

ACCOUNTING AND
CONTROL MANUAL

BULLETIN

NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER

DIVISION OF AUDITS AND ACCOUNTS

BULLETIN NO. P-225

May 20, 1980

To : All State Departments and Agencies

Subject: Changes in Withholding Tax Processing

Effective on April 1, 1980, Internal Revenue Service regulations require employers to file with the IRS copies of all W-4 Employee's Withholding Allowance Certificate for employees who claim more than 9 allowances or who claim exemption from withholding. As a result of this requirement, and to eliminate problems we have experienced with fixed tax deductions, the following changes are being made in tax withholding processing effective in Payroll Period 7 (June 19 to July 2, 1980 for Administrative agencies, June 26 to July 9, 1980 for Institutions).

1. AC-1040's submitted to report more than 9 Federal exemptions (block 502) or reporting exemption from tax (block 504) must be accompanied by a copy of the employee's W-4. These transactions will not be processed unless the W-4 is submitted. The Department of Audit and Control will forward the W-4's to IRS.
2. Fixed tax deductions (AC-1040 codes 516, 517, 518, and 522) will become one-period deductions. When these deductions are submitted they will be taken in that payroll period only, and then automatically cancelled. The employee's previous exemptions will be retained and reinstated automatically for the following period. If no exemptions have been reported previously, the tax for the next period will be computed at '0' exemptions, unless a new AC-1040 is submitted. Fixed tax deductions should only be submitted for the following payments.
 - (a) a lump sum payment of more than 10 days.
 - (b) an original appointment for more than one biweekly payment.

In general, fixed taxes should not be submitted for overtime or extra service payments. IRS regulations require that when overtime or other similar payments are paid in addition to regular wages, the tax must be computed as if the total was a single wage payment for the payroll period.

If an employee wishes to have additional taxes withheld, the employee must complete a W-4 claiming the number of withholding allowances which will provide the desired deduction. An employee wishing to have a larger deduction than '0' exemptions may claim "minus" exemptions. For Federal tax and NYC Resident tax, the value of a withholding allowance (currently \$38.46 and \$29.00, respectively) is added to taxable income for each minus exemption prior to the calculation of the tax. For State Withholding, the tax is calculated at '0' exemptions and then \$1.00 is added to the tax for each minus exemption.

During the week of May 19, 1980 you will receive a list of your employees who currently have fixed taxes or claim more than 9 federal exemptions or exempt status. At the end of Period 6, all fixed taxes will be cancelled automatically. Prior to this period, using the listing supplied by Audit and Control, each agency must

- (a) Obtain a new W-4, if necessary, for employees with fixed taxes. Prepare an AC-1040 to report the correct exemptions in Period 7.
- (b) Make copies of W-4's for all employees claiming ^{more than 9} ~~9 or more~~ federal exemptions or exempt status. For an employee claiming exempt status, the W-4 must have been filed with you in 1980.

The copies of the W-4's and the AC-1040's, when required, should be submitted to the Department of Audit and Control with your regular payroll submission for Period 7.

Any employees who had fixed taxes in Period 6 for whom an AC-1040 is not submitted in Period 7 will be taxed in Period 7 at '0' exemptions.

Recent experience with agencies has identified confusion concerning tax exempt status. The new W-4, issued in October, 1979 clearly states who may claim exemption. If you are not using these forms, you should order them from IRS. Line 3 on this form states the requirements. (Sample of W-4 attached)

"I claim exemption from withholding because:

- A. Last year I did not owe any federal income tax and had a right to a full refund of all income tax withheld, and
- B. This year I do not expect to owe any federal income tax and expect to have a right to a full refund of all income tax withheld.

If both A & B apply, enter exempt.

