Federal and State Income Tax Withholding on Additional/Bonus Income

The income tax withheld from additional/bonus income is often more than the income tax withheld from your regular pay. The IRS withholds tax on your additional/bonus income by applying your regular tax rate to your combined salary and bonus income. Although your regular rate is applied in this scenario, combining your salary and bonus on one check could put you in a higher withholding bracket, causing the tax allocated to your bonus to actually be higher than the regular rate.

IRS Withholding Calculator

Gather your most recent pay stub and use the IRS Withholding Calculator on the IRS website to estimate how to complete the Form W-4, Employee’s Withholding Certificate. The calculator asks for an estimate of the federal income tax withheld from your pay to date, including additional pay and bonuses. Estimate that the amount withheld from your additional pay/bonus will be 25 percent. If you follow the recommendations at the end of the Tax Withholding Estimator, and change your W-4, the IRS reminds you to be sure to recheck your withholding mid-year to help protect against having too little withheld.

How to Complete Your W-4 Form

The Form W-4 can be downloaded from the IRS or Payroll Department’s website. Complete section 1 with your name, address, Social Security number and filing status, and steps 2-4 if applicable. This form must be turned in to the Payroll Department by the 10th of the month to take effect for that pay period. Please do not email this form to protect your personal information.

CAUTION: If you choose to change your W-4 form for additional/bonus payments, it is critical that you understand the possible tax implications. Remember to submit a new W-4 form with your regular withholdings after you receive the additional/bonus income. If you fail to change your withholdings back, you could have insufficient withholding for the rest of the year, which could result in a hefty tax bill when you file your next tax return. Changing your tax withholding for a pay period is always an option, but you should make sure that you have the right information to ensure that your reporting goes as smoothly as possible. The withholding on the W-4 affects your entire paycheck, not just the additional/bonus income.