

How is federal tax withholding calculated for contract employees?

Departments should follow these steps to calculate the amount of federal tax withholding on compensation paid to a contract employee (i.e. those employees paid as part time adjunct faculty or student academics who are paid monthly). **Please note that withholding for each contract is considered without regard to any other contracts the individual may have unless the multiple contracts contain the exact same number of days.**

Steps

1. Determine the **monthly pay amount** and the number of days in the contract:
 - a. Divide the contract amount by the number of payments the individual will receive, or
 - b. Use the monthly payment amount, if known.
 - c. Count the days between the contract start and end dates.

Example

1. An individual is on a \$20,000 contract paid in 5 monthly installments from 3/1/2009 to 7/7/2009. The **monthly pay amount** is \$4,000. The number of days in the contract is 129 (31+30+31+30+7)

2. **Annualize** the monthly pay amount:
 - a. Divide the number of days in the contract by 365
 - b. Multiply by 12. This is the **number of periods** in the contract.
 - c. Multiply the **monthly pay amount** by the **number of periods** in the contract.

2. **Annualized pay...**
 - a. $129 \div 365 = 0.3534$
 - b. $0.3534 \times 12 = 4.2411$
 - c. $\$4,000 \times 4.2411 = \$16,964.40$

3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the **annualized pay**. For tax year 2009, the **withholding allowance amount** can be found in Table 1 from IRS Publication 15-T (rev. March 2009). One **allowance** equals \$3,650. The result is **taxable income**.

3. The individual has completed form W-4 as a single taxpayer with one **allowance** and no additional withholding.

 $\$16,964.40 - \$3,650.00 = \$13,314.40$

Table 1. Percentage Method—2009 Amount for One Withholding Allowance

Payroll Period	One Withholding Allowance
Weekly	\$ 70.19
Biweekly	140.38
Semimonthly	152.08
Monthly	304.17
Quarterly	912.60
Semiannually	1,825.00
Annually	3,650.00
Daily or miscellaneous (each day of the payroll period)	14.04

4. Find the **taxable income** amount on the appropriate section of the **tax rate table**. Follow the instructions on the table to calculate the **annual tax amount**. The **tax rate table** can be found in Table 7 from IRS Publication 15-T (rev. March 2009).

4. \$13,314.40 is between \$10,400 and \$36,200, so the annual **tax amount** is...

 $\$13,314.40 - \$10,400 = \$2,914.40$
 $\$2,914.40 \times 15\% = \437.16
 $\$437.16 + \$322 = \$759.16$

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TABLE 7—ANNUAL Payroll Period

(a) SINGLE person (including head of household) — If the amount of wages (after subtracting withholding allowances) is:				(b) MARRIED person — If the amount of wages (after subtracting withholding allowances) is:			
		The amount of income tax to withhold is:				The amount of income tax to withhold is:	
Not over \$7,180		\$0		Not over \$15,750		\$0	
Over—	But not over—		of excess over—	Over—	But not over—		of excess over—
\$7,180	—\$10,400 . . .	10%	—\$7,180	\$15,750	—\$24,450 . . .	10%	—\$15,750
\$10,400	—\$36,200 . . .	\$322.00 plus 15%	—\$10,400	\$24,450	—\$75,650 . . .	\$870.00 plus 15%	—\$24,450
\$36,200	—\$66,530 . . .	\$4,192.00 plus 25%	—\$36,200	\$75,650	—\$118,130 . . .	\$8,550.00 plus 25%	—\$75,650
\$66,530	—\$173,600 . . .	\$11,774.50 plus 28%	—\$66,530	\$118,130	—\$216,800 . . .	\$19,170.00 plus 28%	—\$118,130
\$173,600	—\$375,000 . . .	\$41,754.10 plus 33%	—\$173,600	\$216,800	—\$380,700 . . .	\$46,741.60 plus 33%	—\$216,800
\$375,000	\$108,216.10 plus 35%	—\$375,000	\$380,700	\$100,894.60 plus 35%	—\$380,700

5. Divide the **annual tax amount** by the **number of periods** in the contract, then add any additional withholding. The result is the amount of tax withholding per pay period.
5. $\$759.16 \div 4.2411 = \179.00

