

Deceased Employee Final Payment

USPS-R Deceased Employee Final Payment

Wages that were constructively received by the employee while he or she was alive are reported on Form W-2 as any other regular wage payment, even if you may have to reissue the payment in the name of the estate or beneficiary. Please refer to the IRS [YYYY General Instructions for Forms W-2 and W-3](#) for further details.

Important Notes:

- If you made the payment in the same year the employee died and the employee was paying into Social Security and Medicare you must withhold Social Security and Medicare taxes on the final payment. Report the payment on the employee's Form W-2 only as Social Security and Medicare wages to ensure proper Social Security and Medicare credit is received.
- If you made the payment in the same year the employee died and the employee was paying into Medicare you must withhold Medicare taxes on the final payment. Report the payment on the employee's Form W-2 only as Medicare wages to ensure proper Medicare credit is received.
- If you made the payment after the year of death, do not report it on Form W-2, and do not withhold Social Security and 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 identification number (TIN) of the payment recipient on Form 1099-MISC.

Steps to Process the Employee's Final Payment:

1. Enter Stop dates on all voluntary Payroll Items that should not be withheld. The Stop Date entered needs to be a date prior to the Pay Date that will be used for the employee's final pay.
2. Change the Federal Payroll Item Rate Type to Percent and set the Rate to equal 0.000. This prevents Federal tax from being withheld. Adjustments to update the Total and Applicable Gross are addressed in Steps 12 and 13.
3. Enter Stop dates on the Ohio and OSDI Tax Payroll Items with a date prior to the last Pay Date ran in Payroll.
4. Enter a Stop date for the City Payroll Item if they DO NOT tax the payment. Enter a date prior to the last Pay Date ran in Payroll.
5. If retirement should not be withheld, change the Retirement Code to "None" on the Position record.
6. Calculate amount due to employee for most recent payroll. For example - accrued wages (amount earned, but not yet paid), any unused vacation, etc.
7. Change First Name field on the Employee record to "Estate of " and in the Last Name field enter in the "deceased employee's name" or change the Name fields to the Spouse's

name. You will want to check with your Legal or Tax advisor to be sure of the proper usage of name..

8. Determine whether the payment should be processed as a physical check or a direct deposit. If the payment should be processed as a physical check and the employee's Pay Distribution is set to the Type of DIRDEP or if the payment should be processed as a direct deposit and the employee's Pay Distribution is set to the Type of CHECK, choose from one of the following:
 - If the employee is currently receiving a direct deposit and need to process a physical check:
 - Go to Core>Pay Distributions - New and find the employee. Click Edit.
 - Edit the existing DIRDEP record, enter a date in the Stop Date field. The Stop Date should be a date prior to the pay date being processed. Click Save.
 - Click Add Distribution. Select CHECK as the Type, enter a Code, Percent in the Fixed or Percent field, and 100.00 in the Rate field. Click Save.
 - If the employee is currently receiving a physical check and need to process a direct deposit:
 - Go to Core>Pay Distributions - New and find the employee. Click Edit.
 - Edit the existing CHECK record, enter a date in the Stop Date field. The Stop Date should be a date prior to the pay date being processed. Click Save.
 - Click Add Distribution. Select DIRDEP as the Type, enter a Code, Percent in the Fixed or Percent field, and 100.00 in the Rate field. Click Save.
 - If the employee is being processed in a special pay by themselves and normally receive a direct deposit and a physical check is to be processed, when the 'Initialize New Payroll' option is selected the 'Ignore Direct Deposit' checkbox should be marked. No additional changes are necessary.
9. Process the payroll.
10. After pay is posted, change Name fields on Employee record back to original name.
11. In USAS-R, create a vendor payable to the 'Estate of' or the beneficiary of the deceased employee.
 - Go to Core>Vendors and click Create to create a vendor payable to the Estate of the deceased employee.
 - Under 1099 Section, set the Type 1099 field to Other Income. This will create a 1099- MISC form.
 - Under Locations, create a location for the vendor by entering the Address details.
 - Check both the PO and 1099 checkboxes so the vendor is marked as a 1099 vendor.
 - Click on 'Save" to create the vendor.
 - Create a Vendor Adjustment.
 - Select Vendor Adjustment.
 - Click Create.
 - Enter a Date, Description, and the Gross amount paid to the estate in the Amount field. If you withheld Retirement from this payment and it was

the annuitized type (590 or 591) then the 1099 should be issued for the Taxable/Applicable Gross, not the Total Gross. Check the Taxable checkbox.

- Click Post. The amount will appear in the FYTD & YTD Taxable and Total amount fields on the vendor.
 - Note: The 1099 extract amount type limit is set to \$600.00. If this amount type limit needs to be updated, go to Periodic>1099 Extracts>Amount Type Limit field.
12. Using Adjustments, enter an adjustment to reduce the total gross on the 001 Federal Payroll Item by the amount of the payment made to the estate.
- Click Create.
 - Employee - Type or use the drop down to locate the employee.
 - Payroll Item - Federal Tax, Code: 001
 - Type - Total Gross
 - Transaction Date - Enter a Transaction Date that is in the current Posting Period. Using a date within the current posting period will reduce the YTD/QTD, and FYTD Total Gross.
 - Amount - Total gross amount paid to the estate. Enter this amount as a negative value. This amount is reported on the 1099.
 - Description - Can be used for auditing purposes.
 - To Date Options - Leave all checked.
13. Using Adjustments, enter an adjustment to reduce the applicable gross on the 001 Federal Payroll Item by the amount of the payment made to the estate.
- Click Create.
 - Employee - Type or use the drop down to locate the employee.
 - Payroll Item - Federal Tax, Code: 001
 - Type - Applicable Gross
 - Transaction Date - Enter a Transaction Date that is in the current Posting Period. Using a date within the current posting period will reduce the YTD/QTD, and FYTD Total Gross.
 - Amount - Total gross amount paid to the estate. Enter this amount as a negative value. This amount is reported on the 1099.
 - Description - Can be used for auditing purposes.
 - To Date Options - Leave all checked

- W2 Report may flag a warning for this employee indicating total annuities do not equal total gross less applicable gross. Please make note of the error and it can be ignored.
- Quarter Report and W2 Report totals will not match since Quarter Report pulls it's information from Pay History and W2 Report pulls it's information from Payroll Items.
- The Total Gross on Quarter Report will be less than the Total Gross from the USAS checks processed for the payrolls. The difference should be the Gross paid 'to the estate.'
- A warning on Quarter Report will occur stating *****CALCULATED ADJUSTED GROSS DIFFERENT THAN TOTAL ADJUSTED GROSS FROM FEDERAL RECORDS*****

- Quarter Report will include this amount in the Total Gross but not in Applicable (Taxable) amount.
- Earnings Register will include this in the employee's Total Gross.
- Deceased employee's wages are to be reported to ODFJS. On the ODJFS Report and on the submission file, the QTD Gross Wages will not include the amount of the payment, but the QTD ODJFS Wages will include the amount of the payment.