Section 6
Withholding Taxes (Facilitator Guide)
Table of Contents

Introduction ..... - 2 -

Topics from Content Outline ..... - 2 -

The Principle of Actual or Constructive Payment ..... - 2 -

Social Security Numbers ..... - 3 -

Employee Withholding Allowance Certificates ..... - 3 -

Regular wages ..... - 3 -

Pension and Annuity Payments ..... - 5 -

Sick Pay ..... - 5 -

Methods of Withholding Federal Income Tax ..... - 5 -

Wage Bracket Method ..... - 5 -

Percentage Method ..... - 7 -

Alternative Methods ..... - 9 -

Supplemental Wage Payments ..... - 9 -

Flat Rate Method ..... - 9 -

Aggregate Method ..... - 10 -

Backup Withholding ..... - 11 -

Social Security and Medicare Taxes ..... - 12 -

Additional Medicare Tax ..... - 12 -

Mergers & Acquisitions ..... - 15 -

Exempt Wages ..... - 15 -

State and Local Government Employees ..... - 15 -

Test Your Knowledge ..... - 16 -

Multiple Choice ..... - 16 -

Calculations ..... - 18 -

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Introduction

Welcome to Section 6 of the CPP study group. There are a few types of taxes that are required to be withheld from employee's paychecks. In this section we'll understand what those taxes are, what legislation drives those taxes, and learn how to calculate them.

Topics from Content Outline

Core Payroll Concepts
Employment Taxes
Employee/Employer Forms
Compliance
Regulatory
Record Retention
Principles of Paycheck Calculations
Compensation/Benefits
Involuntary Deductions
Employer Taxes and Contributions
Net, Disposable and Take Home Pay

The Principle of Actual or Constructive Payment

Withholding taxes are calculated based on when the wages are actually paid and now when they are earned. What does "actually paid" mean? It means that the wages have been made available to the employee.
When checks are sent through the mail, the checks are not considered paid or available when they are sent through the mail. It's not until the check is in the employee's mailbox that they are considered paid. As a result, compliance issues with wage and hour law may present itself by mailing checks to the employee's home if the employees do not actually receive the paycheck by payday.

An employer runs payroll on December 28, 2014, and issues checks for the January 5, 2015 payday. In which year is this check taxable? 2015

An employer runs payroll on December 24, 2014 for the December 29, 2014 paycheck. An employee is on vacation and is unable to cash the check until January 3, 2015. In which year is this check taxable? 2014

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Social Security Numbers

Employers use their employee's social security number (SSN) to identify them when wages are paid and taxes are withheld. If an individual does not have a SSN, what form should be completed to obtain one: SS-5

For proper reporting on Form W-2, employers must obtain each employee's name and social security number. If Form W-2 does not contain the correct name and social security number, the employer may be penalized up to how much for each incorrect W-2: $100

The Social Security Administration offers verification methods to validate an employee's name and social security number:

1. Internet – Social Security Number Verification Service (SSNVS)
    a. Verify up to 10 names and SSNs online and receive immediate results
    b. Upload a batch file up to 250,000 names and SSNs and receive results the next business day

Employee Withholding Allowance Certificates

Regular wages

Employees submit a form to employers that is used to calculate federal income tax withholding. What is the name of the form? W-4

When a form should be submitted to an employer is dependent upon the situation.

- If the employee is a new hire, the form should be submitted? immediately
- If the employee has a decrease in allowances; within how many days should an amended form be submitted? 10 Days
- If the employee has an increase in allowances, within how many days should an amended form be submitted? No Guidelines
- If the employee realizes that the exemption status is no longer valid, within how many days should an amended form be submitted? 10 Days
- If an employee does not submit Form W-4, the employer should withhold as though the employee claims? Single/0

The IRS also has guidelines regarding when a submitted Form W-4 should take effect.

- If a new hire submits Form W-4, when must the payroll department put the form into effect? Immediate, with first pay
- What do you do if the employee doesn't submit a W-4 before you run payroll for his first check? Single/0 should be entered for tax calculations until you receive the W4
- If an employee submits a revised Form W-4 when must the payroll department put the form into effect? No later than the start of the first payroll period ending on or after the 30th day from the day when you received the replacement W-4

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

What information is required to be put on Form W-4?
• Name
• Address
• Social security number
• Marital status
• Personal exemptions (allowances)
• Employee's signature and date

What other information may be included on Form W-4?
• Indicator that name differs from that on the Social Security card
• Claiming exempt from withholding
• Withholding additional $ amounts

The IRS requires employers to remind employees to file an amended Form W-4 for the next calendar year if the employer knows the allowances has changed or will change. What is the deadline for this notification? December 1

If the employee claims exempt on Form W-4, the exemptions is only valid for a certain time frame.
When does exempt Form W-4 expire? February 15 of the following year

If an employee does not provide the employer an updated Form W-4 after the deadline, how must the employer treat the employee's withholding? Begin withholding based on the last Form W-4 for the employee that did not claim an exemption from withholding or, if one was not filed, then withhold tax as if he or she is single with zero withholding allowances.