Employees usually eligible for tax exempt status include:

1. Students
2. Members of a religious order (which has been authorized tax exempt status by IRS) who have taken a vow of poverty. IRS regulations state that the services performed in employment must be of the type that are ordinarily the duties of members of the order and must be performed by the member as part of the duties that are required to be exercised for or on behalf of the religious order. Call IRS if you have a question on the exemption status of a religious order.
3. Foreign nationals with an active F and J visas if the service performed is in accordance with the purpose of the visa. This exception is removed if the employee's status changes from visitor to immigrant. Contact your local IRS office to determine if the employee is eligible for tax exempt status since the rules are complex.

Anyone claiming tax exempt status must file a new W-4 before April 30 of each year. If the employee does not file a new W-4 with you, you should submit an AC-1040 reporting 0 exemptions.

Questions concerning this bulletin should be directed to the Payroll Planning Unit at (518) 474-1246 or 1247.

Employee's Withholding Allowance Certificate

Print your full name ▶ _____ Your social security number ▶ _____
Address (including ZIP code) ▶ _____

Marital status: Single Married Married, but withhold at higher Single rate
Note: If married, but legally separated, or spouse is a nonresident alien, check the single block.

1 Total number of allowances you are claiming (from line F of the worksheet on page 2)
2 Additional amount, if any, you want deducted from each pay (if your employer agrees)
3 I claim exemption from withholding because (see instructions and check boxes below that apply):
a Last year I did not owe any Federal income tax and had a right to a full refund of ALL income tax withheld, AND
b This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of ALL income tax withheld. If both a and b apply, enter "EXEMPT" here
c If you entered "EXEMPT" on line 3b, are you a full-time student? Yes No

Under the penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or if claiming exemption from withholding, that I am entitled to claim the exempt status.

Employee's signature ▶ _____ Date ▶ _____, 19____
Employer's name and address (including ZIP code) (FOR EMPLOYER'S USE ONLY) _____ Employer identification number _____

Detach along this line

▲ Give the top part of this form to your employer; keep the lower part for your records and information ▲

Purpose

The law requires that you complete Form W-4 so that your employer can withhold Federal income tax from your pay. Your Form W-4 will remain in effect until you change it, or, if you entered "EXEMPT" on line 3b above, until April 30 of next year. By claiming the number of withholding allowances you are entitled to, you can fit the amount of tax withheld from your wages to your estimated tax liability.

Introduction

If you got a large refund last year, you may be paying too much tax withheld. If so, you may want to increase the number of your allowances by claiming any other allowances you are entitled to on line 1 of Form W-4. The kinds of allowances, and how to figure them, are explained in detail in the line-by-line instructions below.

If you owed a large amount of tax last year, you may not be having enough tax withheld. If so, you can claim fewer allowances on line 1, or ask that an additional amount be withheld on line 2, or both.

If the number of withholding allowances that you are entitled to decreases, you must file a new Form W-4 with your employer within 10 days from the date of the change.

If you qualify, you can claim exemption from withholding on line 3b of Form W-4.

The line-by-line instructions below explain how to fill in Form W-4. Publication 505, Tax Withholding and Estimated Tax, contains more information on withholding. You can get it from any Internal Revenue Service office.

For more information about who qualifies as your dependent, what deductions you can take, and what tax credits you qualify for, see the Form 1040 Instructions or call any Internal Revenue Service office.

Line-By-Line Instructions

Fill in the identifying information at the top of the form. If you are married and want tax withheld at the regular rate for married persons, check the "Married" box. If you are married and want tax withheld at the higher Single rate (because both you and your spouse work, for example), check the box "Married, but withhold at higher Single rate."

Line 1 of Form W-4

Total number of allowances.—Use the worksheet on page 2 to figure all of your allowances. Each kind of allowance you may claim is explained below and is identified by the letter that corresponds to the line for that allowance on the Worksheet.

A. Personal allowances.—You can claim the following personal allowances:

- 1 for yourself,
- 1 if you are 65 or older, and
- 1 if you are blind.

