

LCTCS CENTRALIZED PEOPLESOFT PAYROLL MEMORANDUM

2002-13

TO: PeopleSoft HRMS Users

FROM: Lura Kamiya
LCTCS Director of Human Resources

DATE: August 16, 2002

RE: Centralized Payroll Policy on Deceased Employee Final Payments and Tax Considerations

Wages paid on the behalf of a deceased employee follow special tax treatment and employer reporting requirements. When wages are paid after the death of an employee, regardless of when the wages were earned, the payment is taxable income to the payee (which is generally the estate of or a beneficiary of the deceased employee). Taxes withheld from such wages vary depending on the nature and timing of the payments. **Because of the tax consequences, all deceased employee final paychecks will be processed through the payroll department, with the assistance of the employee's institution.** Please use the following guidelines to ensure that the laws that govern "Deceased Employee's Payments" are adhere to:

1. Notify LCTCS Centralized Payroll as soon as possible that an employee has deceased.
2. Follow payroll's instructions on processing the final payment.
3. Update the employee record for a paper check (not direct deposit) to be processed.
4. Change the payee's name using guidelines below and PeopleSoft documentation.
(Never process final payment payable to the deceased employee.)
 - **If the gross of the final check is less than \$6,000.00 (wages plus terminal leave pay due):** The check must be made payable to a surviving spouse, major child, or the estate of the deceased employee.
 - **If the gross of the final check is more than \$6,000.00:** The first \$6,000 can be made payable to the surviving spouse or major child. Any amount over \$6,000.00 must be made payable to the estate of the deceased employee.
5. Before the release of a deceased employee's final check, the following forms must be completed. These forms, along with a copy of the check, must be sent to the LCTCS Centralized Payroll office. The institution must also notify the Department of Revenue within 10 days of the release of the funds payable to the surviving spouse or major child. See below the forms needed by LCTCS Centralized Payroll and Revenue.

Payments made to the surviving spouse or major child:

All of the forms below must be completed with the payee's name and Social Security number to ensure correct reporting. See the website listed below for the statute listing the Department of Revenue's requirements.

<http://www.legis.state.la.us/tsrs/tsrs.asp?lawbody=RS&title=9§ion=1515>

Forms: _____ **Copies Must Be Sent To:**

W-9 (Taxpayer Identification Number & Certification) available from LCTCS Centralized Payroll	LCTCS Centralized Payroll
Affidavit (LCTCSPR07)	LCTCS Centralized Payroll & Revenue
Release (LCTCSPR08)	LCTCS Centralized Payroll & Revenue
Form 1099 Request (LCTCS PR09)	LCTCS Centralized Payroll

Payments made to the Estate of deceased employee:

All of the forms below must be completed with "Estate of deceased employee's name" and the deceased employee's Social Security number or the estate's tax identification number

Forms: _____ **Copies Must Be Sent To:**

W-9 (Taxpayer Identification Number & Certification)	LCTCS Centralized Payroll & Revenue
Form 1099 Request (LCTCSPR09)	LCTCS Centralized Payroll

Note: Due to special processing requirements, it is critical that agencies work through LCTCS Centralized Payroll for these payments. All 1099's issued for payroll related reasons will be issued with the LCTCS Centralized Payroll EIN, and these will be issued by LCTCS Centralized Payroll. EINs specific to the institution are to be used for 1099's for vendors paid through accounting. **(Refer to LCTCS Centralized Payroll Memorandum # 2002-14 for 1099 requirements for interest paid to an employee as a result of backpay under a statute.)**

Tax Considerations for Payroll Processing:

- **Employee dies before cashing paycheck** – If an employee dies after receiving a paycheck but before cashing it, the employer should reissue the check to a surviving spouse, major child, or the estate of the deceased employee (based on above listed criteria) for the same net amount, since income and employment taxes were properly withheld. The wages and amounts withheld must be reported on the deceased employee's Form W-2.

Wages paid after the employee dies and in the same year – paid to the deceased employee’s estate or legal representative – not subject to federal income tax withholding. They are subject to social security, Medicare (and FUTA which is not applicable to LCTCS). Employer must report the social security and Medicare wages and the amounts withheld on the deceased employee’s Form W-2 in Boxes 3-6. The amount of taxable income should be reported only in Box 3 (other) of Form 1099-MISC in the name of the beneficiary of the payment.

Wages paid after the year of death – wages paid to the employee’s estate or legal representative after the year of death are not subject to federal income tax withholding or social security, Medicare (or FUTA which is not applicable to LCTCS). Wages should be reported only in Box 3 (other) of Form 1099-MISC in the name of the beneficiary of the payment.