

TIPS & TECHNIQUES

A SFMS Desk Manual



R*STARS: PAYM.2
Revised: 05/10/07

ISSUING SURVIVOR/ESTATE PAYMENTS ON BEHALF OF DECEASED EMPLOYEES

In the event an employee dies, and wages or compensable leave payable are due to the employee, a special accounting situation occurs. IRC 31.3406 requires that the survivor or estate of a deceased employee provide a Taxpayer Identification Number (TIN) for use in reporting the income. If a TIN is not provided, the employer is required to deduct "backup withholding", federal withholding tax calculated at a rate set by the IRS. That rate is currently 28% but may change as tax rates change. Backup withholding must be deposited immediately. Agencies must make the survivor(s) and/or estate aware of the withholding requirement if they do not provide the survivor's social security number or the estate's TIN.

In order to properly pay and report the wages and leave of a deceased employee, it is critical to make appropriate entries in both the Oregon State Payroll Application (OSPA), and R*STARS. For information on coding of the employee's time and the required withholdings, consult OSP's Reference Manual, Recommended Practices, Deceased Employees. Instructions on issuing the payments and reporting the 1099-MISC form through R*STARS are included in this procedure.

ESTABLISHING PROFILES

It is necessary to establish vendor profiles that will capture the data for 1099-MISC reporting. Establish a vendor record on the 52 profile with the name, address, and social security number of each survivor, or of the estate if it applies. The vendor number for this record will be "1" followed by the survivor's social security number or the estate's tax identification number. If the recipient is an individual beneficiary, enter the name and social security number of the individual. If the recipient is the estate, enter the name and employer identification number of the estate. **Do not** establish a vendor record on the 52 profile using the deceased employee name and social security number. Use the social security name and number of the survivor(s) or the employer identification number of the estate.

- The mail code on this record must be "000", and the 1099 indicator must be "Y".
- In the VENDOR CONTACT field type "Survivor Payment".

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S052 VER 2.0	STATE OF OREGON	03/02/04 11:15 AM
LINK TO:	SYSTEMWIDE VENDOR PROFILE	PROD
VENDOR NO: 1XXXXXXXXX	NAME CONTROL:	UPDATE MAIL CODE: Y
VENDOR NAME:		
SEARCH NAMES:		
ALT VENDOR/FID:	1099 IND: Y	FEI/SSN IND: REASON CODE:
VENDOR TYPE:	OWNRSH CD: 2ND TIN NTC:	VN STATUS:
ADDRESS:		
CITY:	ST: ZIP:	CNTRY:
VENDOR CONTACT: Survivor Payment		TAX OFFSET EXMPT: N
TELEPHONE:	EXT: FAX:	HOLD RSN:
PDT: MA EMAIL:		PNI:
AGY: CONTACT:		PHONE:
		DIR DEP DATE:
W9 REQUEST DATE:	BU/WH EFF DATE:	STATUS CODE: R
EFF START DATE: 03022004	EFF END DATE:	LAST PROC DATE:
F1-HELP F3-DEL F5-NXT F6-51 F9-INT F10-SAVE F11-SAVE/CLR ENTER-INQ CLEAR-EXT		

For additional information on how to establish vendor profiles, see the procedure in the SFMS Desk Manual, R*STARS: PROF.1, "R*STARS VENDOR PROFILE MAINTENANCE" dated 10/31/02.

REPORTING WAGES

Wages paid after death, but within the same year, are not subject to FIT withholding.

- These payments are made through OSPA
- Reported on Form W2 - Payments subject to SS and HI taxes. Not WTC/FIT wages.
- Reported on Form 1099-MISC - If the gross payment is greater than or equal to \$600 or if there was any amount of backup withholding. Report the gross amount of federal wages to the beneficiary or estate in box 3. Report any amount of backup withholding in box 4.

All payments made after the year of death are reported on Form 1099-MISC only

- These payments are made through SFMA, see below
- Report the **gross** amount of federal wages as a payment to each survivor or estate in box 3.
- Report any backup withholding in box 4.
- Not subject to SS or HI taxes

ISSUING PAYMENTS AFTER THE YEAR OF DEATH

These payments are disbursed using warrants in SFMA. If remitting to an estate, the 000 mail code will be used to make the gross wages payment. If survivors are to be paid, the gross wages should be divided equally among the survivors also using the 000 mail code. The survivors or estate should be paid using comptroller object 3126 temporarily added to t-code 222 and the 000 mail codes.

FORM 1099-MISC

Form 1099-MISC must be produced for each survivor/estate that has received payment of final salary/wages greater or equal to \$600, or any payment that included backup withholding. Instructions for Form 1099-MISC states "If an employee dies during the year, you must report on Form 1099-MISC the accrued wages, vacation pay, and other compensation paid after the date of death.

If you made the **payment in the same year the employee died**, you must withhold social security and Medicare taxes on the payment and report them only as social security and Medicare wages on the employee's Form W-2 to ensure proper social security and Medicare credit is received. On Form W-2, report the final payment as social security wages (box 3) and Medicare wages and tips (box 5). Report the social security and Medicare taxes withheld in boxes 4 and 6; **do not report the final payment as wages in box 1 of Form W-2.**

In January, agencies will receive a report from OSPS for payments made for deceased employees. Agencies will review these reports and establish profiles in SFMA for the survivor/beneficiary payments issued through OSPA. Complete the 1099-MISC "Change Request Form" to manually add the payment in box #3, Other Income. Include backup withholding amounts in box #4, Federal Tax.

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. Agencies will request the final payment be made as an account payable through R*STARS. If required, R*STARS will produce Form 1099-MISC.

As part of each agency's internal procedures regarding 1099-MISC reporting, the agency's personnel responsible for 1099-MISC reporting will need to contact their agency's payroll section or personnel section to verify if any employees deceased during the year, and verify that the survivor's/estate's activity appears on the 1099-MISC worksheet. If not, they will need to establish the vendor profiles and enter journal vouchers to reclass any sums paid to survivors to appropriate vendor numbers and comptroller objects in order to capture those amounts for reporting. Additionally, agencies making such corrections will need to contact OSPS to request that they change their records for reporting to avoid double reporting these payments through both the W-2 and the 1099-MISC processes.
