

How does Supplemental Wages Get Taxed: A Study

What are Supplemental Wages

In addition to regular pay period wages, employees get paid adhoc, once a while pay, like for example, bonus wages or vacation payout wages by his/her employer. IRS would like to tax these wages at a different tax rate when compared to normal tax rate table structure for regular wages.

For federal withholding taxes, if during year total supplemental wages are more than 1,000,000, then supplemental taxes would be 35% or the highest tax rate for that year. If total supplemental wages are less than 1,000,000, then employer can withhold flat rate of 25% of supplemental pay.

In the following sections(s), we will explain how our nimble, state-of-art US Payroll Tax Engine correctly computes Federal and State Supplemental taxes (for some states there no Supplemental tax rates and for some states there are no withholding taxes whatsoever).

iPhone Application



Scenario: Year-To-Date Supplemental wages less than 1,000,000

An Employee is paid \$1000 a week. He also earns a bonus of \$10000 as an adhoc pay. His Year-To-Date Bonus Wages are 10000 and Year-To-Date Withholding Taxes(applicable on bonus pay) are 1000. Now we will compute Federal Bonus Withholding tax for this input data as follows



PayMyCheck "Info"

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PayCheck Details

Taxing Authority Type: Federal
 Current Bonus Wages: 10000
 Additional Withholdings:
 YTD Suppl Wages: 10000
 YTD Suppl Taxes: 1000
 EE 401k Contribution:
 Generate Tax

Bonus=\$10000
 YTD Suppl Wages=\$10000
 YTD Suppl Taxes=\$1000



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 Generate Tax

Federal Taxes

Employee Taxes		Employer Taxes	
EE Withholding Tax :	4000.00	ER FUTA Tax :	56.00
EE FICA Tax :	620.00	ER FICA Tax :	620.00
EE Medicare Tax :	145.00	ER Medicare Tax :	145.00
Total EE Taxes :	4765.00	Total ER Taxes :	821.00

Net Pay

Gross Pay :	10000.00	Total Tax for \$10000 is 5235
EE Tax :	4765.00	
EE Deductions :	0	
Net Pay :	5235.00	

The Bonus Withholding Tax for current bonus pay of \$10000, accounting for YTD Bonus wages and Bonus Taxes would be the flat rate of 25% tax, since the total YTD bonus wages are less than \$1,000,000 where Year-to-Date Wages is \$10000 and Year-To-Date Tax is \$1000 is \$5235.

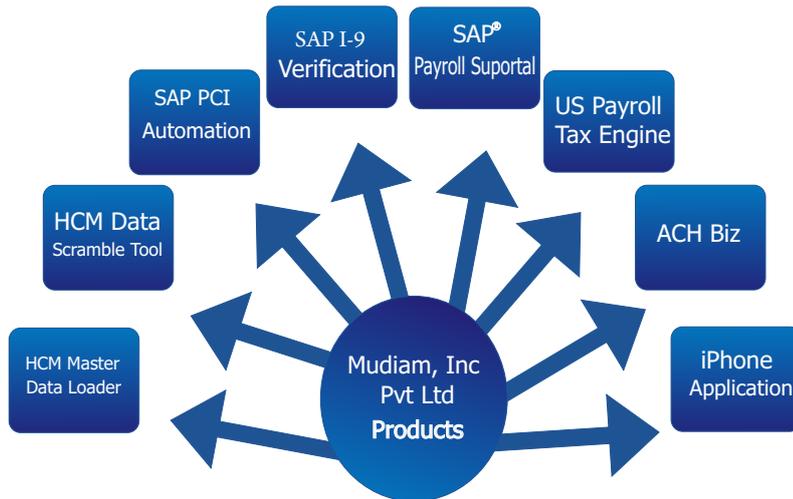
Scenario: Year-To-Date Supplemental wages greater than 1,000,000

An Employee is paid \$1000, 000 a week. He also earns a bonus of \$1000, 000 as an adhoc pay. His Year-To-Date Bonus Wages are 10000 and Year-To-Date Withholding Taxes (applicable on bonus pay) are 1000. Now we will compute Federal Bonus Withholding tax for this input data as follows




PayCheck Details		Federal Taxes	
Taxing Authority Type	Federal		
Current Bonus Wages	1000000		
Additional Withholdings			
YTD Suppl Wages	10000		
YTD Suppl Taxes	1000		
EE 401k Contribution			
Generate Tax			
		Employee Taxes	
		Employer Taxes	
		EE Withholding Tax : 252500.00	ER FUTA Tax : 56.00
		EE FICA Tax : 6621.60	ER FICA Tax : 6621.60
		EE Medicare Tax : 14500.00	ER Medicare Tax : 14500.00
		Total EE Taxes : 273621.60	Total ER Taxes : 21177.60
		Net Pay	
		Gross Pay :	1000000.00
		EE Tax :	273621.60
		EE Deductions :	0
		Net Pay :	726378.40

The Bonus Withholding Tax for current bonus pay of \$1000,000, accounting for YTD Bonus wages and Bonus Taxes would be the flat rate of 35% tax, since the total YTD bonus wages are greater than \$1,000,000 where Year-to-Date Wages is \$10000 and Year-To-Date Tax is \$1000 is \$726378.40.



About Us

We passionately develop business solutions, products and offer services to our customers. Our offerings cover the gamut of Payroll Systems, Taxes, Finance, Banking, Payment Cards, Business Process Optimization and HRIS (Human Resources). Our products include US Payroll Tax Engine, ACH Automation, Employee Verify (I-9) Automation, and real-time Credit Card Integration with ERPs like SAP®.

We help you address onshore and offshore technical resource requirements with contract, contract-to-hire and direct hire **our recruiting services (Staff Augmentation)**. We understand the challenges that many businesses face when looking for qualified staffing professionals. We make sure to respond to your needs with prompt, efficient, tailored services to exceed your recruitment expectations everyday and on every hire.

For our excellence in products/solutions - quality, commitment and services, **US Dept of Commerce**, awarded TWO years in a row 2009 and 2010 Houston, TX award for **Best Software and Services**

Our revolutionary state of art **US Payroll Tax Engine** is at <http://www.PayMyCheck.info>

Our real-time Employee verification system (**E-Verify**) is at <http://www.MudiamInc.com/I9Automation>

We, as SAP® Service Partner, help implement SAP® solutions in the areas of HRIS, Portals and Finance. We also host and support SAP® clients for post-production remote support using our expert level platinum resources that will help client in every possible way.

We, as Microsoft® ISV Partner, develop solutions for business community, a state of the art, ACH Automation product hosted as SaaS at <http://www.ACHbiz.com>

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