

# The hardest task of all: Paying deceased employees' final pay



The death toll from covid-19 has now passed 100,000. It's time to revisit a topic we always dread: paying deceased employees' final wages.

## **Pay in the proper medium**

Your first action is to end direct deposit immediately upon notification of death. Pay the final check on paper to the employee's estate or beneficiary, according to your state's law on descent and distribution. If the employee is still paid by check, the check must be returned to you and reissued to the employee's estate or beneficiary.

## **Pay the proper amount**

You need to determine what goes into and comes out of the final check. Out of the deceased employee's final regular pay, continue to deduct for all involuntary deductions (e.g., taxes and garnishments) and for all voluntary benefits (e.g., health, dental, vision, retirement).

Payouts for accrued vacation and other time off should follow company policy on final pay.

## **Withhold the proper amounts**

Odds are, the deceased employee will also be owed money for wages accrued after death and vacation time. The federal tax withholding on the final check differs, depending on when the accrued wages and other payments are paid.

Accrued wages and benefits paid in the *same* calendar year as death are exempt from income tax withholding, but subject to FICA. Accrued wages and benefits paid to the beneficiary or estate *after* the calendar year of death are exempt from all federal tax withholding.

## **Report the amounts properly**

For the year the employee died, you'll be filing both a W-2 and a 1099-MISC form. On the final W-2, report all wages up until death, as you would report them had the employee not passed away. Report accrued wages and benefits paid after the employee died *only* as FICA wages, since those were the only taxes that were taken out.

The accrued wages and benefits paid after death are also reported to the estate or beneficiary on Form 1099-MISC. To file a Form 1099-MISC, you must have the payee's correct Taxpayer Identification Number. You can solicit the TIN by sending the payee Form W-9. Be sure to include a self-addressed-stamped envelope and the name of a contact person to answer questions.

Don't want to wait until the end of the year to do this.

If you must report income in the year after the employee died, there is no withholding or W-2 reporting. All income must be reported on a Form 1099-MISC.