Additional Examples

Employee 1 (A typical academic semester contract)

Compensation	Contract Begin Date	Contract End Date	Amount per Pay Period	W-4 Marital Status	Withholding Allowance	Additional Withholding per Month
\$10,000	01/01/2009	05/7/2009	\$2,000	Single	1	\$0

1. Determine the monthly pay and the number of days in the contract
1. Monthly pay = \$2,000
Days in Contract = 127 (31+28+31+30+7)
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2. **Annualize** the monthly pay amount:
- Divide the number of days in the contract by 365
 - Multiply by 12. This is the **number of periods** in the contract.
 - Multiply the **monthly pay amount** by the **number of periods** in the contract.
- 2.
- $127 \div 365 = 0.3479$
 - $0.3479 \times 12 = 4.1753$
 - $\$2,000 \times 4.1753 = \$8,350.60$
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3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the **annualized pay**. For tax year 2009, the **withholding allowance amount** can be found in Table 1 from IRS Publication 15-T (rev. March 2009). One **allowance** equals \$3,650. The result is **taxable income**.
3. $\$8,350.60 - \$3,650.00 = \$4,700.60$
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4. Find the **taxable income** amount on the appropriate section of the **tax rate table**. Follow the instructions on the table to calculate the **annual tax amount**. The **tax rate table** can be found in Table 7 from IRS Publication 15-T (rev. March 2009).
4. \$4,700.60 is less than \$7,180.00 so no tax will be withheld. If the employee determines that she will owe tax when she completes her tax return, she may request additional withholding on Form W-4.

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Employee 2 (A typical adjunct 10 month contract)

Compensation	Contract Begin Date	Contract End Date	Amount per Pay Period	W-4 Marital Status	Withholding Allowance	Additional Withholding per Month
\$20,000	08/01/2009	05/31/2010	\$2,000	Married	1	\$100

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|--|--|
| <p>1. Determine the monthly pay and the number of days in the contract</p> | <p>1. Monthly pay = \$2,000
Days in Contract = 304
(31+30+31+30+31+31+28+31+30+31)</p> |
| <p>2. Determine the annualized pay amount:</p> <p>a. Divide the number of days in the contract by 365.</p> <p>b. Multiply by 12. This is the number of periods in the contract.</p> <p>c. Multiply the monthly pay amount by the number of periods in the contract.</p> | <p>2.</p> <p>a. $304 \div 365 = 0.8329$</p> <p>b. $0.8329 \times 12 = 9.9945$</p> <p>c. $\\$2,000 \times 9.9945 = \\$19,989$</p> |
| <p>3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the annualized pay. For tax year 2009, the withholding allowance amount can be found in Table 1 from IRS Publication 15-T (rev. March 2009). One allowance equals \$3,650. The result is taxable income.</p> | <p>3. $\\$19,989 - \\$3,650.00 = \\$16,339$</p> |
| <p>4. Find the taxable income amount on the appropriate section of the tax rate table. Follow the instructions on the table to calculate the annual tax amount. The tax rate table can be found in Table 7 from IRS Publication 15-T (rev. March 2009).</p> | <p>4. \$16,339 is between \$15,750 and \$24,450 so the annual tax amount is...</p> <p>$\\$16,339 - \\$15,750 = \\$589$</p> <p>$\\$589 \times 10\% = \\$58.90$</p> |
| <p>5. Divide the annual tax amount by the number of periods in the contract, then add any additional withholding. The result is the amount of tax withholding per pay period.</p> | <p>5. $\\$58.90 \div 9.9945 = \\5.89</p> <p>$\\$5.89 + \\$100.00 = \\$105.89$</p> |

Definitions

- **Annualize & annualized pay:** How much the payee would receive if the payment was for an entire year
- **Number of periods:** The number of months, and fractions of a month, in a contract
- **Monthly pay amount:** The amount a payee will receive each monthly paycheck during the contract period
- **Withholding allowance amount/allowance:** An amount equal to one personal exemption for the current tax year
- **Taxable income:** Total income, less total withholding allowances and before tax deductions (if any)
- **Tax rate table:** A table published annually by the IRS to assist with determining tax liabilities or withholding
- **Annual tax amount:** The total amount of tax that would be withheld if the payee received the payment for an entire year
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