While an employer does not have responsibility for validating the accuracy of the information on Form W-4, there are certain circumstances that should prompt an employer to reject Form W-4.
• If the employee had altered the form in any way
• If the employee has indicated the form is incorrect
• If the employee is asking for a flat dollar amount or flat percentage to be withheld
• If any required elements are missing

The IRS has set different guidelines for when an employer must submit Form W-4 to the IRS:

- The IRS directs the employer to do so in a written notice, or
- The IRS directs the employer to do so in published guidance

If after being provided a copy of Form W-4 the IRS determines that it disagrees with the employee's elections, the IRS can mandate the employer change the employee's withholding election by providing the employer with what: Lock in letter

If an employee wants different withholding elections than what the IRS mandates, the employer can accept a new Form W-4 from the employee as long as the Form W-4 accomplishes what: Fewer allowances thus higher withholding

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Pension and Annuity Payments

What form must retirees submit to withhold certain amounts from pension and annuity payments: W4P (P for Pension)

Options on the form:
- Elect no income tax
- Designate a certain number of allowances to be used
- Indicate an additional dollar amount

If an employee does not submit this form, the employer should withhold as though the employee claims withholding as: married with three allowances

Sick Pay

What form should individuals who are receiving sick pay from a third party insurer submit so that withholding can occur from the sick pay payments? W4S (S for Sick)
The form indicates a flat dollar amount to be withheld.
- What is the minimum amount to be withheld each week? $20
- How much must the employee take home after withholding? $10

If an employee does not submit this form, how should the employer withhold tax? No Withholding

Methods of Withholding Federal Income Tax

If an employer chooses to do so, it can round tax withholdings to the nearest dollar. If this option is chosen, then it must be done consistently.

Basic approach to calculating federal income tax:
1. Calculate per pay period wages
2. Subtract any pre-tax or tax-deferred items
3. Locate the proper table based on tax withholding method, pay frequency and marital status
4. Calculate the tax
5. Add any additional withholding requested

Wage Bracket Method

This method is by far the easiest method to use. Someone using these tables simply needs to know:
1) Pay frequency
2) W-4 elections
3) Taxable wages

The table will give the user a flat dollar amount to withhold. A draw-back to this table is that it calculates federal income tax up to a certain dollar amount. If an employee's taxable wages exceed the dollar amounts in the table, then the user must use another method for calculating federal income tax.

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Specific steps for the wage bracket method:
1. Identify appropriate bracket based upon marital status and payroll period
2. Identify appropriate line reflecting taxable wages
3. Identify appropriate column reflecting withholding allowances
4. Value stored where column & row meet is withholding
5. Add any additional tax withholding per Form W-4

An employee earns a weekly salary of $700.00. On Form W-4, the employee claims single with four allowances. Using the wage-bracket method, calculate the amount of federal income tax withholding from the employee's biweekly paycheck.

$700 (weekly salary) * 52 =$36,400 (annual salary)
$36,400/26 (biweekly pay periods) = $1,400 (biweekly salary)

Wage Bracket Method Tables for Income Tax Withholding

SINGLE Persons—**BIWEEKLY** Payroll Period

(For Wages Paid through December 31, 2015)

And the wages are–		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
		The amount of income tax to be withheld is—										
$800	**$820**	$90	$67	$44	$26	$11	$0	$0	$0	$0	$0	$0
820	**840**	93	70	47	28	13	0	0	0	0	0	0
840	**860**	96	73	50	30	15	0	0	0	0	0	0
860	**880**	99	76	53	32	17	1	0	0	0	0	0
880	**900**	102	79	56	34	19	3	0	0	0	0	0
900	**920**	105	82	59	36	21	5	0	0	0	0	0
920	**940**	108	85	62	39	23	7	0	0	0	0	0
940	**960**	111	88	65	42	25	9	0	0	0	0	0
960	**980**	114	91	68	45	27	11	0	0	0	0	0
980	**1,000**	117	94	71	48	29	13	0	0	0	0	0
1,000	**1,020**	120	97	74	51	31	15	0	0	0	0	0
1,020	**1,040**	123	100	77	54	33	17	2	0	0	0	0
1,040	**1,060**	126	103	80	57	35	19	4	0	0	0	0
1,060	**1,080**	129	106	83	60	37	21	6	0	0	0	0
1,080	**1,100**	132	109	86	63	40	23	8	0	0	0	0
1,100	**1,120**	135	112	89	66	43	25	10	0	0	0	0
1,120	**1,140**	138	115	92	69	46	27	12	0	0	0	0
1,140	**1,160**	141	118	95	72	49	29	14	0	0	0	0
1,160	**1,180**	144	121	98	75	52	31	16	0	0	0	0
1,180	**1,200**	147	124	101	78	55	33	18	2	0	0	0
1,200	**1,220**	150	127	104	81	58	35	20	4	0	0	0
1,220	**1,240**	153	130	107	84	61	38	22	6	0	0	0
1,240	**1,260**	156	133	110	87	64	41	24	8	0	0	0
1,260	**1,280**	159	136	113	90	67	44	26	10	0	0	0
1,280	**1,300**	162	139	116	93	70	47	28	12	0	0	0
1,300	**1,320**	165	142	119	96	73	50	30	14	0	0	0
1,320	**1,340**	168	145	122	99	76	53	32	16	1	0	0
1,340	**1,360**	171	148	125	102	79	56	34	18	3	0	0
1,360	**1,380**	174	151	128	105	82	59	36	20	5	0	0
1,380	**1,400**	177	154	131	108	85	62	39	22	7	0	0
1,400	**1,420**	180	157	134	111	88	65	42	24	9	0	0
1,420	**1,440**	183	160	137	114	91	68	45	26	11	0	0
1,440	**1,460**	186	163	140	117	94	71	48	28	13	0	0
1,460	**1,480**	189	166	143	120	97	74	51	30	15	0	0
1,480	**1,500**	192	169	146	123	100	77	54	32	17	2	0
1,500	**1,520**	195	172	149	126	103	80	57	34	19	4	0
1,520	**1,540**	199	175	152	129	106	83	60	37	21	6	0
1,540	**1,560**	204	178	155	132	109	86	63	40	23	8	0
1,560	**1,580**	209	181	158	135	112	89	66	43	25	10	0
1,580	**1,600**	214	184	161	138	115	92	69	46	27	12	0
1,600	**1,620**	219	187	164	141	118	95	72	49	29	14	0
1,620	**1,640**	224	190	167	144	121	98	75	52	31	16	0
1,640	**1,660**	229	193	170	147	124	101	78	55	33	18	2

