



Janice K. Brewer  
Governor

Brian C. McNeil  
Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

### GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE • SUITE 302  
PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 • Fax: (602) 542-5749

### MEMORANDUM

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

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

**DATE:** November 14, 2012

**SUBJECT:** 2012 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 19, 2012 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 Fifteenth Avenue. A news story is posted on the GAO website, <http://www.gao.az.gov/news>, which provides instructions on how to register for one of the sessions through YES.

#### 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 2012 should be entered by the compute deadline on December 24, 2012. However, overpayments that are discovered after the calendar year has ended must be completed via a Form GAO70a and submitted to Central Payroll. This is necessary to account for different tax rates, such as the temporarily reduced employee social security rate in place during 2011 and 2012. Please note that these transactions are only processed by GAO Central Payroll on a quarterly basis due to W-2c reporting requirements. 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 details of the pay periods affected by the adjustments.

#### Canceled Payments and Overpays

Payments to be canceled and overpays to be recovered for payments on or before November 30, 2012, must be submitted to Central Payroll no later than December 3, 2012. Any additional payments to be canceled and overpays to be recovered that are made or discovered after December 3, 2012 must be submitted to Central Payroll by December 19, 2012. After December 19, 2012, because we will not be able to process in HRIS before the end of the tax

year, amounts deducted for Federal and State income taxes cannot be adjusted and will remain with other withholding on the employee's W-2.

#### December 25, 2012 Payroll Compute

This year the December 25th Christmas Holiday will fall on a payroll compute Tuesday. The last time we had a holiday compute was January 1, 2008. This was prior to travel interfaces being setup and prior to the implementation of Employee Time Entry (ETE). To address the timing and workflow issues for the December 27, 2012 payroll, the GAO will be requiring that all HRIS travel and time record interfaces that would have been normally scheduled for Monday, December 24, 2012, be moved earlier by at least 24 hours. This timing will provide agencies the ability to review error reports and prepare final adjustments to HRIS on Monday, December 24, 2012, (just like they would do on a typical compute Tuesday). Correspondingly, HRIS will be unavailable for update on Tuesday, December 25, 2012, so any transactions in HRIS prior to the Monday, December 24, 2012 at 6PM deadline will be what are processed for payroll. 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 2012 W2's.

#### Final Payments in 2012

December 27, 2012 will be the final payday of 2012. Handwrites will not be available on December 29-31, 2012, therefore, the final day for HRIS handwrites will be December 28, 2012. To ensure employees have constructive receipt of their pay in 2012, all payroll warrants (including handwrites) dated December 27 or 28, 2012 will be mailed directly from the GAO to the employee's address of record in HRIS. There will not be any agency pickup for payroll warrants. 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 direct deposit accounts should be setup in HRIS by December 18, 2012 to ensure the December 27, 2012 payment is paid electronically. The Direct Deposit transmission is scheduled to occur at its normal time.

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

The 2012 DOR Form A-4 which indicated an employee is "Exempt" from paying State income taxes expires on December 31, 2012. Employees must file a new 2013 DOR Form A-4 to claim exempt status for the 2013 calendar year. If the employee does not provide a new Form A-4 by December 31, 2012, agencies must change the tax status on PR14 to withhold tax at the default 2.7% (Formula 13). Reports listing the employees who may be impacted by these requirements will be sent electronically to agencies in the third week of December.

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

The 2012 IRS Form W-4 which indicated an employee is "Exempt" from paying Federal income taxes expires on February 18, 2013. Employees must file a new 2013 IRS Form W-4 to claim exempt status for the 2013 calendar year. If the employee does not provide a new Form W-4 by February 18, 2013, 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.hr.az.gov/hris/> for updates on availability during the December and January months.

### Social Security Tax Deductions

Effective January 1, 2013, the maximum amount of earnings subject to Social Security will increase from \$110,100.00 to \$113,700.00. The social security tax rate was reduced from 6.2% to 4.2% in 2011 and 2012 under temporary legislation that is set to expire on December 31, 2012. Therefore, unless modified by new legislation, the social security tax rate for employees will increase back to its previous level of 6.2%. The employer rate is scheduled to remain at 6.2%.

### Medicare Tax Deductions

Effective in 2013, The Patient Protection and Affordable Care Act includes a provision that imposes an additional 0.9% Medicare withholding on taxpayers receiving wages from their employer in excess of \$200,000.00 per year. Therefore, Medicare Tax will be 1.45% for the employer, and 1.45% for the employee up to \$200,000.00 and 2.35% for the employee on applicable wages in excess of \$200,000.00.

### Federal & State Income Tax Withholding Tables

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

### Annual Leave Roll Back

For the payday of January 10, 2013, an employee's annual leave balance will be adjusted to show the following:

- Deduction of any annual leave used during the 12/22/2012 to 1/4/2013 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.
- Addition of annual leave accrued during the 12/22/2012 to 1/4/2013 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 on January 1, 2013.

### 2012 W-2s (Wage & Tax Statement)

Individuals who have consented to receive their W-2 online will have advance access to their W-2 beginning in early January 2013. Employees can login and consent now to be part of the early group. Mailing of any printed W-2's will not occur until close to the January 31, 2013 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 have already authorized, you will see a green bar on the left menu with "Authorized" above it.
- If you are not already authorized, 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.