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MEMORANDUM

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

FROM: D. Clark Partridge, State Comptroller

DATE: November 20, 2008

SUBJECT: 2008 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 25, 2008 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, www.gao.state.az.us/news, which provided instructions on how to register for one of the sessions.

Final Pay for 2008

December 19, 2008 will be the final payday of 2008. Employees not receiving their final pay until January must not be terminated in the system until after the final payment is processed in HRIS in 2009.

Canceled Warrants/Overpays

Overpays and warrants to be canceled that are submitted after December 26, 2008 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 5, 2008 and prior need to be submitted to Central Payroll no later than December 19, 2008. Overpays and warrants to be canceled for the payday of December 19, 2008 need to be submitted to Central Payroll no later than December 26, 2008.

Handwrites

Handwrites processed through December 30, 2008 will be posted to 2008 in HRIS and will be reflected on 2008 W-2s. Handwrites will not be processed on December 31, 2008.

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 during the month of January.

Payroll Calendar – 2009

2009 is scheduled to have 27 paydays. Calendar years typically have 26 bi-weekly paydays. However, since January 1st, 2010, which would have been a scheduled payday is also an official State Holiday, the payday has been scheduled one day earlier on Thursday, December 31, 2009, thus creating a 27th payday for 2009. The 2009 Payroll Calendar has been posted to the GAO Website.

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. 2009 SECC campaign contributions will start on the payday of January 2nd and the last deduction is scheduled to occur December 18, 2009.

Federal Income Tax Withholding Tables

The federal income tax withholding tables will be changing in 2009. When they become available, they will be posted to the GAO website. We will distribute copies at the November 25th meeting if they are available by then.

FICA and Medicare Deductions

Effective January 1, 2009, the maximum amount of earnings subject to FICA will increase to \$106,800, up from \$102,000 in 2008. 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 \$6,621.60 each. The Medicare rate will remain at 1.45% of all wages paid.

Leave Roll Back

The Annual Leave Roll Back will occur on the pay period ending January 9, 2009 and will be reflected on the January 16, 2009 pay advice. To determine if any leave is forfeited, HRIS will first deduct any leave taken through January 9th. Any amounts in excess of the maximum leave balance for the employee's status (i.e., covered or uncovered) will be forfeited.

Family Sick leave balances will be reset to 40 hours prior to the January 2, 2009 payday.

2008 W-2s (Wage & Tax Statement)

The 2008 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 be correct to ensure timely delivery of the W-2 document. Employees can update their address in real time through the YES website at www.yes.az.gov.

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

The 2008 IRS Form W-4 which indicated an employee is "Exempt" from paying Federal income taxes expires on February 16, 2009. Employees must file a new 2009 IRS Form W-4 to claim exempt status for the 2009 calendar year.

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

IRS Form W-5 filed for tax year 2008 expires on December 31, 2008. Employees eligible for EIC in tax year 2009 must re-file IRS Form W-5 with their agency payroll or personnel office. The

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GAO will end date all expiring 2008 Forms on December 19th. Agency payroll or personnel offices should begin entering the new 2009 forms after December 19th. To ensure EIC is deducted for the January 2, 2009 payday, forms need be entered prior to the December 30th compute at 2PM. Reports listing the employees who may be impacted by these requirements will be sent electronically to agencies in the second week of December.

If you have any questions about the information provided, please contact either Stu Wilbur at (602) 542-1674 or Ken Smart at (602) 542-0370 or Tracey Cappuccio at (602) 542-6086.