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Percentage Method

While the wage bracket method is the easier withhold method, the percentage method is the most popular. Given the flexibility of this method, computerized payroll systems also use this method. Compared to the wage bracket method, a user of this method must also know the value of withholding allowances.
Some users become intimidated by the percentage method brackets, but there's nothing really to fear about them: all you have to do is read. It actually makes more sense & becomes a little easier to handle to read the table from right to left instead of left to right.

Assume an employee has weekly wages in the amount of $500.00 and claims married with zero allowances on Form W-4. Read the table to see that the amount of the tax is 1) 15% of the amount over $520.00 plus 2) $35.50.

Specific steps for the percentage method:
1. Identify appropriate bracket based upon marital status and payroll frequency
2. Calculate value of withholding allowances
3. Calculate taxable wages (gross minus pretax or tax-deferred items)
4. Calculate the tax according to the table
5. Add any additional tax withholding per Form W-4

Example:
An employee earns a salary of $1,800.00 per week. The employee is paid semi- monthly and claims married with three allowances on Form W-4. Using the percentage method, calculate the employee's federal income tax withholding.

1. Determine Bracket: Semi-Monthly/Married
2. Value of Withholding Allowances: $166.70*3 = $500.10
3. Calculate Wages
    a. Determine semi-monthly salary:
        i. $1800*52=$93,000
        ii. $93,000/24=$3875.00
    b. Reduce salary by pretax deductions
        i. $3875.00 - $0.00 = $3875.00
    c. Reduce subject wages by allowances
        i. $3875.00- $500.10 = $3374.90 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $76.90, plus 15% of the amount over $1127.00
        ii. Convert to a word problem, solve
            1. (($3374.90 - $1127.00)*15%) + $76.90
            2. $3374.90 - $1127.00 = 2247.90
            3. $2247.90 * 15% = $337.19
            4. $*76.90 + 337.19 = 414.09*
5. Add any additional withholding requested on the W-4
    a. $414.09 + $0.00 = $414.09

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Table 5. **Percentage Method—2015 Amount for One Withholding Allowance**

Payroll Period	One Withholding Allowance
Weekly	$ 76.90
Biweekly	153.80
Semimonthly	166.70
Monthly	333.30
Quarterly	1,000.00
Semiannually	2,000.00
Annually	4,000.00
Daily or miscellaneous (each day of the payroll period)	15.40

Percentage Method Tables for Income Tax Withholding

(For Wages Paid in 2015)

TABLE 1—WEEKLY Payroll Period

(a) **SINGLE person** (including head of household)—				(b) **MARRIED person**—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over $44		$0		Not over $165		$0	
Over—	**But not over—**		**of excess over—**	**Over—**	**But not over—**		**of excess over—**
$44	—$222	$0.00 plus 10%	—$44	$165	—$520	$0.00 plus 10%	—$165
$222	—$764	$17.80 plus 15%	—$222	$520	—$1,606	$35.50 plus 15%	—$520
$764	—$1,789	$99.10 plus 25%	—$764	$1,606	—$3,073	$198.40 plus 25%	—$1,606
$1,789	—$3,685	$355.35 plus 28%	—$1,789	$3,073	—$4,597	$565.15 plus 28%	—$3,073
$3,685	—$7,958	$886.23 plus 33%	—$3,685	$4,597	—$8,079	$991.87 plus 33%	—$4,597
$7,958	—$7,990	$2,296.32 plus 35%	—$7,958	$8,079	—$9,105	$2,140.93 plus 35%	—$8,079
$7,990		$2,307.52 plus 39.6%	—$7,990	$9,105		$2,500.03 plus 39.6%	—$9,105

