

Fix it fast: How to handle an uncashed paycheck

Odd as it may seem, employees do sometimes forget to cash their paychecks. That leaves you with outstanding checks on your books. *Your options:* You can either void the checks or hold them open on your books. *Hiccup:* Banks generally won't honor checks that are older than six months, so your employees won't be happy either.

VOIDS vs. HOLDS. Employees remain taxable on the money, because once you hand them their checks, they're in constructive receipt of their pay, regardless of whether the checks are cashed. By the same token, amounts on uncashed checks must be reported on employees' W-2s.

Since employees are in constructive receipt of their pay, you can't void the checks. Most payroll systems allow you to clear outstanding checks without voiding them from the payroll records.

ESCHEAT. At some point—usually one year—uncashed paychecks must be escheated to the state. From an accounting perspective, you need to move the checks from your books onto the escheatment check you send to the state. Stopping payment on the checks accomplishes that. The wage expense, tax expense, etc., must still be recorded in the company's financials, because employees were in constructive receipt of their pay. *Wrinkle:* Since the checks are older than one year, the accounting books for the period involved will be closed.

WHAT TO TELL EMPLOYEES. No bank will cash a check on which a stop payment has been placed. If employees call to complain, you must explain to them that their paychecks have been escheated to the state as unclaimed wages. Employees must now get their money back from the state treasurer. They won't be happy about it, but that's not your problem.

PAYROLL PRACTICE TIP: Once you get your monthly bank statement, reach out to employees who haven't cashed their checks. Gently remind them that the time for cashing checks is limited. For terminated employees, send certified letters to their last known address.