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MEMORANDUM

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

FROM: D. Clark Partridge, State Comptroller 

DATE: November 19, 2010

SUBJECT: 2010 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 actions pending in payroll offices. Please review this information with appropriate personnel.

Year-End Payroll Meeting

On November 22, 2010 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.

Canceled Warrants/Overpays

Overpays and warrants to be canceled for pay days of December 3, 2010 and prior should be submitted to Central Payroll no later than December 17, 2010. Overpays and warrants to be canceled for the pay day of December 17, 2010 should be submitted to GAO - Central Payroll no later than December 22, 2010. Any overpays and warrants to be canceled that are submitted after December 22, 2010 will require the employee to return the amounts withheld for Federal and State income taxes in addition to the net pay.

Handwrites

Handwrites processed through December 29, 2010 will be posted to 2010 in HRIS and will be reflected on 2010 W-2s. Handwrites will not be processed on December 30 or 31, 2010.

Final Pay for 2010

December 30, 2010 will be the final pay day of 2010. To ensure employees have constructive receipt of their pay in 2010, warrants for December 30, 2010 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>.

W-5s (Advanced Earned Income Credit)

Although the Earned Income Credit (EIC) can still be claimed on the Federal personal income tax return of eligible taxpayers, there will no longer be a program to advance it through payroll. H.R. 1586, the Education, Jobs and Medicaid Assistance Act, which was signed into law by President Obama in August, includes a provision to repeal the Advance Earned Income Tax Credit (AEITC) program effective January 1, 2011. The GAO will end date all 2010 W-5 Forms on December 30, 2010.

SECC

The 2011 SECC campaign contributions will start on the pay day of January 14, 2011 and the last deduction is scheduled to occur December 30, 2011.

Annual Leave Roll Back

For the pay day of January 14, 2011, an employee's annual leave balance will be adjusted to show the following:

- Deduction of any annual leave used during the 12/25/2010 to 1/7/2011 pay period.
- Forfeiture of any annual leave hours in excess of the 240 hours maximum for covered employees and the 320 hours for uncovered employees. This forfeiture occurs after the deduction for any leave used during the pay period, but prior to the accrual for the pay period.
- Addition of annual leave accrued during the 12/25/2010 to 1/7/2011 pay period.

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 14, 2011 pay day .

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

The 2010 IRS Form W-4 which indicated an employee is "Exempt" from paying Federal income taxes expires on February 16, 2011. Employees must file a new 2011 IRS Form W-4 to claim exempt status for the 2011 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.

A-4s (Arizona Withholding Percentage Election)

Employees not claiming State exempt do not need to submit a new A-4 unless they elect to do so. Employees can make a new election online at: <http://www.yes.az.gov>. Click "Log in to YES", enter username/password, click "Pay", click "Tax Withholding", click "State Withholding" and complete the online A-4 Form. We are expecting a change to the A-4 withholding rates for 2011 and will communicate these when the Department of Revenue makes them available.

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.hr.az.gov/hris/> 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 2011. When they become available, they will be posted to the GAO website.

FICA and Medicare Deductions

Effective January 1, 2011, the maximum amount of earnings subject to FICA will remain the same as the 2010 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.

2010 W-2s (Wage & Tax Statement)

2010 W-2s will be available online in January 2011. A new feature allows employees to electronically consent to receive their W-2 only online (and not by mail). This can save the State considerable W-2 printing and postage costs. Because W-2s will be made available electronically, mailing of any printed W-2's will not occur until close to the January 31, 2011 deadline. Please encourage employees to access to their W-2 electronically and consider consenting to only getting it online. To consent to getting W-2s online, visit <http://yes.az.gov>, click "Log in to YES", enter the YES username (EIN) and password, click "Pay", click "W-2 Tax Statements", enter the YES username (EIN) and password, 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".

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