

ADOA – General Accounting Office

AGENCY PAYROLL GUIDE: TAXES



TAXES

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Overview

The objective of this quick reference guide is to provide general information on the process of maintaining employee taxes in HRIS as it relates to the Agency Payroll Specialist. The guide is not intended to be all-inclusive and may not offer step-by-step instructions.

Employee deductions are odd-numbered; Employer deductions are even-numbered.

Agency Payroll Functions

1. Process employee tax withholding changes upon receipt of valid, completed forms
2. Ensure mandatory taxes are setup properly
3. Disable taxes of deceased employee

Helpful Resources and Documents

Policies

State of Arizona Accounting Manual

[SAAM 5534](#) Remote Work and Virtual Office Employees

Step by Step Training & Resources

HRIS Training- Agency Payroll Specialist [Taxes](#)

Agency Payroll Guide I.G Background & FAQs for Employees Working Outside of Arizona

Agency Payroll Guide I.B (1) [Payroll Tax Tables](#)

Forms

[A-4](#) Employee's Arizona Withholding Election

[W-4](#) Employee's Withholding Certificate

[Form GAO-75](#) Request to Work Outside of Arizona

Agency Payroll Guide IV.G. [State Tax Websites](#)

Contacts

IRS Withholding Compliance Unit (Lock-in Letters) 855-839-2235

Questions regarding working outside Arizona OutsideAZWork@azdoa.gov



Maintained by GAO Central Payroll

Tax Configuration

GAO Central Payroll maintains the HRIS tax configuration to properly calculate and withhold the following taxes:

1. Social Security and Medicare tax rates
2. MQGE tax rates
3. Federal/State tax withholding tables
4. Employee IRS Lock-in federal withholding

IRS Lock-In Letters

Tax Withholding Lock-In PR14.2 displays the withholding level for federal withholding tax for an employee for whom the State of Arizona has received a **lock-in letter** from the IRS. GAO Central Payroll maintains the entry and release of the Lock-In withholding. The lock remains in effect until released by the IRS. Employee can contact the IRS by calling 855-839-2235 weekdays between 8 a.m. and 5 p.m.

A value of **9- Lock-in** indicates no changes can be made to federal tax; employee will receive an error in Y.E.S. if the employee attempts to change the federal tax. Agency Payroll Specialists cannot make changes on PR13.1; an error message of *Cannot change; tax withholding lock in place* will display in the status bar.

The **Marital Status** and **Exempt Number** (applicable for pre 2020 lock-in) display what the IRS will allow the employee to claim. If the exemption field is blank, the employee will not be able to claim any exemptions. The employee will not be able to change their tax withholding unless they are making changes to withhold more taxes. *If an employee submits a new W-4 that results in MORE income tax withheld than the locked in withholding, send to Central.Payroll@azdoa.gov*

Agency Payroll Processing

Employee tax withholdings will default as defined by federal and state laws. An employee can change federal and Arizona tax withholdings, at any time, through the Y.E.S. website. A paper form is required to claim tax exempt, remove existing tax exempt or elect non-Arizona state tax withholdings.

An employee with an approved Form GAO-75 must complete the required state specific tax form to elect or change tax withholdings. Refer to **HRIS Training: Agency Payroll Specialist Taxes** training for detailed instructions for HRIS entry of other state tax deductions.

Tax deductions maintained by an Agency Payroll Specialist include:

1. Tax entry for an employee claiming Tax Exempt
2. Tax entry for paper tax withholding forms submitted by employee
3. Tax maintenance for a deceased employee
4. Tax entry for an employee working outside the State of Arizona

Taxes Entry Tips

- Changes to employee tax withholdings cannot be future dated
- Changes can be made to employee taxes at any time, and these changes will be reflected on the next manual payment or regular payroll
- Changes are effective in HRIS immediately
- A rehired employee must complete new tax forms to update the record in HRIS. If not, the employee must be setup to the default federal withholding rate of **Single** and no adjustments and the default State of Arizona withholding rate of 2.7% or state specific default rate.

Claiming Tax Exempt

Exempt elections expire annually. Use the **Federal Tax Exempt** and **State Tax Exempt** reports in the HRIS Data Warehouse to view employees who are claiming exempt and must submit new tax forms to claim exempt in the new calendar year. Employees must submit a paper form to their agency payroll office to start or stop exemption from federal and state tax withholdings or to claim exempt status for the new calendar year.

An employee that does not submit a form for the new calendar year must be reverted to the default withholding rates:

- Federal: Single with 0 adjustments
- Arizona: 2.7%
- Other states: reference State Tax Websites to obtain default rate

Common Tax Setup Errors

Tax Setup Error	Correction In HRIS
Can't change Federal Tax - Lock In Place	Contact GAO Central Payroll, employee has an IRS Lock-In Letter
Federal Tax Exempt Flag = B	PR13: Remove B If Exempt, indicate Y
Arizona Tax Exempt Flag = B	PR13: Remove B PR14: If Exempt enter BSI Formula 8
Federal Tax Exempt with Additional Amount	PR13: Select Federal Withholding line and Remove Additional Amount
State Tax Exempt with Additional Amount	PR13: Select state W/H Tax line and Remove Additional Amount
Additional Tax Code Invalid	PR13: Change Tax Code to 2 if employee elected an Additional Amount
	Or Remove Tax Code if the employee <u>did not</u> elect an Additional Amount
BSI Formula Invalid	PR14: Select correct Formula # per employee election
Arizona State Tax Exempt Flag = Y	PR13: Remove Y Flag
	PR14: If Exempt enter BSI Formula 8

Deceased Employee Taxes

Any wages due to a deceased employee’s beneficiary have special tax treatment. Depending on the year of death and year of payment, various taxes need to be stopped before a payment can be issued.

