

Are taxes withheld when paying employees a bonus?

Yes. According to the IRS in *IRS Publication 15*, bonus payments are treated as supplemental wages, defined as “compensation paid in addition to an employee’s regular wages.”

The method of withholding taxes depends on whether the supplemental payment is identified as a separate payment from regular wages. Additionally, withholding rules vary depending on the amount. First, some rules regarding when withholdings on supplemental wage payments to an employee are *less than or equal to \$1,000,000*:

- When supplemental wages are *combined* with regular wages, *without specifying the amount of each*, taxes are withheld as if the total were a single payment for a regular payroll period.
- When supplemental wages are paid *separately (or combined in a single payment but each separate amount is specified)*, the income tax withholding method depends partly on whether you withhold income tax from an employee’s regular wages. There are two options: If taxes are withheld, you can either:
 - 1.) Withhold a flat 25%, or
 - 2.) Add the supplemental and regular wages for the most recent payroll period. Then, figure income tax withholding as if the total was a single payment. Subtract the tax already withheld from regular wages. Withhold the remaining tax from the supplemental wages.

Regardless of the method, the supplemental wages are subject to social security, Medicare, and FUTA taxes.

Special rules apply to withholdings on supplemental wages of *more than \$1,000,000*. Withhold as described above *up to \$1,000,000*. Any amount in excess of \$1,000,000 will have taxes withheld at 5%, regardless of the employee’s Form W-4. Please refer to *IRS Publication 15, Section 7* at <http://www.irs.gov/pub/irs-pdf/p15.pdf>, or contact the Municipal Assistance Center with any further questions.

- Tara Fischer, Research and Information Assistant, VLCT Municipal Assistance Center

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