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MEMORANDUM

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

FROM: D. Clark Partridge, State Comptroller *D.C.P.*

DATE: November 20, 2009

SUBJECT: 2009 Calendar Year End Payroll Processing

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 23, 2009 the General Accounting Office will hold a meeting to discuss the year-end payroll processing. There will be two sessions, one at 9:30 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 at the Department of Administration, Suite 300 at 100 North 15th Avenue. A news story was recently posted on the GAO website, <http://www.gao.az.gov/news>, which provided instructions on how to register for one of the sessions.

Payroll Calendar – 27 Pays in 2009

Calendar years typically have 26 bi-weekly paydays, but 2009 will have 27. This means the extra payday could show gross wages more than an employee's annual salary on their final pay stub and federal taxable wages on the W-2 could be greater in 2009 than 2008 even with no job or pay change. It also means some deductions may be less than normal or not taken at all thus increasing the net pay on the final payday of the year. Please refer to the webstory recently published regarding the 27 pays for further details. Please encourage employees to plan accordingly.

Canceled Warrants/Overpays

Overpays and warrants to be canceled that are submitted after December 24, 2009 will require the employee to return the amounts withheld for Federal and State income taxes in addition to the net pay. Overpays and warrants to be canceled for paydays of December 4, 2009 and prior should be submitted to Central Payroll no later than December 18, 2009. Overpays and warrants to be canceled for the payday of December 18, 2009 should be submitted to GAO - Central Payroll no later than December 24, 2009.

Handwrites

Handwrites processed through December 30, 2009 will be posted to 2009 in HRIS and will be reflected on 2009 W-2s. Handwrites will not be processed on December 31, 2009.

Final Pay for 2009

December 31, 2009 will be the final payday of 2009. To ensure employees have constructive receipt of their pay in 2009, warrants for December 31, 2009 will be mailed directly from the GAO to the HRIS address of record. Please advise employees to validate that their address is correct. Employees can update their address in real time through the YES website at <http://yes.az.gov>.

New W-5s (Earned Income Credit Advance Payment Certificate)

IRS Form W-5 filed for tax year 2009 expires on December 31, 2009. Employees eligible for EIC in tax year 2010 must re-file IRS Form W-5 with their agency payroll or personnel office. The GAO will end date all expiring 2009 Forms on December 31, 2009. Agency payroll or personnel offices should begin entering the new 2010 forms after December 31st. To ensure EIC is deducted for the January 15, 2010 payday, forms need be entered prior to 2:00 PM on January 12, 2010. Reports listing the employees who may be impacted by these requirements will be sent electronically to agencies in the third week of December.

SECC

SECC deductions are only taken over 26 paydays. Since 27 paydays are scheduled in 2009, no deduction is planned for the last payday on December 31, 2009. The 2010 SECC campaign contributions will start on the payday of January 15th and the last deduction is scheduled to occur December 30, 2010.

Leave Roll Back

For calendar year 2009, excess annual leave will be calculated as follows:

- The last pay period in calendar year 2009 begins on 12/26/09 and ends on 1/8/10.
- The leave balances on pay date January 15, 2010 will reflect the deduction of any annual leave used during the 12/26/09 - 1/8/10 pay period.
- Any annual leave balances over 240 (covered employees) and 320 (uncovered employees) will be forfeited.

The accrual of annual leave for pay period 12/26/09 - 1/8/10 will NOT be included in the forfeiture. Holiday leave balances no longer have a maximum and therefore will no longer be included in the calculation of determining excess leave. Additionally, Family Sick leave balances will be reset to 40 hours prior to the January 15, 2010 payday.

New W-4s (Employee's Withholding Allowance Certificate / Exempt Status)

The 2009 IRS Form W-4 which indicated an employee is "Exempt" from paying Federal income taxes expires on February 16, 2010. Employees must file a new 2010 IRS Form W-4 to claim exempt status for the 2010 calendar year. If the employee does not provide a new Form W-4, agencies must change the tax status on PR13 to withhold tax as if the employee is Single with Zero withholding allowances. Reports listing the employees who may be impacted by these requirements will be sent electronically to agencies in the third week of December.

HRIS Availability

In order to process year-end adjustments and transactions, HRIS availability may be affected. Please check the HRIS homepage frequently at <http://www.hris.state.az.us/> for updates on availability during the December and January months.

Federal Income Tax Withholding Tables

The federal income tax withholding tables will be changing in 2010. When they become available, they will be posted to the GAO website.

FICA and Medicare Deductions

Effective January 1, 2010, the maximum amount of earnings subject to FICA will remain the same as the 2009 limit, \$106,800.00. The rate will stay the same at 6.2% for both employee and employer. As a result, the maximum yearly amount paid by the employee and the employer will be \$6,621.60 each. The Medicare rate will remain at 1.45% of all wages paid.

State Income Tax Withholding Rates

Senate Bill 1185 amended the amounts required to be withheld for Arizona withholding purposes. The new State income tax withholding rates are effective for wages paid after December 31, 2009 through June 30, 2010. Employee withholdings will be automatically converted to the new corresponding withholding rates beginning January 1, 2010. These new rates will be published to the GAO website along with the new federal rates. Other withholding tax changes by the Department of Revenue will be effective later in 2010. An updated Form A-4 with any changes will be posted when it is available by the Department of Revenue.

2009 W-2s (Wage & Tax Statement)

The 2009 W-2s will be provided by a third party contracted by the State of Arizona. All W-2s will be mailed directly to each employee's home address of record on the HRIS system. It is very important that this address be correct to ensure timely delivery of the W-2 document. Employees can update their address in real time through the YES website at <http://yes.az.gov>.

If you have any questions about the information provided, please contact Stu Wilbur at (602) 542-1674 or Tracey Cappuccio at (602) 542-6086.