PAYROLL **ACCOUNTING**

3

Federal and State Income Tax Withholding

LABYRINTH LEARNING®

Learning Objectives

- Identify and distinguish between mandatory and voluntary deductions
- Determine taxable earnings
- Calculate federal income tax withholding using the wage-bracket method
- Calculate federal income tax withholding using the percentage method
- Discuss state and local income tax withholding

Deductions from Employee Earnings

There are two types of amounts withheld from an employee's paycheck:

- **Mandatory deductions** must be withheld.
- **Voluntary deductions** may be requested by employee.

Mandatory Deductions

- Federal income tax withholding
- State income tax withholding
- Local income tax withholding
- Social Security tax (OASDI)
- Medicare tax (HI)
- State disability insurance tax

Voluntary Deductions

- Union dues
- Retirement plans
- Medical plans
- Cafeteria plans
  - Flexible spending accounts for benefits such as dependent care and medical expenses

Distinguishing Between Gross Pay and Taxable Pay

- Gross pay encompasses all earnings in a given period.
- Taxable pay
  - An employer must subtract tax-deferred contributions from gross pay to arrive at taxable pay.
  - Taxable pay is used to calculate mandatory deductions.
  - State and local taxable earnings may differ from federal taxable earnings.

Federal Income Tax Withholding

Pay-as-you-go system

- This was established as a result of the Current Tax Payment Act of 1943.
- Employers withhold income tax from employees and remit to the federal government.
- Certain employees may be exempt.

The Wage-Bracket Method (Pre-2020 Form W-4)

- The employee completed a pre-2020 Form W-4 (providing marital status and number of withholding allowances).
- The employer uses that information and tables in Pub-lication 15-T to determine the correct withholding.

2026 Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From 2019 or Earlier

WEEKLY Payroll Period

If the **Wage Amount** (line 1a) is		**SINGLE** Persons										
		And the number of allowances is:										
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
At least	But less than	The Tentative Withholding Amount is:										
$0	**$145**	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$145	**$155**	$1	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$155	**$165**	$2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$165	**$175**	$3	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$175	**$185**	$4	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$185	**$195**	$5	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$195	**$205**	$6	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$205	**$215**	$7	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$215	**$225**	$8	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

The Wage-Bracket Method (2020 or Later Form W-4)

- The employee completes a 2020 or later Form W-4.
- The employer uses that information, Worksheet 2 in Publication 15-T, and the appropriate tax table to determine the correct withholding.

Worksheet 2. Employer's Withholding Worksheet for Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later

Keep for Your Records

Table 5	Monthly	Semimonthly	Biweekly	Weekly	Daily
	12	24	26	52	260

Step 1. Adjust the employee's wage amount

1a	Enter the employee's total taxable wages this payroll period	1a	$
1b	Enter the number of pay periods you have per year (see Table 5)	1b	
1c	Enter the amount from Step 4(a) of the employee's Form W-4	1c	$
1d	Divide the amount on line 1c by the number of pay periods on line 1b	1d	$
1e	Add lines 1a and 1d	1e	$
1f	Enter the amount from Step 4(b) of the employee's Form W-4	1f	$
1g	Divide the amount on line 1f by the number of pay periods on line 1b	1g	$
1h	Subtract line 1g from line 1e. If zero or less, enter -0-. This is the **Adjusted Wage Amount**	1h	$

2026 Wage Bracket Method Tables for Manual Payroll Systems with Forms W-4 From 2020 or Later

WEEKLY Payroll Period

If the **Adjusted Wage Amount** (line 1h) is		Married Filing Jointly		Head of Household		Single or Married Filing Separately	
At least	But less than	Standard withholding	Form W-4, Step 2, Checkbox withholding	Standard withholding	Form W-4, Step 2, Checkbox withholding	Standard withholding	Form W-4, Step 2, Checkbox withholding
		The Tentative Withholding Amount is:					
$0	**$155**	$0	$0	$0	$0	$0	$0
$155	**$165**	$0	$0	$0	$0	$0	$1
$165	**$175**	$0	$0	$0	$0	$0	$2
$175	**$185**	$0	$0	$0	$0	$0	$3

The Percentage Method (Pre-2020 Form W-4)

- Multiply the number of allowances by the figure in the allowance table.