TABLE 2—BIWEEKLY Payroll Period

(a) **SINGLE person** (including head of household)—				(b) **MARRIED person**—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over $88		$0		Not over $331		$0	
Over—	**But not over—**		**of excess over—**	**Over—**	**But not over—**		**of excess over—**
$88	—$443	$0.00 plus 10%	—$88	$331	—$1,040	$0.00 plus 10%	—$331
$443	—$1,529	$35.50 plus 15%	—$443	$1,040	—$3,212	$70.90 plus 15%	—$1,040
$1,529	—$3,579	$198.40 plus 25%	—$1,529	$3,212	—$6,146	$396.70 plus 25%	—$3,212
$3,579	—$7,369	$710.90 plus 28%	—$3,579	$6,146	—$9,194	$1,130.20 plus 28%	—$6,146
$7,369	—$15,915	$1,772.10 plus 33%	—$7,369	$9,194	—$16,158	$1,983.64 plus 33%	—$9,194
$15,915	—$15,981	$4,592.28 plus 35%	—$15,915	$16,158	—$18,210	$4,281.76 plus 35%	—$16,158
$15,981		$4,615.38 plus 39.6%	—$15,981	$18,210		$4,999.96 plus 39.6%	—$18,210

TABLE 3—SEMIMONTHLY Payroll Period

(a) **SINGLE person** (including head of household)—				(b) **MARRIED person**—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over $96		$0		Not over $358		$0	
Over—	**But not over—**		**of excess over—**	**Over—**	**But not over—**		**of excess over—**
$96	—$480	$0.00 plus 10%	—$96	$358	—$1,127	$0.00 plus 10%	—$358
$480	—$1,656	$38.40 plus 15%	—$480	$1,127	—$3,479	$76.90 plus 15%	—$1,127
$1,656	—$3,877	$214.80 plus 25%	—$1,656	$3,479	—$6,658	$429.70 plus 25%	—$3,479
$3,877	—$7,983	$770.05 plus 28%	—$3,877	$6,658	—$9,960	$1,224.45 plus 28%	—$6,658
$7,983	—$17,242	$1,919.73 plus 33%	—$7,983	$9,960	—$17,504	$2,149.01 plus 33%	—$9,960
$17,242	—$17,313	$4,975.20 plus 35%	—$17,242	$17,504	—$19,727	$4,638.53 plus 35%	—$17,504
$17,313		$5,000.05 plus 39.6%	—$17,313	$19,727		$5,416.58 plus 39.6%	—$19,727

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Alternative Methods

Annualized: Calculate taxes using the percentage method using the annual tables, and then divide amount by the actual periods; used by most payroll systems
Average estimated: Withhold based on employee's estimated wages during a quarter and adjust estimate to what's required.
Cumulative: Used when payments are inconsistently high and low; employee must request in writing and have been paid the same frequency during the calendar year; it's basically a true-up.

Supplemental Wage Payments

Publication 15 defines supplemental wages as: wage payments to an employee that are not regular wages. They include, but are not limited to, bonuses, commissions, overtime pay, and payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payments for nondeductible moving expenses. Other payments subject to the supplemental wage rules include taxable fringe benefits and expense allowances paid under a non-accountable plan.

What are the two methods for calculating federal income tax using a supplemental method: Flat Rate or Aggregate

Flat Rate Method

What is the flat rate for withholding? 25%

An exception to the rate above is if the employee's total taxable supplemental wages exceed a certain dollar amount. What is the dollar amount? $1 Million

What is the rate for wages in excess of that threshold? 39.6%

Example 1
An employee has taxable YTD regular wages of $50,000.00 and total taxable YTD supplemental wages of $2,000.00. The employee receives a bonus in the amount of $5,000.00. Using the flat rate method, calculate the federal income tax withheld from the bonus.
$5,000.00 x 25% = $1,250.00

Example 2
An employee has taxable regular YTD wages of $1,500,000.00 and no taxable YTD supplemental wages. The employee receives a bonus in the amount of $40,000.00. Using the flat rate method, calculate the federal income tax withheld from the bonus.
$40,000.00 x 25% = $10,000.00

Example 3
An employee has taxable regular YTD wages of $500,000.00 and total taxable YTD supplemental wages of $950,000.00. The employee receives a cash bonus in the amount of $125,000.00. Using the flat rate method, calculate the federal income tax withheld from the bonus.
$1,000,000.00 (limit) – $950,000.00 (YTD) = $50,000.00 (25% tier)
$50,000.00 (25% tier) x 25% = $12,500.00 (FITW)
$125,000.00 (bns) – $50,000.00 (25% tier) = $75,000.00 (39.6% tier)
$75,000.00 (39.6% tier) x 39.6% (higher rt) = $29,700.00 (FITW)
$12,500.00 (25% tier FITW) + $29,700.00 (39.6% tier FITW) = $42,200.00 (FITW)

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Aggregate Method

Aggregate method for supplemental withholding is essentially taxing the supplemental wages across the employee's Form W-4 elections. **As a note, this method must be used if the employee has no federal income tax withholding due to the marital status and number of allowances claimed on Form W-4.**

1. Calculate withholding on total amount (regular & supplemental) of wages using the percentage method
2. Calculate withholding on regular wages only using the percentage method
3. The difference between these two is the amount of supplemental tax withholding

Example

An employee is paid a weekly salary of $1,200.00 and claims married with three allowances on Form W-4. During a workweek, the employee is paid a discretionary bonus of $250.00. Using the aggregate supplemental tax method, calculate the tax related to the bonus. Assume the employee has had federal tax withheld from prior checks in the year.

