Computer formula method

Income Tax Withholding Formula

1. The formula used to compute the tax withholding on the withholding tax tables in Subsection C computes the tax on the total wage amount and then subtracts the tax effect of the personal exemptions and dependents.

2. Withholding formula used to compute the withholding tables is as follows:

   The letters A through E stand for the following:

   A= Mininum withholding- Up to $12,500 taxed at rate of 2.1 percent

   B= Amount over minimum- $12,500 to $25,000 taxed at rate of 1.35 percent

   C= Excess amount- Over $25,000 taxed at rate of 1.35 percent

   D= Reduction amount on minimum withholding. Take into account personal exemption and standards deduction

   E= Reduction amount on income over minimum to $25,000.

   W= Withholding tax amount

These items are added or subtracted as the case may be to compute the amount of withholding tax applicable to a certain amount of income.

W= (A+B+C)-(D+E)

W = Withholding tax.
S = Salary per period.
X = Number of personal exemptions claimed for withholding; X may be 0, 1, or 2.
Y = Number of dependency credits claimed for withholding; Y may be 0 or greater.
M = Income Brackets for tax rate change.
If X = 0 or 1, then M_1 = $12,500, and M_2 = $25,000
If X = 2, then M_1 = $25,000, and M_2 = $50,000
N = Number of pay-periods per year (for example, weekly = 52 or monthly =12).
If S > 0
Then A = (S * .021)
Else A = 0
If S > (M_1 / N)
Then B = .0135 [S - (M_1 / N)]
Else B = 0
If S > (M_2 / N)
Then C = .0135 [S - (M_2 / N)]
Else C = 0
D = .021 {[(X * $4,500) + (Y * $1,000)] / N}
If [(X * $4,500) + (Y * $1,000)] > M_1
Then E = .0135 {[(X * $4,500) + (Y * $1,000) - M_1] / N}
Else E= 0
If (A + B + C) - (D + E) > 0
Then W = (A + B + C) - (D + E)
Else W = 0

3. In place of the withholding tables in Subsection C, employers may use the formula described in Subsection D.2 or an alternative formula if it produces equivalent results.