



Deceased Employee Earning and Tax Treatment

Policy Area: HR/Payroll	Effective Date: 7/1/2007
Policy Sub Area: Payroll	Last Revision Date: NA
Authority: G.S. 143B-426.39 Powers and Duties of the State Controller	Policy Owner/Division: HR/Payroll

Policy

It is the policy of the State of North Carolina to comply with all applicable federal and state regulations regarding payment of deceased employees' earnings.

Wages or other taxable income of a deceased employee owed to an estate or beneficiary must be reported on Form 1099 – Misc. Report these wages in Box 3 (Other income). In addition, these payments are reportable on Form W-2 for social security (up to the maximum wage base) and Medicare taxation if paid in the year of death.

If paid in the year of death:

- 1) Federal wages are reported on Form 1099-Misc, box 3 (other income)
- 2) If subject to social security tax, the wages (box 3) and taxes withheld (box 4) are reported on Form W-2.
- 3) If subject to Medicare tax, the wages (box 5) and taxes withheld (box 6) are reported on Form W-2.

If paid in year after death:

- 1) Federal wages reported on Form 1099-Misc, box 3 (other income)
- 2) Exempt from social security withholding, no W-2 reporting
- 3) Exempt from Medicare withholding, no W-2 reporting.

If the employer has funds due the employee on the date of the employee's death and the amounts are paid in the year after the employee's death, the amount is not subject to income, social security, or Medicare tax withholding. The amount not subject to withholding is reported on Form 1099-Misc in box 3, other income.

To calculate the amount that should be reported on a 1099 Form, use the following general formula:

Total Current Earnings
Less: Pre-tax Deductions
1099 amount

The above formula is verified by using the last remuneration statement to calculate the following:

YTD Social Security Wages

Less: *YTD Federal Wages*

Less: *YTD Deferred Tax items (e.g. TSERS, 401K, 457)*

Less: *Other or Overpayment Deductions*

1099 amount (should match 1099 amount calculated in first example above)

It is further tested by using the following formula:

Last remuneration statement before Date of Death action was keyed

Less: *Last remuneration statement of the year YTD Federal State Taxable Wages*

\$0.00 (should net to zero)

Form 1099-Misc. is printed from the 1099 amount obtained in the above formulas.

NC HR/Payroll System

For agencies participating in the NC HR/Payroll System run by OSC, appropriate tax reporting is handled by the OSC shared services staff for employees separated in the system by reason of death. OSC manually keys data from the NC HR/Payroll System into the North Carolina Accounting System (NCAS) to generate 1099's. There are certain requirements that have been established for this transfer of information from HR/Payroll to NCAS:

- 1099's must be submitted from OSC to the specific estate or employee addressees.
- Deceased employees are considered OSC vendors and require a separate cost distribution (company/account/center) for processing in NCAS. This information is confirmed by the OSC HR/Payroll area with the OSC Statewide Accounting Division.
- Deceased Employees are processed with the automated file sent to the IRS by OSC Model Team
- The HR/Payroll Personnel number of the deceased employee is used as the vendor number in NCAS. The social security number or tax identification number populate the fields in NCAS where social security information is required to identify the employee to the IRS.
- All deceased employees paid in the current calendar year in HR/Payroll will receive a 1099 regardless of earning amount over or under \$600.
- Payments are coded in NCAS accounts payable using the M3 code – 1099 Miscellaneous – Prizes and Awards. This code is not exclusive to deceased employee payments.

The OSC Model team publishes an annual schedule for verifying, editing, printing, and mailing of the 1099 forms.

Procedures

Accounting Guidance

None noted.

Related Documents (Memos/Forms)

Internal Revenue Service (IRS)

<http://www.irs.gov/pub/irs-pdf/i1099msc.pdf>

Revision History

Date	Version	Revision Description	Initials