



Office of the State Comptroller
PAYROLL BULLETIN

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| Subject Changes to Tax Methods Used for Special Payments | Bulletin No. P-813 |
| | Date March 25, 1994 |

In order to comply with IRS regulations, we are changing the withholding tax calculation methods used on special payments effective with the PS&T Longevity checks dated April 26, 1994.

These guidelines will apply to any special payments whether included in the employee's regular pay check or paid in a separate check. Specifically, payments for Performance Awards, retroactive Performance Advances, retroactive Salary Increases, Training Stipends, Longevity LSP, Bonus, Uniform and Tool Allowances are all included.

Special Payments to Active Employees

Essentially, withholding taxes on all special payments to active employees will be calculated using an annualized method. That is, the tax is computed as if the amount of the special payment had been divided and paid out in 26 installments in addition to regular biweekly salary.

1. If payment is included with the regular salary check the calculation is as follows:

a. Determine the taxable gross biweekly salary

Annual Salary
+ Special Payment
Annual for Tax Purposes
X Factor
= Biweekly (as if paid out over 26 periods)
- Non-Taxable Health Ins. & Adjustment
- Dependent Care
- 414H Contributions
- Non-Taxable Maintenance
- Deferred Compensation
- 403B
- Exemptions Allowances
Taxable Gross

b. Using the taxable gross, determine the appropriate tax bracket from the Percentage Method of Tax Withholding Biweekly Table in Circular E, Employer Tax Guide.

c. Using the actual gross minus non-taxable deductions and exemptions, determine the tax using the tax bracket from step b.

Example - Payment included with regular check

| | |
|----------------|--|
| 46,712 | Annual Salary |
| <u>+1,229</u> | Special Payment |
| 47,941 | Annual for Tax Purposes |
| X.038356 | Factor |
| 1838.82 | Biweekly |
| -6.70 | Non-Tax Health |
| -50.00 | Dependent Care |
| -42.24 | 414H |
| -15.00 | Non-Tax Maint |
| -200.00 | Deferred Comp. |
| -75.00 | 403B |
| <u>-94.23</u> | Exemptions (M01) |
| 1,355.65 | Taxable Gross (15% Bracket on Married Biweekly) |
| 3,020.69 | Actual Gross (includes Special Payment) |
| -6.70 | Non-Tax Health |
| -50.00 | Dependent Care |
| -42.24 | 414H |
| -15.00 | Non-Tax Maintenance |
| -200.00 | Deferred Comp |
| -75.00 | 403B |
| <u>-94.23</u> | Exemptions (M01) |
| 2,537.52 | Taxable Gross |
| 2,537.52 | Taxable Gross |
| <u>-244.00</u> | |
| 2,293.52 | The 1,355.65 is between \$244 and \$1612 on the MARRIED biweekly table. The tax is 15% of the amount over \$244. |
| <u>X.15</u> | |
| 344.02 | Total Federal Tax |

2. If payment is made in a separate check, taxes are computed as follows:

Annual Salary
+Special Payment
 Annual for Tax Purpose
X Factor
 Biweekly Gross (as if paid out over 26 periods)

- a. Using the biweekly gross, determine the appropriate tax bracket from the Percentage Method of Tax Withholding Biweekly Table in Circular E, Employer Tax Guide.
- B. The tax is then computed by multiplying the special payment X the flat percentage from the tax bracket determined in step a.

Based on the type of payment, some non-taxable deductions are taken. (Example: 414H Non-taxable contributions for Tier 3 retirement are deducted on Longevity LSP.) If this occurs, those deductions are subtracted to arrive at the taxable biweekly gross. Exemption allowances may not be subtracted for payments in separate checks. Each exemption allowance amount is \$2,450.00 annually; the biweekly amount of 94.23 is based on 26 payroll periods. Therefore, exemptions may only be used for the 26 regular checks and may not be applied to any additional checks.

Example - Payment in Separate Check

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|---------------|---|
| 46,712 | Annual Salary |
| <u>+1,229</u> | Special Payment |
| 47,941 | Annual for Tax Purposes |
| X.038356 | Salary Factor |
| 1,838.82 | Biweekly (28% Bracket on Married Biweekly) |
| | |
| 1,229 | Special Payment |
| <u>X.28</u> | Flat Percentage from Married Biweekly Tax Chart |
| 344.12 | Total Federal Tax |

Special Payments to Inactive employees

Since these employees did not receive regular wages, the IRS and State regulations require that a flat percentage be withheld for taxes.

The flat percentage rates are:

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|----------------------|---|-------------------------|
| Federal | - | 28% |
| State | - | .08375 |
| NYC Resident | - | .0446 |
| NYC Non-Resident | - | .0045 |
| Yonkers Resident | - | .01256 |
| Yonkers Non-Resident | - | .0056 |
| Illinois | - | .03 |
| DC | - | Normal Tax Calculations |

The annualized methods of calculating withholding are intended to more closely approximate the employee's true tax liability based on salary and number of exemptions. Employees should not routinely submit changes to their exemptions when these payments are made in a regular salary check; this could result in under-withholding and penalties imposed by the government entity.

Please notify your employees of this change in the tax calculations.

Any questions regarding this bulletin should be directed to Margie McClimans at (518) 486-3067