If you are married and your spouse either does not work or is not claiming his or her allowances on a separate Form W-4, you may also claim the following allowances:

- 1 for your spouse,
- 1 if your spouse is 65 or older, and
- 1 if your spouse is blind.

If you are single and hold more than one job, you may not claim the same allowances with more than one employer at the same time. If you are married and both you and your spouse are employed, you may not both claim the same allowances with both of your employers at the same time.

Enter your total personal allowances on line A of the Worksheet.

Note: To have the highest amount of tax withheld, claim "0" personal allowances on line 1.

B. Special withholding allowance.—You can claim the special withholding allowance only if you are single and have one job or you are married, have one job, and your spouse does not work.

If you can claim the special withholding allowance, enter "1" on line B of the Worksheet.

Note: Use the special withholding allowance only to figure your withholding tax. Do not claim it when you file your tax return.

C. Allowances for dependents.—You may claim one allowance for each dependent you will be able to claim on your Federal income tax return. Enter on line C of the Worksheet the total number of allowances you can claim for dependents.

D. Allowances for estimated tax credits.—If you expect to be able to take the earned income credit, credit for child and dependent care expenses, credit for the elderly, or residential energy credit, these credits may lower your tax. To avoid having too much withheld, you may claim extra allowances for these tax credits on line D of the Worksheet.

To enter the proper figure on line D of the Worksheet, you will have to use the "Tax Credit Table for Figuring Your Withholding Allowances" on the top of page 2.

Note: Do not claim allowances for your earned income credit if you are receiving advance payment of it.

E. Allowances for estimated itemized deductions and alimony.—If you expect to itemize your deductions or pay alimony during the year (or both), you may want to claim additional withholding allowances so you will have less tax withheld.

See Schedule A (Form 1040) to find out what deductions you can take and to estimate the amount of your deductions.

Note: If you are paying alimony but will not itemize deductions, enter your estimate of alimony payments for the year on lines E1 and E3 (enter "0" on line E2). Divide the amount on line E3 by \$1,000, and enter the result on line E4 of the Worksheet. Round-off any fraction to the nearest whole number.

Line 2 of Form W-4

Additional amount, if any, you want deducted from each pay.—If you are not having enough tax withheld from your pay, you may ask your employer to withhold more by filling in an additional amount on line 2.

Often, married couples, both of whom are working, and single persons with two or more jobs, will need to have additional tax withheld.

Estimate the amount by which you will be underwithheld and divide that amount by the number of pay periods in the year. Enter the additional amount you want withheld each pay period on line 2.

Line 3 of Form W-4

Exemption from withholding.—You can claim exemption from withholding only if last year you did not owe any Federal income tax and had a right to a refund of all income tax withheld, and this year you do not expect to owe any Federal income tax and expect to have a right to a refund of all income tax withheld.

If you qualify check boxes 3a and b, write "EXEMPT" on line 3b and answer Yes or No to the question on line 3c.

If you want to claim exemption from withholding next year, you must file a new Form W-4 with your employer on or before April 30 of next year. If you are not having Federal income tax withheld this year, but expect to have a tax liability next year, the law requires you to give your employer a new Form W-4 by December 1.

If you are covered by the Federal Insurance Contributions Act, your employer must withhold social security tax from your pay.