Calculate tax on Regular Wages + Bonus

1. Determine Bracket: Weekly/Married
2. Value of Withholding Allowances: $76.90*3 = $230.70
3. Calculate Wages
    a. Determine weekly salary:
        i. $1200.00 + $250.00 = $1450.00
    b. Reduce salary by pretax deductions
        i. $1450.00-$0.00=$1450.00
    c. Reduce subject wages by allowances
        i. $1450.00- $230.70= $1219.30 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $35.50, plus 15% of the amount over $520.00
        ii. Convert to a word problem, solve
            1. (($1219.30 - $520.00)*15%) + $35.50
            2. $1219.30 - $520.00 = $699.30
            3. $699.30* 15% - $104.90
            4. $104.90 + $35.50 = $140.40

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Calculate tax on Regular Wages Only

1. Determine Bracket: Weekly/Married
2. Value of Withholding Allowances: $76.90*3 = $230.70
3. Calculate Wages
    a. Determine weekly salary:
        i. Calculation is not necessary
    b. Reduce salary by pretax deductions
        i. $1200.00-$0.00=$1200.00
    c. Reduce subject wages by allowances
        i. $1200.00- $230.70= $969.30 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $35.50, plus 15% of the amount over $520.00
        ii. Convert to a word problem, solve
            1. (($969.30 - $520.00)*15%) + $35.50
            2. $969.30 - $520.00 = $449.30
            3. $449.30 * 15% - $67.40
            4. $67.40 + 35.50 = $102.90
5. Add any additional withholding requested on the W-4
    a. $102.90+ $0.00 = $102.90

Calculate withholding on total amount (regular & supplemental) of wages using the percentage method: $140.40

Calculate withholding on regular wages only using the percentage method= $102.90

The difference between these two is the amount of supplemental tax withholding = $37.50. Notice that this amount is 15% - the marginal tax rate – of $250 (the bonus amount).

Backup Withholding

When must backup withholding occur?

• When the individual did not provide a TIN in the required manner
• The IRS notifies the payer that the TIN provided was incorrect
• The individual is required but fails to certify that they are subject to backup withholding
• The IRS notifies the payer to start withholding on interest and dividends because they were underreported on the individual's tax return

At what rate is backup withholding withheld? 28%

Backup withholding is potentially withheld from individuals who are not employees, individuals receiving payments that consist of interest or dividends, individuals receiving payments due to a deceased employee, and contractors whose compensation exceeds $600.00. When backup withholding does occur, it needs to occur at the time of payment.

In addition, if the payer receives "B" notice from the IRS, the payer must begin withholding until a TIN (taxpayer identification number) is furnished to the payer. What form is used to request a TIN from a payee: W-9

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Social Security and Medicare Taxes

Social security and Medicare taxes are required by what legislation? Social Security Act (1935)

Social security is comprised of two benefits: Old Age and Survivor's Insurance (OASI) and Disability Insurance (DI). Medicare benefits are provided by the Health Insurance (HI) program.
The taxes are a flat rate calculated on social security and Medicare eligible wages. For further information on what wages are taxable for social security and Medicare taxes, please refer to sections 2, 3 and 4.

Tax rates
What is the tax rate for social security tax withholding? 6.2%, both EE and ER
What is the tax rate for Medicare tax withholding? 1.45%, both EE and ER
What is the combined amount of social security and Medicare tax for employees and employers? 15.3%

Wage bases
What is the wage base for social security tax withholding? 2015 = $ 118,500
What is the wage base for Medicare tax withholding? There is none

Additional Medicare Tax

The Additional Medicare Tax applies to individuals' wages, other compensation, and self-employment income over certain thresholds. It is important to note that individuals will calculate their tax liability for the additional Medicare tax on their individual income tax return. Employers are required to withholding on FICA subject wages over $200,000.00. The amount withheld could be more or less than the individual's liability at tax time.

When must an employer withhold Additional Medicare Tax?
The statute requires an employer to withhold Additional Medicare Tax on wages it pays to an employee in excess of $200,000 in a calendar year, beginning January 1, 2013. An employer has this withholding obligation even though an employee may not be liable for Additional Medicare Tax because, for example, the employee's wages together with that of his or her spouse do not exceed the $250,000 threshold for joint return filers. Any withheld Additional Medicare Tax will be credited against the total tax liability shown on the individual's income tax return (Form 1040).

Is there an "employer match" for Additional Medicare Tax (as there is with the regular Medicare tax)?
No. There is no employer match for Additional Medicare Tax.

May an employee request additional withholding specifically for Additional Medicare Tax?
No. However, an employee who anticipates liability for Additional Medicare Tax may request that his or her employer withhold an additional amount of income tax withholding on Form W-4. This additional income tax withholding will be applied against all taxes shown on the individual's income tax return (Form 1040), including any Additional Medicare Tax liability.

What is the rate of Additional Medicare Tax?
The rate is 0.9 percent.

When are individuals liable for Additional Medicare Tax?
An individual is liable for Additional Medicare Tax if the individual's wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount for the individual's filing status.

