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MEMORANDUM

DATE: November 18, 2020

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

FROM: Ashley Ruiz, State Comptroller

RE: 2020 Calendar Year End Payroll Processing

It is time once again to 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 23, 2020, the General Accounting Office will hold a virtual meeting via Google Meets to discuss year-end payroll processing. There will be one session at 10:00 AM. Details will be sent to those enrolled prior to the meeting.

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 pay day of the year. Please encourage employees to plan accordingly.

Time Record Adjustments

Any time record adjustment for current calendar year wage that is recovering an overpayment may be offset against other current calendar year wages. Any adjustments for 2020 must be entered by the compute deadline on December 29, 2020. Overpayment adjustments discovered after December 29th must be completed via an Overpayment Worksheet (GAO-70A) with a personal payment from the employee.

Canceled Payments and Overpayment Worksheets

Warrant Cancellation (GAO-70) and Overpayment Worksheet (GAO-70A) to recover current calendar year 2020 payments must be submitted to Central Payroll no later than December 24, 2020. After December 24, 2020, we will not be able to process canceled payments and overpayment worksheets in HRIS before the end of the tax year, and therefore, amounts deducted for Federal and State income taxes cannot be adjusted. They will be reported with other amounts on the employee's W-2. Please note GAO Central Payroll processes overpayment worksheets (GAO-70A) as prior year adjustments on a quarterly basis due to W-2C reporting requirements.

Final Payments in 2020

December 31, 2020 will be the final payday of 2020. Handwrites will not be available on December 31, 2020, therefore, the final cutoff for HRIS handwrites will be December 30, 2020 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 2020 W-2. To ensure employees have constructive receipt of their pay in 2020, all payroll warrants dated between December 24th and December 30th, 2020 are mailed directly from the GAO to the employee's address of record in HRIS. There will be no exception for warrant PULLS. Please advise employees to validate that their address in HRIS is correct. Employees can update their address in real time through the Y.E.S. Portal website at <https://hrsystems.azdoa.gov>

HRIS Availability

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

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

The 2020 DOR Form A-4 that indicated an employee is "Exempt" from paying State income taxes expires on December 31, 2020. Employees must file a new 2021 DOR Form A-4 to claim exempt status for the 2021 calendar year. If the employee does not provide a new Form A-4 by December 31, 2020, 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. Direct employees to www.AZDOR.gov for the new form.

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

A 2020 IRS Form W-4, which indicated an employee as "Exempt" from paying Federal income taxes, expires on February 16, 2021. Employees must file a new 2021 IRS Form W-4 to claim exempt status for the 2021 calendar year. Agencies must change the tax status on PR13 to withhold tax as if the employee is Single by February 17, 2021 if they were previously exempt and if no 2021 W-4 is on file. Reports are available in the HRIS Data Warehouse for agencies to obtain this data on-demand. Direct employees to www.IRS.gov for the new form.

The IRS released a redesigned version of the Form W-4 to reduce complexity and increase transparency and accuracy of the withholding system. Although employees are not required to submit a new 2021 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/W4App>. 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, 2021, the maximum amount of earnings subject to Social Security will increase from \$137,700 to \$142,800. 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, 2021 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 14, 2021, an employee's annual leave balance will be adjusted to show the following:

- Deduction of annual leave used during the 12/26/2020 to 1/08/2021 pay period.
- Forfeiture of any annual leave hours in excess of the maximum
 - 240 hours for covered employees and 320 hours for uncovered employees
- Addition of annual leave accrued during the 12/26/2020 to 1/08/2021 pay period.

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

Additionally, on January 1, 2021, the Family Sick leave balance will be reset to 40 hours.

2020 W-2s (Wage & Tax Statement) – Consenting to Electronic Delivery & Availability

The platform that is used for W-2s, MHC, was upgraded in July with the HRIS Upgrade. Due to the upgrade from on premise to the cloud, the IRS required the State to revoke all consents to receive W-2s electronically.

In an effort to protect employee sensitive information, we recommend that individuals re-consent to receive their W-2s electronically. Additionally, those who consent to receive their W-2 online will have advance access to their W-2 beginning in early January 2021. Mailing of any printed W-2's will not occur until close to the January 31, 2021 deadline. Please encourage employees to consider receiving their W-2 online.

To consent to getting W-2s online:

- Visit <https://hrsyste.ms.azdoa.gov/>
- Click “Login” in the YES Portal section, enter YES username (yourEIN@hris.az.gov) and password, and click “Sign in”
- Click “Your Employee Services”, click “Pay”, click “W-2”, the MHC Software window displays
 - If prompted, enter YES username (yourEIN@hris.az.gov) and password
- If you have already authorized, a green “Authorized” displays under W2 in My Delivery Settings. If not, click “Authorization Required”
- Click “Print Test”
 - Printing to PDF and saving to the Desktop is ok
- Click “I Agree”
- Select Delivery Options
 - Primary email address: auto-populated from HRIS (for active employees only)
 - Secondary email address: defined by the current/former employee
- Click “Submit”

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 “Contact Information”.

2020 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 employees compensated for 30 or more hours of service, health coverage for employees and their dependents at an affordable price and meets minimum essential standards. Therefore, all State employees with benefit coverage through ADOA during 2020 are mailed an IRS 1095-C Statement by the IRS deadline of January 31, 2021. These statements are mailed independent of the W-2 document.

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