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MEMORANDUM

DATE: November 18, 2019

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

FROM: D. Clark Partridge, State Comptroller 

RE: 2019 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 information that will impact payroll offices. Please review this information with appropriate personnel.

Year-End Payroll Meeting

On November 25, 2019 the General Accounting Office will hold a meeting to discuss 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 Fifteenth Avenue.

Payroll Calendar – 27 Pays in 2020

Calendar years typically have 26 bi-weekly paydays, but 2020 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 2020 than 2019 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 web story recently published regarding the 27 pays for further details. Please encourage employees to plan accordingly.

Time Record Adjustments

Any time record adjustment to the current calendar year that is recovering an overpayment may be offset against other current year wages. Any adjustments for 2019 should be entered by the compute deadline on December 17, 2019. Additionally, for any time record adjustments to a prior fiscal year, if the retirement rates are different, a One Time Deduction (OTD) request for any rate differences must be submitted along with the specific pay period wage details. However, overpayments that are discovered after the calendar year has ended must be completed via a Form GAO70A and submitted to Central Payroll. Please note that these transactions are only processed by GAO Central Payroll on a quarterly basis due to W-2C reporting requirements.

Canceled Payments and Overpays

Payments to be canceled and overpayments to be recovered for payments for calendar 2019, must be submitted to Central Payroll no later than December 24, 2019. After December 24, 2019, we will not be

able to process canceled payments and overpayments in HRIS before the end of the tax year, and therefore, amounts deducted for Federal and State income taxes cannot be adjusted and will be reported with other amounts on the employee's W-2.

Final Payments in 2019

December 19, 2019 will be the final payday of 2019. Handwrites will not be available on December 31, 2019, therefore, the final cutoff for HRIS handwrites will be December 30, 2019 at Noon. Proper review of payroll transactions is always critical, but at year end even more so, because it will be the final payroll of the year included on 2019 W-2's. To ensure employees have constructive receipt of their pay in 2019, all payroll warrants not picked up from GAO (including handwrites) dated between December 24th and December 30th, 2019 will be mailed directly from the GAO to the employee's address of record in HRIS. Please advise employees to validate that their address in HRIS is correct. Employees can update their address in real time through the YES website at <http://yes.az.gov>.

HRIS Availability

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

A-4s (Arizona Withholding Percentage Election / Exempt Status)

The 2019 DOR Form A-4 which indicated an employee is "Exempt" from paying State income taxes expires on December 31, 2019. Employees must file a new 2020 DOR Form A-4 to claim exempt status for the 2020 calendar year. If the employee does not provide a new Form A-4 by December 31, 2019, agencies must change the tax status on PR14 to withhold tax at the default 2.7% (Formula 13). Reports are available in the HRIS Data Warehouse for agencies to obtain this data on-demand. Employees can be directed to www.AZDOR.gov for the new form.

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

The 2019 IRS Form W-4 which indicated an employee is "Exempt" from paying Federal income taxes expires on February 17, 2020. Employees must file a new 2020 IRS Form W-4 to claim exempt status for the 2020 calendar year. Agencies must change the tax status on PR13 to withhold tax as if the employee is Single by February 18, 2020 if they were previously exempt and if no 2020 W-4 is on file. Reports are available in the HRIS Data Warehouse for agencies to obtain this data on-demand. Employees can be directed to www.IRS.gov for the new form.

The IRS is releasing a redesigned version of Form W-4 to reduce complexity and increase transparency and accuracy of the withholding system. Withholding Allowances are no longer used on the redesigned form. Although employees are not required to submit a new 2020 Form W-4, they are encouraged to use the Tax Withholding Estimator (for their personal tax situation) on the IRS website at <https://www.irs.gov/individuals/tax-withholding-estimator>. Please note: the State, as an employer, cannot give tax advice to employees and should direct employees with questions to their personal tax advisor.

Federal and State Income Tax Withholding Tables

The GAO will post updated tax tables when new rates become available.

Social Security Tax Deductions

Effective January 1, 2020, the maximum amount of earnings subject to Social Security will increase from \$132,900 to \$137,700. The tax rate for employees and employers will be 6.2%.

Medicare Tax Deductions

Still effective since January 1, 2013, The Patient Protection and Affordable Care Act includes a provision that imposes an additional 0.9% Medicare tax on taxpayers receiving wages from their employer in excess of \$200,000 per year. Therefore, 2020 Medicare Tax will be 1.45% for the employer, and 1.45% for the employee up to \$200,000 and 2.35% for the employee on applicable wages in excess of \$200,000.

Leave Roll Back

For the payday of January 16, 2020, an employee's annual leave balance will be adjusted to show the following:

- Deduction of annual leave used during the 12/28/2019 to 1/10/2020 pay period.
- Forfeiture of any annual leave hours in excess of the maximum
 - 240 hours for covered employees and the 320 hours for uncovered employees
- Addition of annual leave accrued during the 12/28/2019 to 1/10/2020 pay period.

Holiday leave balances are not included in the calculation of determining excess leave.

Additionally, Family Sick leave balances will be reset to 40 hours for January 1, 2020.

2019 W-2s (Wage & Tax Statement)

Individuals who consent to receive their W-2 online will have advance access to their W-2 beginning in early January 2020. Mailing of any printed W-2's will not occur until close to the January 31, 2020 deadline. Please encourage employees to consider receiving their W-2 online.

To consent to getting W-2s online:

- visit <http://yes.az.gov>,
- click "Log in to YES", enter YES username (EIN) and password, click "Pay",
- click "W-2 Tax Statements", enter YES username (EIN) and password.
- If you are already authorized, on the left menu, you will see a green bar with "Authorized" above it. If not, click "Authorize Electronic W-2", then click "Agree".

Also, encourage employees to keep their mailing address current. Employees can update their address in real time through the YES website by clicking "Personal Information" and then "Address".

2019 1095-C (Employer-Provided Health Insurance Offer and Coverage) Statements

Form 1095-C includes information about health insurance coverage offered to employees. The Affordable Care Act (ACA) requires that the State must offer, to employees who work or are compensated for 30 or more hours of service, health coverage for employees and their dependents that is provided at an affordable price and meets minimum essential standards. Therefore, all State employees with benefit coverage through ADOA during 2019 will receive an IRS 1095-C Statement scheduled to be mailed by the IRS deadline of January 31, 2020. These statements will be sent independent of any W-2's.

If you have any questions about the information provided, please email Central.Payroll@azdoa.gov or contact Tracey Cappuccio at (602) 542-6086.