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying widow(er) with dependent child	$200,000

What wages are subject to Additional Medicare Tax?
All wages that are currently subject to Medicare Tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status. For more information on what wages are subject to Medicare Tax, see the chart, Special Rules for Various Types of Services and Payments, in section 15 of Publication 15, (Circular E), Employer's Tax Guide.

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Example 1
An exempt employee has YTD FICA subject earnings in the amount of $90,000.00 and is paid $2,000.00 biweekly. Calculate the total social security and Medicare liability for one pay.

This person has not gone over the limit for Social Security or the additional Medicare tax, so you can use the combined rate of 15.3% to calculate this amount:
$2,000.00 x 15.3% = $306.00

If the question asked you for total Social Security and Medicare **withholding**, your answer would be different:
$2,000.00 x 7.65% = $153.00

Example 2
An employee has YTD FICA subject earnings in the amount of $117,000.00 and is paid $2,000.00 biweekly. Calculate the total social security and Medicare taxes withheld from the employee's paycheck?

Social Security
$118,500.00 – $117,000.00 = $1500.00
$1500.00 x 6.2% = $93.00
Medicare
$2000.00 x 1.45% = $ 29.00
Additional Medicare
$0.00
Total
$93.00 + $29.00 = $122.00

Example 3
An employee is paid a semi-monthly salary of $3,500.00. The employee is paid for the pay period December 16, 2014 to December 31, 2014 on January 5, 2015. As of December 31, 2014, the employee has YTD FICA subject earnings in the amount of $116,400.00. Calculate the social security and Medicare tax withheld from the January 5, 2015 paycheck.

Social Security
$3500.00 x 6.2% = $217.00
Medicare
$3500 x 1.45% = $50.75
Additional Medicare
$0.00
Total
$217.00 + $50.75 + $0.00= $267.75

The wages were payable in a new year, and the social security wage base reverted back to zero in the new year.

Example 4
An employee has YTD FICA subject earnings in the amount of $110,000.00 and is paid as $250,000 bonus. Calculate the total social security and Medicare taxes withheld from the bonus check.

Social Security:
$118,500.00 – $110,000 = $8500.00
$8500.00 x 6.2$ = $527.00
Medicare:
$250,000.00 * 1.45% = $3625.00
Additional Medicare:
$110,000 + $250,000 = $360,000
$360,000 - $200,000 = $160,000
$160,000 x .9% = $1440.00
$527.00 + $3625.00 + $1440.00 = $5592.00

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Mergers & Acquisitions

Impacts of acquisitions – a successor employer may credit the wage base wages earned by the predecessor employer during the calendar year as long as all of the following apply:

- The successor has acquired all or substantially all of the property used by the predecessor
- Immediately before and after succession the employee must be employed by the predecessor and successor, respectively
- The employee must have been paid wages by the predecessor during the calendar year of an acquisition

Exempt Wages

All employee compensation is subject to social security and Medicare taxes unless specifically exempt under the Internal Revenue Code. Sections 3 & 4 discuss a number of the exempt wage payments. It's important to remember these exempt wage payments, such as– qualified moving expenses, worker's compensation, sick benefits after six months, deferrals under Section 125, and so on – when calculating social security and Medicare liability.

In addition, certain types of employment are also exempt from social security and Medicare taxes.
Some examples are:
• Work done by student nurses
• Work done by students who are enrolled and regularly attending classes at the school for which they are working and are not "career employees" of the school
• Work done for a foreign government or an international organization

State and Local Government Employees

Public sector employees have always been treated differently when it comes to social security and Medicare withholding. Examples of public sector employees are employees of state and local governments and their political subdivisions, such as cities, towns, villages and school districts.

Medicare – all state and local government employees hired or rehired on or after April 1, 1986 are covered by Medicare and must pay the Medicare tax (which their employers must match) unless their state had already entered into a §218 agreement subjecting them to both social security and Medicare coverage.

Social security - all state and local government employees who are not members of a public employee retirement system or are not subject to a §218 agreement are subject to both social security and Medicare coverage and withholding for all work performed on or after July 2, 1991, regardless of when they were hired.

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Test Your Knowledge

Multiple Choice

1. What form must an employee file to elect a marital status and allowances for withholding?
    a. Form W-4
    b. Form W-4P
    c. Form W-5
    d. Form W-9
2. What is the social security withholding rate for employees?
    a. 4.2%
    b. 1.45%
    c. 6.2%
    d. 7.65%
3. What is the Medicare withholding rate?
    a. 0.8%
    b. 1.45%
    c. 4.2%
    d. 7.65%
4. What is the supplemental withholding rate if YTD supplemental wages are less than $1 million?
    a. 20%
    b. 25%
    c. 28%
    d. 35%
5. What is the supplemental withholding rate if YTD supplemental wages are more than $1 million?
    a. 20%
    b. 25%
    c. 35%
    d. 39.6%
6. Which withholding table method is most used by computerized payroll systems?
    a. Flat rate method
    b. Percentage method
    c. Supplemental method
    d. Wage bracket method
7. Which withholding table method is the easier one to use?
    a. Cumulative method
    b. Flat rate method
    c. Percentage method
    d. Wage bracket method
8. What is the 2015 social security wage base?
    a. $118,500.00
    b. $110,100.00
    c. $113,700.00
    d. $117,400.00

