1. Purpose

This procedure provides guidance for State human resource and payroll offices regarding the processing of payroll payments to deceased employees.

2. Applicability

The Internal Revenue Service has issued instructions for the handling of payroll payments to deceased employees. First, the date of death must be known to appropriately apply the following procedures. Second, please determine if there any monies owed for wages earned prior to the employee’s death and/or any monies owed for unused vacation and/or sick time.

3. Procedures for Compliance

For deceased Employees Paid within the calendar year of their death:
Any regular payroll check issued prior to the employee’s death will be processed through the payroll system as usual. If no further payments are due or payable, the deceased employee receives a non-adjusted Form W-2 under their Social Security number for all compensation paid while the employee was living.

For any regular payroll check to be issued after the date of the employee’s death, process it through the regular payroll system but DO NOT WITHHOLD FEDERAL OR STATE INCOME TAXES. FICA and FICA HI taxes are still deducted. These payments are processed as a condition code 9.

For any unused vacation/sick time payout issued after the date of the employee’s death, process it through the regular payroll system but DO NOT WITHHOLD FEDERAL OR STATE INCOME TAXES. FICA and FICA HI taxes are still deducted. These payments are processed as a condition code 9.
When any payroll check is issued after the date of the employee’s death, the total gross amount of the check will be reduced from the Form W-2 Box 1 wages, and will appear in Box 7 of Form 1099-MISC. The total gross amount of the issued check will still appear in Form W-2 Box 3, Social Security Wages, and Form W-2 Box 5, Medicare Wages.

If the estate or beneficiary requests a check to be re-issued in their name, they must submit an Affidavit of Heirs and a W-9 Form for the estate or beneficiary. A Form 1099-MISC for the gross wages of the check will be issued using the information submitted on the W-9 Form of the estate or beneficiary.

For deceased Employees Paid after the calendar year of their death:
Payments due to employees after the calendar year of the employee’s death cannot be processed through the payroll system. No FEDERAL, STATE, OR FICA TAXES should be withheld. The payment should be made through the “vendor” payment system. Forward a signed A-80 (retroactive payment form) to Accounts Payable for processing using natural account 654500. Please include all pertinent backup, including any applicable CS-5 form or retroactive payment calculation.

This process will generate a Form 1099-MISC showing the gross amount of the payment due the employee in box 3. If the “vendor” check is issued in the name of the deceased employee, then the Form 1099-MISC will be issued using the deceased employee’s Social Security number. If the estate or beneficiary requests the check be issued (or re-issued) in their name, they must submit an Affidavit of Heirs and a W-9 Form for the estate or beneficiary. Affidavit of Heirs forms may be found at http://controller.admin.ri.gov/Forms/index.php Once the affidavit and W-9 Form are received, both the check and the Form 1099-MISC will be issued using the information submitted on the W-9 Form of the estate or beneficiary.
4. Repercussions for Noncompliance

If payments due to employees after the calendar year of the employee’s death do get processed through the payroll system in error, then a Form W-2 will be erroneously generated and taxes will be wrongly deducted. The following actions will need to be taken to correct these errors:

- Issue a W-2 correction form reducing all fields to zero
- Any deductions taken from the payroll check need to be refunded to the deceased employee’s estate/beneficiary

Issue a Form 1099-MISC with the gross amount of the payment entered in box 3. If the gross payment is issued in the name of the deceased employee, then issue the Form 1099-MISC using the deceased employee’s Social Security number. If the estate or beneficiary requests the check be issued (or re-issued) in their name, they must submit an Affidavit of Heirs and a W-9 Form for the estate or beneficiary. Affidavit of Heirs forms may be found at http://controller.admin.ri.gov/Forms/index.php Once the affidavit and W-9 form are received, both the check and the Form 1099-MISC will be issued using the information submitted on the W-9 Form of the estate or beneficiary.

5. Signatures

[Signature]

State Controller          6/8/18
Date
OAC-PAYMENTS TO DECEASED EMPLOYEES

OFFICE OF ACCOUNTS & CONTROL

PROCEDURE FOR PAYMENTS TO DECEASED EMPLOYEES

POLICY P-7

Effective 2/1/2018

Director of Administration 6/8/18

Date