1. Disable taxable wage on PR13.7
2. End Date tax deductions PR15.2

	Federal & State Taxes	Social Security & Medicare	Deduction Codes to Disable & End Date
Wages paid in SAME calendar year as employee’s death	Exempt	Taxable	T101 and T201 or other state tax code(s)
Wages paid AFTER calendar year of employee’s death	Exempt	Exempt	T101, T102, T103, T104, T105 and T201 or other state tax code(s) MQGE EE: T101, T106, T107 and T201 or other state tax code(s)

Employee Working Outside of Arizona

An employee performing work outside the State of Arizona must complete and obtain all necessary approvals on a **Form GAO-75 Request to Work Outside of Arizona**. Employees in travel status performing work out-of-state have received authorization by the approved Form GAO-509 to travel and do not need to complete a Form GAO-75. Review SAAM 5534 Remote Work and Virtual Office Employees and Form GAO-75 FAQs for all requirements of working out of state.

Required Forms

Form GAO-75 Request to Work Outside of Arizona

The Form GAO-75 is required for an employee performing work outside of the State of Arizona. A new form will be needed if the employee requests to move to a new location (this could include city, state, county, school district, etc.).

Remove Work Agreement (RWA)

A Remote Work Agreement (RWA) is required to be renewed annually for each remote employee and must be resubmitted whenever an employee has a change in work location.

Tax Withholding Form

Employee must obtain the state specific tax withholding form directly from the state’s tax authority website. A website for each state is located in the State Tax Websites document in the Agency Payroll Guide.

If the employee does not complete a state tax form, the tax-withholding rate will default based on the state specific requirements. Taxes are calculated based on the employee’s **Home Address State** field in HRIS.

The entry of employee tax elections must be done by the Agency Payroll Specialist. Refer to **HRIS Agency Payroll Specialist – Taxes** training for detailed instructions on tax entry by state.

HRIS Fields

An employee will have out of state tax withheld based on the following fields in HRIS

1. HR11 **Outside AZ Work** = Y and
2. Home Address **State** is not AZ
3. PR13.1 or PR14.1 tax elections

Additional fields that affect pay of an out of state employee include:

4. **Pay Plan** for a non-exempt employee in a state with daily overtime

State	Pay Plan	Description
Alaska (AK)	NEAK	AK - DAILY OT
California (CA)	NECA	CA - DAILY OT
Colorado (CO)	NECO	CO - DAILY OT
Nevada (NV)	NEVA	NV - DAILY OT

In some states, an employee may be eligible for overtime under state-specific overtime eligibility requirements based on the type of job the employee is performing. If an employee is working in one of these states, further analysis will be required to determine if employee is eligible for overtime based on the position:

Kansas (KS)	Maryland (MD)	Minnesota (MN)
New York (NY)	Pennsylvania (PA)	Washington (WA)

5. **REMOTE WRK STIPEND:** Remote Work/Virtual Employees with this HR11 user field may receive additional stipends on XR30.1 based on the eligible employee group criteria defined by each agency. *Note: Agencies must submit policies to GAO for approval prior to implementing a remote work stipend.

Reports

Review the following in the HRIS Data Warehouse <https://reports.azdoa.gov/reports>

Review bi-weekly before compute:

Invalid Tax Setup Code B

DELIVERY	REPORT DETAILS	WHAT TO REVIEW
Data Warehouse	Invalid Tax Exempt flag of B on PR13.1 REQUIRES ACTION	If the employee filed a paper tax form to claim exemption from taxes, the Tax Exempt flag should be Y Yes; Exempt tax only Change the PR13.1 Tax Exm flag to Y

Invalid Tax Election PR13 Exempt with Additional Amount

DELIVERY	REPORT DETAILS	WHAT TO REVIEW
Data Warehouse	Invalid tax elections of Exempt with an Additional Withholding Amount <u>REQUIRES ACTION</u>	An election to be exempt cannot indicate an additional amount. This is an invalid combination and must be updated immediately. Contact the employee to remove the additional amount via Y.E.S. or by completing a paper tax form to remove the exemption election from PR13.1

Invalid Tax Election PR14 Exempt with Additional Amount

DELIVERY	REPORT DETAILS	WHAT TO REVIEW
Data Warehouse	Invalid tax elections of Exempt with an Additional Withholding Amount <u>REQUIRES ACTION</u>	An election to be exempt cannot indicate an additional amount. This is an invalid combination and must be updated immediately. Contact the employee to remove the additional amount via Y.E.S. or by completing a paper tax form to remove the exemption election from PR14.1

Review at calendar year end. Run reports to identify employee’s that need to submit new tax withholding forms.

Federal Tax Exempt

DELIVERY	REPORT DETAILS	ACTION TO TAKE
Data Warehouse	List of all employees claiming exempt from Federal Taxes	To remain tax exempt, employee must file a new IRS Form W-4 by mid-February every calendar year. If employees do not file a new form, you must remove the Tax Exempt flag on PR13 and change the employee’s tax withholdings to the default rate of Single with 0 exemptions by the mid-February filing deadline

State Tax Exempt

DELIVERY	REPORT DETAILS	ACTION TO TAKE
Data Warehouse	List of all employees claiming exempt from State Taxes	Arizona Employees: To remain Arizona tax exempt, employees must file a new AZ DOR Form A-4 by December 31st of every calendar year. If employees do not file a new form, you must change the employee’s tax withholdings to the default rate of 2.7% on PR14 and remove the Tax Exempt flag on PR13 by the 12/31 deadline. Non-Arizona Employees: Must submit their state specific tax form by their state’s deadline. If they do not file a new form, remove the Tax Exempt flag on PR13.

Need Assistance?

View the Central Payroll Directory [click here](#)