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Stacy Neal  
Director

## **MEMORANDUM**

**TO:** State Agencies  
**FROM:** OA/Division of Accounting  
**DATE:** August 30, 2016  
**RE:** Settlements and Back pay of Wages

The purpose of this memo is to clarify and reinforce the proper transaction processing of payment for settlements or back pay of wages to employees.

If your department enters into an agreement to settle an employment dispute with an employee that constitutes the payment of back wages, the wages are to be paid out of the SAM II HR system and not the SAM II Financial system. Making the payment out of the SAM II HR system ensures the retirement plan is notified of the agreement in order to determine eligibility and calculate the amount of service credit the employee (current or former) is to receive.

Payment of back wages will be issued in the employee's name only and cannot be written to the employee and the employee's attorney. Back wages are taxable income and reported on a W-2 form and require the withholding of income taxes. In accordance with IRS Publication 15 regulations, *Supplemental wages are wage payment(s) to an employee that aren't regular wages. They include, but aren't limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payments for nondeductible moving expenses.* Tax withholding for supplemental wages are based on a flat tax rate.

Payment for a settlement of non-wage compensation will be issued from the SAM II Financial system and may be written to the employee, employee and the employee's attorney or to the employee's attorney only. Non-wage compensation is reported to the IRS on a 1099 tax form.

If you have any questions regarding settlement agreements or back pay of wages, please contact Curtis Forck, Central Payroll Manager, at 573-522-5863.