

TX302 PAYROLL WITHHOLDING TAXES

Payroll Withholding Taxes FICA Taxes (Social Security & Medicare)

Add: Gross wages
Add: Taxable fringe benefits
Add: Taxable employer-paid deductions
Add: Employee business expense reimbursement
Less: Before-tax HSA or FSA contributions
Less: Before-tax dependent care account contributions
Less: Before-tax medical & dental insurance premiums
Less: Other before-tax deductions

Wages for Social Security & Medicare Tax Withholding

x Social Security Tax Rate

Social Security Tax Withholding

Payroll Withholding Taxes FICA Taxes (Social Security & Medicare)

Add: Gross wages
Add: Taxable fringe benefits
Add: Taxable employer-paid deductions
Add: Employee business expense reimbursement
Less: Before-tax HSA or FSA contributions
Less: Before-tax dependent care account contributions
Less: Before-tax medical & dental insurance premiums
Less: Other before-tax deductions

Wages for Social Security & Medicare Tax Withholding

x Medicare Tax Rate

Medicare Tax Withholding

Payroll Withholding Taxes Federal Income Taxes

Add: Gross wages
Add: Taxable fringe benefits
Add: Taxable employer-paid deductions
Add: Employee business expense reimbursement
Less: Before-tax retirement contributions
Less: Before-tax HSA or FSA contributions
Less: Before-tax dependent care account contributions
Less: Before-tax medical & dental insurance premiums
Less: Other before-tax deductions

Adjusted Wages before Allowances

Steps to Adjusting Withholding Allowances (Form W-4)

- 1. Estimate your income & deductions for the year.** This includes estimating not only salaries & wages, but also investment income and capital gains. Be sure that you know whether you are itemizing or taking the standard deduction and if you qualify for any credits.
- 2. Calculate your expected total tax for the year.** Use a tax software program, my spreadsheet, or an online estimator (such as TurboTax). Your prior year return can serve as a guide to make sure you're not missing income or deduction items. Be sure that you think of whether you have any changes from last year though (additional dependents, a home purchase, etc.)
- 3. Calculate how much tax you should pay in for the remainder of the year.** Compare the amount you've paid in so far to the total calculated in step 2. This will determine how much more you still need to pay by the end of the year. Divide this remainder by the number of pay periods left.
- 4. Match the desired withholding amount with the number of allowances.** Now you will take the amount of tax still needed to be withheld from step 3 and determine the number of allowances (based on married or single status) that will match this tax amount. Note that you may want to add 5-10% as a buffer to make sure you have enough withheld so that you do not owe taxes at the time of filing the return.
- 5. Fill out form W-4 and provide it to your employer.** The last step is to formally change your allowances by providing the proper documentation to your employer. Use Form W-4 or large employers generally have an online option.