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DEPARTMENT OF ADMINISTRATION
Division of Accounts and Reports

INFORMATIONAL CIRCULAR NO: 97-P-009

DATE: December 2, 1996

SUBJECT: New Tables for Federal Withholding Tax for 1997

EFFECTIVE DATE: January 1, 1997

A & R CONTACT: Payroll Services - (913) 296-3146

APPROVAL:

SUMMARY: New Federal Withholding Tax Rates Effective for Paychecks Issued On or After January 1, 1997

The Internal Revenue Service (IRS) has issued advance copies of the new federal percentage tables for computing the federal withholding tax deductions effective for all paychecks issued on or after January 1, 1997. In addition, the standard deduction for one withholding allowance changes to $2,650.00 per year in calendar year 1997.

The attached tables have been prepared for use in computing all federal withholding tax payments for wages paid on or after January 1, 1997. When calculating federal and state withholding tax by annualizing, 26 pay periods should be used to arrive at an annualized amount.

At the present time, the Kansas state withholding tax formula is not changing. Therefore no new table is included for state withholding tax. Please refer to Division of Accounts and Reports Informational Circular No. 1138, issued June 10, 1992, for the state withholding tax formula.

IRS regulations require employees who claim an exempt status from federal withholding tax, for income earned in the United States, to file a new W-4 form annually; employees who claimed an exempt status in calendar year 1996 must file a new W-4 form for calendar year 1995 if they wish to continue their exempt status.

Employees may be eligible for the withholding tax exempt status if the following criteria are met:

1. The employee had no income tax liability in the previous year; **and**,
2. The employee anticipates no income tax liability in the upcoming year.

At the present time, the IRS has not yet issued new tables for computing Earned Income Credit (EIC) in 1997. A separate Informational Circular will be issued which contains the EIC tables as soon as the new EIC tables are released by the IRS. However, the Division of Accounts and Reports has been advised that the IRS has released the 1997 Form W-5, Earned Income Credit Advance Payment Certificate. A copy of the new Form W-5 will accompany the Informational Circular which contains the EIC tables.

The 1996 Form W-5 expires on December 31, 1996. The new form must be filed with the employer before advance 1997 payments can begin. Generally, employees have to successfully answer questions listed on page 2 of Form W-5 in order to be eligible for advance payments. Advance EIC qualifiers must have at least one qualifying child and expect that 1997 earned and adjusted gross income will each be less that $25,760 (include spouses' income if filing jointly), in addition to meeting other criteria. Employees cannot claim the EIC if planning to file either Form 2555 or 2555-EZ (relating to foreign earned income) for 1997. A nonresident alien may not claim the EIC for 1997 unless married to a U.S. citizen and elects to be taxed as a resident alien for all of 1997.

The Department of Administration will be updating the SHARP federal and state tax data records on December 23, 1996, for all employees currently claiming exemption from withholding or claiming the EIC to reflect either a Special Tax Withholding Status of 'None' or an Earned Income Credit status of 'Not applicable'. The tax data record updates will be effective January 1, 1997. On-line agencies must enter a new effective-dated row into SHARP for employees who wish to claim exemption from withholding or claim the EIC in calendar year 1997; paper user agencies should submit an employee data sheet to the Division of Personnel Services for employees who wish to claim exemption from withholding or the EIC in 1997. The new tax data row should be added effective January 2, 1997. Please refer to Pages 19 through 28 of the *SHARP Payroll Participant Guide (Rev. 10-96)* for specific instructions on entering employee tax data information.

The Division of Accounts and Reports will provide a listing to agencies which identifies all employees whose withholding tax status or EIC status was updated in SHARP on December 23, 1996. The listing will include department, employee ID, name, SSN, and withholding tax exempt status/EIC exempt status.

The Department of Administration will make all of the necessary changes in the computation of withholding taxes for SHARP agencies. Regents institutions are responsible for implementing the new withholding tax rates in their respective payroll systems effective with all payroll warrants issued on or after January 1, 1997.

SAM:JJM:LAK
Attachment

SCHEDULE A (FEDERAL WITHHOLDING TAX)

ALL PAY PERIODS
SINGLE PERSON INCLUDING HEAD OF HOUSEHOLD
DETERMINING FEDERAL TAX TO BE WITHHELD

To determine the amount of federal withholding tax, first multiply the taxable gross wages by the number of pay periods in a year to get the annual wage. Subtract the value of exemptions allowed (determined by multiplying $2,650.00 times the number of exemptions claimed) from the annual wage. Then determine federal withholding tax on the balance of annual gross wages, after deducting value of exemptions, by applying tax table below to remainder of the annual taxable gross wages. The amount of tax is then divided by the number of pay periods to arrive at the amount of federal withholding tax to be deducted per pay period.

WAGES LESS EXEMPTIONS:		INCOME TAX TO BE WITHHELD:	
OVER	BUT NOT OVER		OF EXCESS OVER
$ 0.00	$ 2,650.00	$ .00	$
$ 2,650.00	$ 26,150.00	$ .00 PLUS 15 %	$ 2,650.00
$ 26,150.00	$ 55,500.00	$ 3,525.00 PLUS 28 %	$ 26,150.00
$ 55,500.00	$126,150.00	$11,743.00 PLUS 31 %	$ 55,500.00
$126,150.00	$272,550.00	$33,644.50 PLUS 36 %	$126,150.00
$272,550.00		$86,348.50 PLUS 39.6 %	$272,550.00

ALL PAY PERIODS
MARRIED PERSON
DETERMINING FEDERAL TAX TO BE WITHHELD

To determine the amount of federal withholding tax, first multiply the taxable gross wages by the number of pay periods in a year to get the annual wage. Subtract the value of exemptions allowed (determined by multiplying $2,650.00 times the number of exemptions claimed) from the annual wage. Then determine federal withholding tax on the balance of annual gross wages, after deducting value of exemptions, by applying tax table below to remainder of the annual taxable gross wages. The amount of tax is then divided by the number of pay periods to arrive at the amount of federal withholding tax to be deducted per pay period.

WAGES LESS EXEMPTIONS:		INCOME TAX TO BE WITHHELD:	
OVER	BUT NOT OVER		OF EXCESS OVER
$ 0.00	$ 6,450.00	$ .00	$
$ 6,450.00	$ 45,450.00	$ .00 PLUS 15 %	$ 6,450.00
$ 45,450.00	$ 92,850.00	$ 5,850.00 PLUS 28 %	$ 45,450.00
$ 92,850.00	$156,000.00	$19,122.00 PLUS 31 %	$ 92,850.00
$156,000.00	$275,300.00	$38,698.50 PLUS 36 %	$156,000.00
$275,300.00		$81,646.50 PLUS 39.6 %	$275,300.00