total gross minus any annuities that may have been withheld in the final payment. The taxable gross is reportable on the 1099.

12. At this point, the deduction screen for the federal tax (001) record should match the original federal tax (001) screenshot. If not, please investigate what caused the difference and correct accordingly until the two balance.
13. In USASCN/VENSCN, add a vendor payable to the estate or beneficiary* as Misc Income Vendor and set the 1099 flag to "Y". Enter the taxable gross amount paid to the estate in the YTD field.

YEAR-TO-DATE TOTALS

Calendar: _____

Fiscal : _____

Type: _ ID#: 000000000 SSN/EIN: _ Override: _

*Typically, the vendor name will be "Estate of ____" and the ID# will be the employee's SSN. In some cases, however, an attorney may specify that the final payment and 1099 go to the beneficiary (usually the spouse). In that case, you would enter the beneficiary's SSN in the ID# field.

ADDITIONAL INFORMATION:

W2PROC will flag a warning for this employee indicating total annuities do not equal total gross less taxable gross. This warning is okay and can be ignored. Attach notes to the W2REPT at year end indicating why the warning is valid, if necessary.

The total gross on QRTRPT will be short compared to the total gross from the warrant checks processed for the payrolls, by the gross paid to the estate.

IF THE PAYMENT WAS MADE AFTER THE YEAR OF DEATH, DO NOT REPORT IT ON FORM W-2 AND DO NOT WITHHOLD SOCIAL SECURITY OR MEDICARE TAXES.

Whether the payment is made in the year of death or after the year of death, you also must report it in Box 3 of Form 1099-MISC, Miscellaneous Income, for the payment to the estate or beneficiary. Use the name and taxpayer ID number (TIN) of the payment recipient on Form 1099-MISC.

NOTE: In some instances a W2 is required immediately after death or final payment. Contact the ITC before processing the W2 to verify that all software updates that affect year end processing have been made.