

Withholding from Supplemental Wage Payments

How does an employer determine the amount of income tax required to be withheld from certain supplemental wages paid to an employee?

The IRS has issued [Revenue Ruling 2008-29](#) to guide employers in nine different situations involving payment of supplemental wages. The nine situations are: (1) commissions paid at fixed intervals with no regular wages paid to the employee; (2) commissions paid at fixed intervals in addition to regular wages paid at different intervals; (3) draws paid in connection with commissions; (4) commissions paid to the employee only when the accumulated commission credit of the employee reaches a specific numerical threshold; (5) a signing bonus paid prior to the commencement of employment; (6) severance pay paid after the termination of employment; (7) lump sum payments of accumulated annual leave; (8) annual payments of vacation and sick leave; and (9) sick pay paid at a different rate than regular pay.

One common situation not addressed in the Ruling is the withholding of bonuses of salaried employees. There are various methods available in this situation. One such method is to withhold at a flat 25%. The rules are reflected in Section 7 of [Publication 15](#).

If you want more information on the Revenue Ruling or Publication 15, please contact us.