

# 9. Withholding From Employees' Wages

## Income Tax Withholding

**Using Form W-4 to figure withholding.** To know how much federal income tax to withhold from employees' wages, you should have a Form W-4, Employee's Withholding Allowance Certificate, on file for each employee. Encourage your employees to file an updated Form W-4 for 2007, especially if they owed taxes or received a large refund when filing their 2006 tax return. Advise your employees to use the Withholding Calculator on the IRS website at [www.irs.gov/individuals](http://www.irs.gov/individuals) for help in determining how many withholding allowances to claim on their Forms W-4.

Ask all new employees to give you a signed Form W-4 when they start work. Make the form effective with the first wage payment. If a new employee does not give you a completed Form W-4, withhold income tax as if he or she is single, with no withholding allowances.

**Form in Spanish.** You can provide Forma W-4(SP), Certificado de Exención de la Retención del(la) Empleado(a), in place of Form W-4, Employee's Withholding Allowance Certificate, to your Spanish-speaking employees. For more information, see Publication 579SP, *Cómo Preparar la Declaración de Impuesto Federal*.

**Electronic system to receive Form W-4.** You may establish a system to electronically receive Forms W-4 from your employees. See Regulations section 31.3402(f)(5)-1(c) for more information.

**Effective date of Form W-4.** A Form W-4 remains in effect until the employee gives you a new one. When you receive a new Form W-4 from an employee, do not adjust withholding for pay periods before the effective date of the new form. If an employee gives you a Form W-4 that replaces an existing Form W-4, begin withholding no later than the start of the first payroll period ending on or after the 30th day from the date when you received the replacement Form W-4. For exceptions, see *Exemption from federal income tax withholding*, *IRS review of Forms W-4*, and *Invalid Forms W-4* later.



*A Form W-4 that makes a change for the next calendar year will not take effect in the current calendar year.*

**Successor employer.** If you are a successor employer (see *Successor employer* on page 16), secure new Forms W-4 from the transferred employees unless the "Alternative Procedure" in section 5 of Revenue Procedure 2004-53 applies. You can find Rev. Proc. 2004-53 on page 320 of Internal Revenue Bulletin 2004-34 at [www.irs.gov/pub/irs-irbs/irb04-34.pdf](http://www.irs.gov/pub/irs-irbs/irb04-34.pdf).

**Completing Form W-4.** The amount of any federal income tax withholding must be based on marital status and withholding allowances. Your employees may not base their withholding amounts on a fixed dollar amount or percentage. However, an employee may specify a dollar amount to be withheld in addition to the amount of withholding based on filing status and withholding allowances claimed on Form W-4.

Employees may claim fewer withholding allowances than they are entitled to claim. They may wish to claim fewer allowances to ensure that they have enough withholding or to offset the tax on other sources of taxable income that are not subject to adequate withholding.

See Publication 505, *Tax Withholding and Estimated Tax*, for more information about completing Form W-4. Along with Form W-4, you may wish to order Publication 505 and Publication 919, *How Do I Adjust My Tax Withholding*, for use by your employees.

Do not accept any withholding or estimated tax payments from your employees in addition to withholding based on their Form W-4. If they require additional withholding, they should submit a new Form W-4 and, if necessary, pay estimated tax by filing Form 1040-ES, *Estimated Tax for Individuals*.

**Exemption from federal income tax withholding.** Generally, an employee may claim exemption from federal income tax withholding because he or she had no income tax liability last year and expects none this year. See the Form W-4 instructions for more information. However, the wages are still subject to social security and Medicare taxes. See also *Invalid Forms W-4* later.

A Form W-4 claiming exemption from withholding is valid for only one calendar year. To continue to be exempt from withholding in the next year, an employee must give you a new Form W-4 by February 15 of that year. If the employee does not give you a new Form W-4, withhold tax as if the employee is single with zero withholding allowances or withhold based on the last valid Form W-4 you have for the employee.

**Withholding income taxes on the wages of nonresident alien employees.** In general, you must withhold federal income taxes on the wages of nonresident alien employees. However, see Publication 515 for exceptions to this general rule. You must add an amount as set forth in the chart below to the nonresident alien's wages solely for calculating the income tax withholding for each payroll period. You determine the amount to be withheld by applying the income tax withholding tables to the amount of wages paid plus the additional chart amount. For more information, see Notice 2005-76. You can find Notice 2005-76 on page 947 of Internal Revenue Bulletin 2005-46 at [www.irs.gov/pub/irs-irbs/irb05-46.pdf](http://www.irs.gov/pub/irs-irbs/irb05-46.pdf).



*Nonresident alien students from India and business apprentices from India are not subject to this procedure.*

The amount to be added to the nonresident alien's wages to calculate income tax withholding is set forth in the following chart.

### Amount to Add to Nonresident Alien Employee's Wages for Calculating Income Tax Withholding Only

<u>Payroll Period</u>	<u>Add Additional</u>
Weekly	\$ 51.00
Biweekly	102.00
Semimonthly	110.00
Monthly	221.00
Quarterly	663.00
Semiannually	1,325.00
Annually	2,650.00
Daily or Miscellaneous (each day of the payroll period)	10.20

The amounts added under this chart are added to wages solely for calculating income tax withholding on the wages of the nonresident alien employee. These chart