Table 7	Annually	Semiannually	Quarterly	Monthly	Semimonthly	Biweekly	Weekly	Daily
	$4,300	$2,150	$1,075	$358	$179	$165	$83	$17

- Subtract the allowance from taxable pay.
- Use the appropriate percentage method table from Publication 15-T to calculate the withholding.

The Percentage Method (2020 or Later Form W-4)

- The employee completes a 2020 or later Form W-4.
- The employer uses that information, Worksheet 4 in Publication 15-T, and the appropriate tax table to determine the correct withholding.

Worksheet 4. Employer's Withholding Worksheet for Percentage Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later

Keep for Your Records

Table 6	Monthly	Semimonthly	Biweekly	Weekly	Daily
	12	24	26	52	260

Step 1. Adjust the employee's wage amount

1a	Enter the employee's total taxable wages this payroll period	1a	$
1b	Enter the number of pay periods you have per year (see Table 6)	1b	
1c	Enter the amount from Step 4(a) of the employee's Form W-4	1c	$
1d	Divide line 1c by the number on line 1b	1d	$
1e	Add lines 1a and 1d	1e	$
1f	Enter the amount from Step 4(b) of the employee's Form W-4	1f	$
1g	Divide line 1f by the number on line 1b	1g	$
1h	Subtract line 1g from line 1e. If zero or less, enter -0-. This is the **Adjusted Wage Amount**	1h	$

2026 Percentage Method Tables for Manual Payroll Systems With Forms W-4 from 2020 or Later

WEEKLY Payroll Period

STANDARD Withholding Rate Schedules (Use these if the box in Step 2 of Form W-4 is **NOT** checked.)					Form W-4, Step 2, Checkbox, Withholding Rate Schedules (Use these if the box in Step 2 of Form W-4 **IS** checked.)				
If the Adjusted Wage Amount (line 1h) is:		The tentative amount to withhold is:	Plus this percentage—	of the amount that the Adjusted Wage exceeds—	If the Adjusted Wage Amount (line 1h) is:		The tentative amount to withhold is:	Plus this percentage—	of the amount that the Adjusted Wage exceeds—
At least—	But less than—				At least—	But less than—			
A	B	C	D	E	A	B	C	D	E
Married Filing Jointly					**Married Filing Jointly**				
$0	$619	$0.00	0%	$0	$0	$310	$0.00	0%	$0
$619	$1,096	$0.00	10%	$619	$310	$548	$0.00	10%	$310

Other Federal Tax Withholding Considerations

- Certain changes (e.g., a change in marital status or number of dependents) may require an updated W-4 Form.
- Dealing with deceased and terminated employees:
  - After death, a portion of the employee's earnings may be paid; these payments are not subject to federal tax withholding.
  - A terminated employee is entitled to all compensation earned; earnings are subject to federal tax withholding.

Changing the W-4 Form

- Reasons for changing:
  - Marriage
  - Divorce
  - Birth of a child
  - Job status change
- Changes result in an adjustment of federal income tax withholding.
- If making a change, an employee must submit the new 2020 or later Form W-4 rather than resubmitting an old version of the form.

State Income Tax Withholding

- This is calculated based on state taxable income (which may be the same amount used for federal taxes).
- Nine states do not collect state income tax.
- Some states levy a flat tax.
- Some states levy a graduated tax.

Local Income Tax Withholding

- Certain local jurisdictions levy taxes on those living and/or working there.
- Tax rates and how they are levied vary widely.
- They may differ for residents and nonresidents.