



Commonwealth of Massachusetts

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MMARS Policy: Payroll

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Involuntary and Voluntary Deductions – Federal Income Tax

Executive Summary

The Internal Revenue Service (IRS) requires employers to withhold federal income tax from wages paid to their current and former employees based on the withholding exemptions claimed on the employee's Form W-4 (Employee's Withholding Allowance Certificate).

Considerations

This policy applies to all Commonwealth Branches and Departments.

Policy

Employee's Withholding Allowance Certificates (Forms W-4)

Employers are required to provide Forms W-4 to their employees and the employees are required to submit to their employer, upon hire, a completed Form W-4 "Employee's Withholding Allowance Certificate". This certificate provides the basis for determining the proper amount of tax to withhold from an employee's wages. If an employee does not submit a completed Form W-4, federal income tax will be withheld at the single status rate, with no withholding allowances.

Form W-4 withholdings must be put into effect by the employee's payroll Department for the first payroll period ending after the Form W-4 is submitted. A Form W-4 remains in effect until the employee submits a new one.

If employees wish to make changes to their withholding allowances, they must submit a new Form W-4 to their payroll Department. This Form W-4 must be put into effect by the payroll Department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the Payroll Department.

The Commonwealth is required to provide each employee with a yearly Form W-2 statement detailing the total amount of federal tax deducted from their wages.

Form W-4's can be downloaded from the IRS Forms and Instructions website.

<http://www.irs.gov/pub/irs-fill/fw4.pdf>

Claiming Exempt on Form W-4

Employees (including Non Resident Aliens) who claim an exemption from tax withholding on their Form W-4 must submit a new Form W-4 annually, attesting to their exempt status. Claims of exemption can be in effect for a maximum of one calendar year at which time the employee must re-file to claim Exempt

status. If the employee does not submit a new Form W-4 for the new calendar year by February 15th of that year, they will have their tax status reset to the single status rate, with no withholding allowances.

Supplemental Wages

Most wages are taxed at the federal level using the IRS approved "annual" tax method. When employees receive payments called "supplemental wages", a special rate is applied to withhold federal income tax from these payments at a rate specified by the IRS. This rule is called "supplemental" tax method. Examples of supplemental wages include overtime, bonuses, awards, settlements, judgments, retroactive pay, and sick and vacation leave payouts.

An employee could have both the annual and supplemental tax methods applied to their wages in a pay period depending on the types of earnings they receive.

Federal Withholding Tax:

- Is administered by the Internal Revenue Service;
- Is a mandatory deduction for Commonwealth employees
- Requires a Form W-4 and
- Is deducted in every biweekly pay period.

The Commonwealth is responsible for withholding employment taxes in accordance with employee's official W4 Withholding Allowances and the employee is responsible for confirming tax withholdings are taken. Adjustments to withholdings can be handled in subsequent payroll periods prior to the end of the tax year. See section on Tax Refunds.

Internal Controls

Information Sources

Related Procedure - None

- Legal Authority – 26 USC §3507(b)(e)
- 29 CFR §516.5
- IRS Publication 15, "Circular E, Employer's Tax Guide"
- IRS Publication 15-A, "Circular E, Employer's Supplemental Tax Guide"
- IRS Publication 919, "How Do I Adjust My Tax Withholding?"
- IRS Publication 525 Taxable and Non-Taxable Income
- IRS Publication 17 Your Federal Income Tax Guide
- Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
- Massachusetts General Laws, Chapter 58, Section 28B
- Massachusetts General Laws, Chapter 58, Section 28A

Attachments –

[Internal Revenue Service Forms and Publications page](#)

Links - none

- [Contacts – CTR Help Desk](#)
- [Comptroller Web Portal Homepage](#)

Revisions

October 15, 2012 – Removed language referencing *Earned Income Credit Advance Payment Certificates (Forms W-5)*

November 1, 2006 – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.