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TO: All State Agencies
Attention: Agency CFOs and Payroll Managers

FROM: D. Clark Partridge, State Comptroller

DATE: November 22, 2006

SUBJECT: 2006 Calendar Year-End for Payroll

It is time to once again address the end of the calendar year processing and events. In an effort to help you plan and inform your employees, we are providing the following schedule of events that will impact actions pending in payroll offices. Please review these events with appropriate personnel and share information with those that need to know.

Year-End Payroll Meeting

On November 29, 2006 the General Accounting Office will hold a meeting to discuss the year-end payroll processing. There will be two sessions, one at 9:00 AM and one at 1:30 PM. The same information will be covered in each session, so you only have to attend one. The meeting will be held in Department of Administration, Suite 300 at 100 North 15th Avenue. A meeting notice was posted on the GAO website, www.gao.state.az.us, which provided instructions on how to register for one of the sessions.

Final Pay for 2006

December 22, 2006 will be the final pay day of 2006. Employees terminating in December but not receiving their final pay until January must not be terminated in the system until after the final payment is processed into HRIS in 2007.

FICA and Medicare Deductions

Effective January 1, 2007, the maximum amount of earnings subject to FICA will increase to \$97,000, up from \$94,200 in 2006. The rate will stay the same at 6.2% for both employee and employer. As a result, the maximum yearly paid by the employee and the employer will be \$6,014. The Medicare rate will remain at 1.45% of all wages paid.

Federal Income Tax Withholding Tables

The federal income tax withholding tables will be changing in 2007. When they become available, they will be posted to the GAO website. We will distribute copies at the November 29th meeting if they are available by then.

Canceled Warrants/Overpays

Overpays and warrants to be canceled that are submitted after December 28, 2006 will require the employee to return the amounts withheld for Federal and State income taxes in addition to the net pay.

Handwrites

Handwrites issued through December 28, 2006 will be posted to the 2006 calendar year in HRIS and will be reflected on 2006 W-2s. No handwrites will be processed on Friday December 29th.

New W-4s and W-5s

A W-4 which indicated an employee is "Exempt" from paying Federal income taxes must be re-filed for each applicable employee by February 15, 2007. IRS Form W-5 for "Advanced Earned Income Credit" (EIC) filed for tax year 2006 expires on December 31, 2006. Employees eligible for EIC in tax year 2007 must re-file IRS Form W-5 with their agency payroll or personnel office. Reports listing the employees who may be impacted by these requirements will be sent electronically to agencies in the second week of December.

SECC

The new campaign contributions will start on the payday of January 5, 2007. The deductions will be taken on all 26 paydays.

Leave Roll Back

Family Sick leave balances will be reset to 40 hours prior to the January 5, 2007 payday.

The Annual leave roll back will occur on the pay period ending January 12, 2007 and will be reflected on the January 19, 2007 pay warrant. To determine if any leave is forfeited, HRIS will deduct any leave taken through January 12th and add the accrual for the pay period ending on January 12th to the employee's leave balance. Any amounts in excess of the maximum accrual for the employee's status (i.e., covered or uncovered) will be forfeited.

2006 W-2s

The 2006 W-2s will be provided by a third party contracted by the State of Arizona. All W-2s will be sent directly to each employee's home address of record on the HRIS system. It is very important that this address is correct to ensure timely delivery of the W-2 document.

HRIS Availability

In order to process year-end adjustments and transactions, HRIS availability may be affected.

Please check the HRIS homepage at <http://www.hris.state.az.us/> for updates on availability during the last week of December and the month of January.

If you have any questions about the information provided, please contact either Mike Smarik at 542-1674 or Ken Smart at 542-0370.