IRS Releases New Tables for Employee Income Tax Withholding

1 min read

Jan 12, 2018

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On January 11, 2018, the IRS issued its new withholding tables to assist employers with processing payrolls and withholding federal income tax under the new Tax Reform Act signed into law late last year (the "Act"). IRS Notice 1036 establishes the percentage method tables for 2018 income tax withholding with respect to employee wages.

Payroll taxes are not affected by the new Act, although the social security wage base has been increased to $128,400, in accordance with previously enacted legislation.

One item of note in the new guidance is the updated withholding rate for supplemental wages. There had been some confusion under the Act as to the proper flat withholding rate that would apply to supplemental wage payments. For such payments up to $1 million, that flat rate is now established at 22% (down from 25% to correspond to the Act's new rate schedule). For payments of supplemental wages in excess $1 million, a flat rate of 37% will apply (also down from 39.6%). Additionally, for backup withholding, the appropriate withholding rate is now 24%.

There is some urgency for employers to implement these new withholding rates, which will allow employees to see the tax savings from the Act in their paychecks. According to the Notice, employers should implement the 2018 withholding tables as soon as possible, and no later than February 15, 2018. Employers may continue to use the 2017 withholding tables for a few weeks until the 2018 tables are fully implemented.

Employers should contact their payroll services provider to make sure that the new withholding rates are correctly reflected, and their regular Hinshaw attorney if they have any questions on this new guidance.

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