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DEPT. OF
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May 26, 1989

COMPTROLLER'S MEMORANDUM NO. 1989-13

TO: Heads of Departments and Agencies

ATTN.: Fiscal Offices

FROM: Russel S. Nagata, Comptroller

SUBJECT: Post-Death Payroll Payments

In the past, with regard to final payroll payments of deceased employees' compensation, the separation of payments made after death from those made before death has not been extended throughout all our payroll records. This separation should be maintained, however, because technical reporting requirements differ, under the Internal Revenue Service's Revenue Ruling 86-109, depending upon whether payment was made before death or after death.

This memorandum is to advise all departments and agencies under our Central Payroll operation that a procedural change must be made to conform properly to technical reporting requirements. This procedural change involves two different sets of circumstances, as follows:

Situation #1: Payment Properly Processed After Death

(A) When an employing agency has been informed of an employee's death before an amount of earned compensation (e.g., overtime pay, or vacation pay) is processed for payment, the compensation must be paid by summary warrant voucher, not by payroll. From the gross amount of earned compensation, deduction must be made for retirement

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contribution (if the employee was in the contributory retirement plan) and must also be made for FICA tax (or Medicare tax, if the employee is subject only to Medicare tax) at the prescribed rates. Payee-names on the summary warrant voucher must be stated as follows:

	Amount of	Payee Name
(a)	Retirement contribution	"EMPLOYEES RETIREMENT SYSTEM"
(b)	FICA (or Medicare) tax	"DIRECTOR OF FINANCE, STATE OF HAWAII" (Note #1)
(c)	Net compensation	"ESTATE OF [employee-name]" (Note #2)

Note #1: If the amount of compensation is to be paid in the calendar year following the calendar year in which death occurred, no deduction for FICA (or Medicare) tax must be made.

Note #2: If the employee, at the time of death, had on file with the Comptroller a beneficiary designation (State Accounting Form D-90) under Sec. 79-7, H.R.S., the payee of the net compensation amount must be the designated beneficiary; therefore, it is necessary that the employing agency contact Central Payroll before payment is processed to determine whether a beneficiary designation had been filed by the employee.

(b) When any compensation under (A) is paid, the employing agency must also prepare, and process to Central Payroll, State Accounting Form D-70 (Code 1) for the purpose of entering the following into the payroll system files:

(a) FICA tax (or Medicare tax)

(b) FICA gross pay (or Medicare gross pay)

With that form, the employing agency must also submit a Treasury Deposit Receipt (State Accounting Form B-13) with the treasury warrant for the FICA (or Medicare) tax deducted. (See (A)(b) above.)

If no FICA (or Medicare) tax was deducted because the compensation was paid in the calendar year following the calendar year in which death occurred, there would be no treasury warrant for the tax, and no Form D-70 or Form B-13 would be required.

(C) If any of the compensation under (A) is charged to appropriations other than General Fund appropriations and the compensation is paid in the calendar year of death, the employing agency must also prepare, and process to Central Payroll, State Accounting Form D-71 for the purpose of charging the employer's share of FICA (or Medicare) tax.

(D) At the end of the calendar year in which the compensation under (A) is paid, the employing agency must issue a Form 1099-MISC to report the gross amount of the compensation.

(E) In any case in which compensation is in process in the payroll system at the time the employing agency learns of the death of the employee, the employing agency should immediately contact Central Payroll for stop-pay action. If there is not time for stop-pay action, instructions in Situation #2 below must be followed.

Situation #2: Payment After Death Inadvertently Made Via Payroll

(A) When an employing agency finds that it has made payment of compensation through the payroll system after the date of death, the payroll warrant must be cancelled under the usual procedure for warrant-cancellation. As soon as the payroll warrant has been cancelled, the employing agency must follow the procedure in Situation #1 above.

(B) If the employing agency does not possess the payroll warrant, every effort must be made to obtain it, as no adjustment of payment records can be made without cancellation of the warrant. If the employing agency finds that the payroll warrant has been cashed in some manner, similar effort must be made to make cash recovery, which must then be processed in the manner cash recoveries are normally processed.

(C) It is important that the above actions in Situation #2 be taken promptly. Prompt action will minimize the corrective tasks required if the calendar year closes before the cancellation or the cash recovery is accomplished. Also, prompt action will minimize the difficulties that can occur in recovering certain deductions such as those for savings bonds when the deductions have already been used for a bond purchase, and deductions such as those for garnishments involving single-case plaintiffs.

Please keep in mind that the procedural change described in this memorandum applies only to compensation payments after death. The procedural change does not apply to payroll warrants that were issued before death but that were not cashed before death. This procedural change also does not apply to adjustments made after death to deductions such as those for income taxes incorrectly withheld or those for refund of voluntary deductions.

Any staff questions related to this memorandum may be informally called to our Central Payroll staff. If more formal determinations are needed, a written request should be addressed to this office.

RUSSEL S. NAGATA
Comptroller