USPS 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 Note-

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.

1. Enter **Stop dates** on all voluntary **Payroll Items** that should not be withheld. This should be a date prior to the next payroll date.
2. Change the **Federal** Payroll Item **Rate Type** to **Percent** and set the **Rate** to equal **0.000**. This prevents the Federal tax from being withheld.
3. Enter **Stop dates** on the **Ohio** and **OSDI Tax Payroll Items** with a date before the payroll date.
4. For State of **Indiana**, the taxes for the state of Indiana and the city of **Dearborn** in Indiana will need to be withheld.
5. Enter a **Stop date** for the **City Payroll Item** if they DO NOT tax the payment
6. If applicable, create error adjustments to refund prepaid items such as insurance premiums.
7. If retirement should not be withheld, change the **Retirement Code** to **"None"** on the **Position** record.
8. Calculate amount due to employee for most recent payroll. ie. accrued wages (amount earned but not yet paid), unused vacation, etc
9. 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.

10. 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, this will need to updated.
    1. Currently receiving a direct deposit and need to process a physical check:
        1. Go to Core>Pay Distributions - New and find the employee. Click Edit.
        2. 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.
        3. 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.
    2. Currently receiving a physical check and need to process a direct deposit:
        1. Go to Core>Pay Distributions - New and find the employee. Click Edit.
        2. 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.
        3. 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.
11. Process payroll as normal.
12. After pay is complete, change **Name** fields on **Employee** record back to original name.
13. In **USAS** go to **Core>Vendors**, create a Vendor payable to the **Estate of the deceased employee**. Be sure to fill in the 1099 information choosing the "**Other Income**" as the **1099 Type**. Under **Locations**, create a location for the vendor entering the **Address** details along with **marking both PO and 1099 boxes** so the vendor is marked as a 1099 vendor. **Click on 'Save"** to create the vendor. Next, **click on 'Vendor Adjustments' and 'create**'. Enter a **Date, Description** and the **Gross amount paid to the estate**, leaving the **Taxable Box checked** and **post the adjustment**. If annuities were withheld from the payment the 1099 should be issued for the Taxable/Applicable gross, not the Total gross. The amount will appear in the FYTD & YTD Taxable and Total amount fields on the vendor.
14. 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.
    1. Click Create.
        1. Employee - Type or use the drop down to locate the employee.
        2. Payroll Item - Federal Tax, Code: 001
        3. Type - Total Gross
        4. 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.
        5. Amount - Total gross amount paid to the estate. Enter this amount as a negative value. This amount is reported on the 1099.
        6. Description - Can be used for auditing purposes.
        7. To Date Options - Leave all checked.
15. 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.
    1. Click Create.
        1. Employee - Type or use the drop down to locate the employee.
        2. Payroll Item - Federal Tax, Code: 001
        3. Type - Applicable Gross
        4. 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.

5. Amount - Total gross amount paid to the estate. Enter this amount as a negative value. This amount is reported on the 1099.
6. Description - Can be used for auditing purposes.
7. To Date Options - Leave all checked

Notes:

1. **W2 Report** may flag a **warning** for this employee indicating total **annuities do not equal total gross less applicable gross**. This warning is Okay and can be ignored. May want to attach notes to the W2 Report at Year End indicating why the warning is valid.
2. Quarter Report and W2 Report totals will <u>not</u> match since Quarter Report pulls it's information from Pay History and W2 Report pulls it's information from Payroll Items.
3. 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.'
4. A warning on Quarter Report will occur stating ***CALCULATED ADJUSTED GROSS DIFFERENT THAN TOTAL ADJUSTED GROSS FROM FEDERAL RECORDS***
5. Quarter Report will include this amount in the Total Gross but not in Applicable (Taxable) amount.
6. **Earnings Register** will include this in the employee's Total Gross.
7. Deceased employees' wages are to be reported to ODJFS. 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.

Deceased employee's wages. If an employee dies during the year, you must report the accrued wages, vacation pay, and other compensation paid after the date of death. Also report wages that were available to the employee while he or she was alive, regardless of whether they were actually in the possession of the employee, as well as any other regular wage payment, even if you may have to reissue the payment in the name of the estate or beneficiary.

If you made the payment after the employee's death but in the same year the employee died, you must withhold social security and Medicare taxes on the payment and 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. On the employee's Form W-2, show the payment as social security wages (box 3) and Medicare wages and tips (box 5) and the social security and Medicare taxes withheld in boxes 4 and 6. Do not show the payment in box 1.

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 must also report it in box 3 of Form 1099-MISC, Miscellaneous Information, for the payment to the estate or beneficiary. Use the name and taxpayer identification number (TIN) of the payment recipient on Form 1099-MISC. However, if the payment is a reissuance of wages that were constructively received by the deceased individual while he or she was still alive, do not report it on Form 1099-MISC.

Example. Before Employee A's death on June 15, 2021, A was employed by Employer X and received $10,000 in wages on which federal income tax of $1,500 was withheld. When A died, X owed A $2,000 in wages and $1,000 in accrued vacation pay. The total of $3,000 (less the social security and Medicare taxes withheld) was paid to A's estate on July 20, 2021. Because X made the payment during the year of death, X must withhold social security and Medicare taxes on the $3,000 payment and must complete Form W-2 as follows.

- Box a— Employee A's SSN
- Box e— Employee A's name
- Box f— Employee A's address
- Box 1— 10000.00 (does not include the $3,000 accrued wages and vacation pay)
- Box 2— 1500.00
- Box 3— 13000.00 (includes the $3,000 accrued wages and vacation pay)
- Box 4— 806.00 (6.2% of the amount in box 3)
- Box 5— 13000.00 (includes the $3,000 accrued wages and vacation pay)
- Box 6— 188.50 (1.45% of the amount in box 5)

⚠ **CAUTION** *Employer X must also complete Form 1099-MISC as follows.*

- *Boxes for recipient's name, address, and TIN—the estate's or beneficiary's name, address, and TIN.*
- *Box 3: 3000.00 (Even though amounts were withheld for social security and Medicare taxes, the gross amount is reported here.)*

If Employer X made the payment after the year of death, the $3,000 would not be subject to social security and Medicare taxes and would not be shown on Form W-2. However, the employer would still file Form 1099-MISC.