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

9. What is the backup withholding rate?
    a. 20%
    b. 25%
    c. 28%
    d. 35%
10. What form is required for withholding from sick payments paid by an employer?
    a. Form W-4
    b. Form W-4P
    c. Form W-4S
    d. Form W-5
11. What form is required for withholding from sick payments made by a third party that is an agent?
    a. Form W-4
    b. Form W-4P
    c. Form W-4S
    d. Form W-5
12. What form is required for withholding from sick payments made by a third party that is not an agent?
    a. Form W-4
    b. Form W-4P
    c. Form W-4S
    d. Form W-5
13. What is the name of the withholding method that should be used when wages are inconsistent?
    a. Annualized
    b. Average estimated
    c. Cumulative
    d. Supplemental
14. Rounding of federal income tax is permitted to which decimal?
    a. Nearest dollar
    b. Nearest hundredth
    c. Nearest tenth
    d. Not permitted
15. What is the name of the withholding method used when an employer calculates withholding for the year and then divides by the number of pays?
    a. Annualized
    b. Average estimated
    c. Cumulative
    d. Supplemental
16. What is the rate for the Additional Medicare Tax?
    a. .9%
    b. 1.45%
    c. 2.35%
    d. 4.2%

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Calculations

Problem 1

An employee is paid $4,000.00 biweekly and has a pretax medical deduction each pay period in the amount of $40.00. The employee claims single with two allowances on Form W-4. Using the Percentage Method, calculate the federal income tax withholding for one pay.

Answer: $731.45

1. Determine Bracket: Biweekly/Single
2. Value of Withholding Allowances: $153.80 * 2 = $307.60
3. Calculate Wages
    a. Determine per pay salary:
        i. No Calculation Needed
        ii. $4000.00
    b. Reduce salary by pretax deductions
        i. $4000.00 - $40.00 = $3960.00
    c. Reduce subject wages by allowances
        i. $3960.00 - $307.60 = $3652.40 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $710.90, plus 28% of the amount over $3579.00
        ii. Convert to a word problem, solve
            1. ($3652.40 - $3579.00)*28%) + $710.90
            2. $3652.40 - $3579.00 = $73.40
            3. $73.40 * 28% = $20.55
            4. $710.90 + $20.55 = $731.45
5. Add any additional withholding requested on the W-4
    a. $731.45 + $0.00 = $731.45

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Problem 2

An employee is paid $750.00 weekly and has a 401(k) deferral each pay period in the amount of $50.00. The employee claims married with one allowance on Form W-4. Using the Percentage Method, calculate the federal income tax withholding for one pay.

Answer $50.97

1. Determine Bracket: Weekly/Married
2. Value of Withholding Allowances: $76.90 * 1 = $76.90
3. Calculate Wages
    a. Determine per pay salary:
        i. No Calculation Needed
        ii. $750.00
    b. Reduce salary by pretax deductions
        i. $750.00- $ 50.00 = $700.00
    c. Reduce subject wages by allowances
        i. $700.00 - $76.90 = $623.10 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $35.50, plus 15% of the amount over $520.00
        ii. Convert to a word problem, solve
            1. ($623.10- $520.00)*15%) + $35.50
            2. $623.10 - $520.00 = $103.10
            3. $103.10 * 15% = $15.47
            4. $35.50 + $15.47 = $50.97
5. Add any additional withholding requested on the W-4
    a. $50.97 + $0.00 = $50.97

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Problem 3

An employee is paid $2,500.00 biweekly. The employee claims married with three allowances and additional withholding of $65.00 on Form W-4. Using the Percentage Method, calculate the federal income tax withholding for one pay.

Answer $285.69

1. Determine Bracket: Biweekly/Married
2. Value of Withholding Allowances: $153.80 * 3 = $461.40
3. Calculate Wages
    a. Determine per pay salary:
        i. No Calculation Needed
        ii. $2500.00
    b. Reduce salary by pretax deductions
        i. $ 2500.00 – $ 0.00 = $2500.00
    c. Reduce subject wages by allowances
        i. $2500.00 - $461.40 = $2038.60 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $70.90, plus 15% of the amount over $1040.00
        ii. Convert to a word problem, solve
            1. (($2038.60 - $1040.00)*15%) + $70.90
            2. $2038.60 - $1040.00 = $998.60
            3. $998.60 * 15% = $149.79
            4. $70.90 + $149.79 = $220.69
5. Add any additional withholding requested on the W-4
        i. $ 220.69+ $65.00=$285.69

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Problem 4

An employee is paid $7,000.00 semi-monthly and has a pretax dental deduction each pay period in the amount of $25.00. The employee claims single with three allowances on Form W-4. Using the Percentage Method, calculate the federal income tax withholding for one pay.

