
Death of an Employee

The below information can be located on the IRS website at <https://www.irs.gov/instructions/iw2w3>

If an employee dies during the year, you must report the accrued wages, vacation pay, and other compensation paid after the date of death. Also report wages that were available to the employee while he or she was alive, regardless of whether they actually were in the possession of the employee, as well as any other regular wage payment, even if you may have to reissue the payment in the name of the estate or beneficiary.

If you made the payment after the employee's death but in the same year the employee died, you must withhold social security and Medicare taxes on the payment and report the payment on the employee's Form W-2 only as social security and Medicare wages to ensure proper social security and Medicare credit is received. On the employee's Form W-2, show the payment as social security wages (box 3) and Medicare wages and tips (box 5) and the social security and Medicare taxes withheld in boxes 4 and 6. Do not show the payment in box 1.

If you made the payment after the year of death, do not report it on Form W-2, and do not withhold social security and Medicare taxes.

Whether the payment is made in the year of death or after the year of death, you also must report it in box 3 of Form 1099-MISC, Miscellaneous Income, for the payment to the estate or beneficiary. Use the name and taxpayer identification number (TIN) of the payment recipient on Form 1099-MISC. However, if the payment is a reissuance of wages that were constructively received by the deceased individual while he or she was still alive, do not report it on Form 1099-MISC.

Example.

Before Employee A's death on June 15, 2017, A was employed by Employer X and received \$10,000 in wages on which federal income tax of \$1,500 was withheld. When A died, X owed A \$2,000 in wages and \$1,000 in accrued vacation pay. The total of \$3,000 (less the social security and Medicare taxes withheld) was paid to A's estate on July 6, 2017. Because X made the payment during the year of death, X must withhold social security and Medicare taxes on the \$3,000 payment and must complete Form W-2 as follows.

- Box a – Employee A's SSN
- Box e – Employee A's name
- Box f – Employee A's address
- Box 1 – 10000.00 (does not include the \$3,000 accrued wages and vacation pay)
- Box 2 – 1500.00
- Box 3 – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- Box 4 – 806.00 (6.2% of the amount in box 3)
- Box 5 – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- Box 6 – 188.50 (1.45% of the amount in box 5)



Employer X also must complete Form 1099-MISC as follows.

- Boxes for recipient's name, address, and TIN—the estate's name, address, and TIN.
- Box 3: 3000.00 (Even though amounts were withheld for social security and Medicare taxes, the gross amount is reported here.)

If Employer X made the payment after the year of death, the \$3,000 would not be subject to social security and Medicare taxes and would not be shown on Form W-2. However, the employer would still file Form 1099-MISC.