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STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P.O. Box 942850  
Sacramento, CA 94250-5878

DATE: December 18, 2001

PERSONNEL LETTER # 01-021

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: RALPH ZENTNER, Acting Chief  
Personnel/Payroll Operations Bureau  
State Controller's OfficeRE: **SPECIAL END OF YEAR PROCESSING FOR SEPARATION TRANSACTIONS EFFECTIVE IN  
JANUARY OF THE FOLLOWING YEAR**

This Personnel Letter provides special end of tax year processing instructions for issuing separation pay to employees separating in the following tax year. To comply with the Labor Code timely separation pay provisions, please use the revolving fund advance process (SAM Section 8595) for January pay in lieu of generating a Controller's Office payroll warrant in December for employees with separation effective dates falling within the first few days of January of the following year. In January, key enter the separation transactions and use the resulting payments to clear the revolving fund advances. Please note that the revolving fund advances must bear an issue date in January of the following year and cannot be given to employees prior to their separation effective date.

The Labor Code timely separation pay provisions have necessitated agencies/campuses to key enter separation transactions prior to the effective date of the separation. Consequently, the resulting separation payments have issue dates that are prior to the separation effective date. When a payment for a future tax year pay period separation is issued with a current year issue date, a conflict with the IRS tax reporting requirements occurs.

IRS regulations state that a taxable payment must be reported in the tax year in which the payment is received by the employee. Therefore, payments that are issued in the current tax year must be reported to IRS and must be delivered to the employee in the current tax year. Payments issued and reported in the current tax year but not received by the employee until the next tax year are in violation of the IRS tax reporting laws.

An employment history on-line audit to prevent the key entry of future year effective date separation transactions has been implemented. Audit message 210-06, Effective Date Is In A Future Year, will be issued if the year of the separation transaction effective date is greater than the year of the key entry date.

If you have any questions regarding the above, please contact:

Civil Service	Personnel Operations Telephone Liaison Civil Service Payroll	(916) 322-6500 or (916) 323-3081
CSU	Contact Your CSU Audits Representative or CSU Payroll Unit	(916) 322-7980

RZ:JLD:PMAB