Tax Credit Table for Figuring Your Withholding Allowances—See Example Below

Allowances ▶	0	1	2	3	4	5	6							
Estimated salaries and wages from all sources:	If the amount of estimated tax credits is:													
	Under	At least	But less than	At least	But less than	At least	But less than	At least	But less than	At least	But less than	At least	But less than	
Part I Single Employees														
Under \$5,000	No additional allowances													
5,000-15,000	250	250	500	500	700	700	900	900 or more						
15,001-25,000	350	350	700	700	1,000	1,000 or more								
25,001-35,000	550	550	950	950 or more										
Part II Head of Household Employees														
Under \$5,000	No additional allowances													
5,000-20,000	150	150	400	400	650	650	900	900 or more						
20,001-35,000	1	1	300	300	650	650	1,000	1,000 or more						
35,001-45,000	450	450	850	850 or more										
Part III Married Employees (When Spouse is Not Employed)														
Under \$8,000	No additional allowances													
8,000-15,000	200	200	350	350	500	500	700	700	800	800	950	950 or more		
15,001-25,000	250	250	500	500	700	700	950	950 or more						
25,001-35,000	300	300	650	650	950	950 or more								
35,001-45,000	650	650	1,050	1,050 or more										
Part IV Married Employees (When Both Spouses are Employed)														
Under \$8,000	No additional allowances													
8,000-15,000	250	250	400	400	450	450 or more								
15,001-25,000	550	550	800	800	950	950 or more								

Example: A taxpayer who expects to file a Federal income tax return as a single person estimates annual wages of \$12,000 and tax credits of \$650. The taxpayer uses Part I for single employees. The \$12,000 falls in the wage bracket of \$5,000 to \$15,000 in the left column. Reading in the shaded area to the right, \$650 falls within the estimated tax credits bracket of At least 500 But less than 700. Looking to the top of the column, the taxpayer finds that 2 allowances are permitted. The taxpayer enters "2" on line D of the Worksheet below.

Worksheet to Figure Your Withholding Allowances to be Entered on Line 1 of Form W-4
(Letters on this worksheet are keyed to the letters in the line-by-line instructions on page 1)

A Personal allowances	▶		A
B Special withholding allowance (not to exceed 1 allowance—see instructions on page 1)	▶		B
C Allowances for dependents	▶		C
D Allowances for estimated tax credits (from Tax Credit Table for Figuring Your Withholding Allowances, above):			D
1 Find your filing status under Part I, II, III, or IV of the table.			
2 Under your filing status, find your estimated salaries and wages in the left column.			
3 Read the shaded amounts across to the right until you get to the amount of your estimated tax credits.			
4 At the top of that column is the number of allowances you may take for your estimated tax credits. Enter the number of allowances	▶		
E Allowances for estimated itemized deductions and alimony:			E
1 Enter the amount of your estimated itemized deductions, including alimony payments, for the year	▶	1	\$
2 Find your total estimated salaries and wages amount in the left column of the table below. Read across to the right and enter the amount from the column that applies to you. Enter that amount here (if claiming only alimony payments on line E1, enter "0" on line E2)	▶	2	\$
		3	\$
3 Subtract line E2 from line E1	▶		
4 Divide the amount on line E3 by \$1,000 (round-off fractions to the nearest whole number). Enter here	▶		
F Total (add lines A through E). Enter total here and on line 1 of Form W-4	▶		F

Estimated salaries and wages from all sources:	Single Employees (only one job)	Married Employees (one spouse working and one job only)	Employees with more than one job or Married Employees with both spouses working
Under \$10,000	\$2,800	\$3,900	\$4,000
10,000-30,000	2,800	3,900	5,800
30,001-40,000	3,500	3,900	8,000
Over \$40,000	{ 15% of estimated salaries and wages	{ 13% of estimated salaries and wages	{ 23% of estimated salaries and wages

Privacy Act of 1974

The Internal Revenue Code requires employees to fill out and give their employers a signed withholding allowance certificate that shows the number of withholding allowances an employee claims (section 3402(f)(2)(A) and its regulations). You are also required to give your social security number for proper identification and processing (section 6109 and its regulations).

If you do not fill out a withholding allowance certificate, you will be treated as a single person who claims no withholding allowances (sections 3402(i) and 3401(e)).

The main use of this information is to carry out the Internal Revenue laws of the United States. Routine uses of the information include giving it to the Department of Justice if they need it in connection with civil or criminal litigation, and to the State and District of Columbia for use in administering their tax laws.

At the time this form was printed, regulations were proposed which would require employers to send the IRS copies of certain Forms W-4.