Answer $1497.46

1. Determine Bracket: Semimonthly/Single
2. Value of Withholding Allowances: $166.70 * 3 = $500.10
3. Calculate Wages
    a. Determine per pay salary:
        i. No Calculation Needed
        ii. $7000.00
    b. Reduce salary by pretax deductions
        i. $7000.00 - $25.00 = $6975.00
    c. Reduce subject wages by allowances
        i. $6975.00 - $500.10 = $6474.90 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $770.05, plus 28% of the amount over $3877.00
        ii. Convert to a word problem, solve
            1. (($6474.90 - $3877.00)*15%) + $770.05
            2. $6474.90 - $3877.00 = $2597.90
            3. $2597.90 * 28% = $727.41
            4. $727.41 + 770.05 = 1497.46
5. Add any additional withholding requested on the W-4
    a. $1497.46 + $0.00 = $1497.46

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Problem 5

A Texas employee is paid $450.00 weekly and has a 401(k) deferral each pay period in the amount of $25.00. The employee claims single with zero allowances and additional withholding of $35.00 on Form W-4. YTD FICA subject wages are $20,000.00. Using the Percentage Method, calculate the net pay for one pay period.

Answer $307.32

Federal

1. Determine Bracket: Weekly/Single
2. Value of Withholding Allowances: $76.90 * 0 = $0.00
3. Calculate Wages
    a. Determine per pay salary:
        i. No Calculation Needed
        ii. $450.00
    b. Reduce salary by pretax deductions
        i. $450.00 - $25.00 = $425.00
    c. Reduce subject wages by allowances
        i. $425.00 – $ 0.00 = $425.00 This is the amount to 'take to the tax tables'
4. Calculate Tax
    a. Find the line to use for your tax calculation
        i. Pay Frequency
        ii. Marital Status
        iii. Wage Range
    b. Do the Math
        i. Read like a sentence
            1. The amount of tax to withhold is $17.80, plus 15% of the amount over $222.00
        ii. Convert to a word problem, solve
            1. (($425.00 - $222.00)*15%) + $17.80
            2. $425.00 - $222.00 = $203.00
            3. $203.00 * 15% = $30.45
            4. $30.45 + $17.80 = $48.25
5. Add any additional withholding requested on the W-4
    a. $48.25 + $35.00 = $83.25

FICA

Social Security = $450.00 * 6.2% = $27.90
Medicare = $450.00 * 1.45% = $6.53
Additional Medicare = $0.00 *.9% = $0.00

Gross: $450.00
SS = $27.90
MED = $6.53
FED = $83.25
401K = $25.00
NET = $307.32

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Problem 6

Calculate the gross pay needed for a Texas employee to net a $5000.00 bonus. The employee's YTD FICA subject wages before the bonus is $114,800.00. There are no other deductions coming out of the check.

The first thing to note is that this won't be a typical gross up, because the payment will take the employee over the social security limit.

1. Determine amount of tax that will take the employee to the max
    a. Taxable amount of bonus $3700
    b. $3700 * 6.2% = $229.40
2. Add the tax that will take the employee to the max to your needed net pay
    a. $5000.00 + $229.40 = $5229.40
3. Calculate the gross up on the new amount, and do not include the social security rate in the gross up calculation
    a. 1.45% + 25% = 26.45%
    b. 100% - 26.45% = 73.55%
    c. Gross = $5229.40/73.55% = $7109.99
    d. Prove it
        i. Gross: $7109.99
        ii. Federal: $1777.50
        iii. Social Security: $229.40
        iv. Med: $103.09
        v. Net: $5000.00

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only

Validate Your Progress

Employment Taxes

- Knowledge of federal employment tax requirements
- Knowledge of federal income tax withholding requirements
- Knowledge of federal income tax withholding methods
- Knowledge of supplemental payment taxation methods
- Knowledge of social security tax withholding requirements
- Knowledge of social security wage base
- Knowledge of social security withholding rate
- Knowledge of Medicare tax withholding requirements
- Knowledge of Medicare wage base
- Knowledge of Medicare tax withholding requirements
- Knowledge of backup withholding requirements
- Knowledge of AEIC regulations
- Knowledge of FICA withholding requirements
- Knowledge of public sector social security requirements

Employee/Employer Forms

- Knowledge of purpose of Form SS-5
- Knowledge of purpose of Form W-4
- Knowledge of purpose of Form W-4P
- Knowledge of purpose of Form W-4S
- Knowledge of purpose of Form W-9

Regulatory

- Knowledge of IRS regulations impacting payroll
- Knowledge of taxation of wages paid to deceased employees
- Knowledge of Form W-4 requirements
- Knowledge of Form W-5 requirements
- Knowledge of FICA student exemption
- Knowledge of FICA public sector exemption
- Knowledge of Form W-4P requirements
- Knowledge of Form W-4S requirements
- Knowledge of merger/acquisition impact
- Knowledge of supplemental wages

Record Retention

- Knowledge of IRS requirements

Penalties

- Knowledge of IRS penalties

Involuntary Deductions

- Ability to calculate withholding for wages paid to deceased employees
- Ability to calculate federal income tax withholding
- Ability to calculate social security tax withholding
- Ability to calculate Medicare tax withholding
- Ability to calculate federal withholding taxes
- Ability to calculate backup withholding

Employer Taxes and Contributions

- Ability to calculate employer social security liability
- Ability to calculate employer Medicare liability
- Ability to calculate employer FICA liability
- Net, Disposable, Take Home Pay
- Ability to calculate net pay
- Ability to calculate take-home pay

Information contained herein is exclusive property of the Columbus Area Chapter
Use of material is to be used by study group members only