

Tax Withholding Implications on Lump Sum Payments

The following information is for members who may wish to adjust the withholding amounts with respect to the July 20th paycheck which will include lump sum payments due under SEBAC 2017, and for those eligible, longevity payments that would otherwise have been paid in April. Note that this is not tax advice, and is not designed to impact the ultimate taxes paid by the member on their income. It is to allow members to make decisions about how to adjust how much is withheld from this particular pay check to take into account that it is a one-time payment rather than reflecting their normal bi-weekly earnings.

(1) One-time adjustments to withholding can be accomplished by the member going to their HR department and giving them a new W-4. This can be done anytime between June 30th and July 8th. Members who will be on vacation during that period can ask their HR department to hold the new W-4 until June 30th. The idea is not to affect the paycheck before the July 20th paycheck.

(2) Members should refile their original W-4 with HR the week of July 16th. Again, most HR departments should be willing to accept the filing early and hold it on the member's request. Members should be certain to remember to refile because leaving the adjusted W-4 in effect for the rest of the year could lead to under-withholding and a substantial tax penalty.

(3) The forms can be filled out in advance. It can be a little confusing but is relatively simple ***if the member has a copy of his/her check stub when filling out the form.***

(a) First, here's a link to the current W-4: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>.

(b) The following explanation may be helpful (adapted from a finance website called Zack):

How to Adjust Withholding on Bonus Income

The tax withheld from bonus income is often more than the tax withheld from your regular pay. Your payroll department *** applies your regular 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. However, you're allowed to adjust your withholding any time by simply providing a new withholding allowance certificate to your payroll department.

1. Download Form W-4 from the Internal Revenue Service website. (see above) Complete sections 1 through 3 with your name, address, Social Security number and marital status.
2. Calculate withholding adjustments. Gather your most recent pay stub and use the IRS Withholding Calculator on the IRS website to estimate the number of allowances you should claim. <https://apps.irs.gov/app/withholdingcalculator/> The calculator asks for an estimate of the federal income tax withheld from your pay to date, including bonuses. Estimate that the amount withheld from your bonus will be 20 percent. If the

calculator results show you should adjust your W-4 allowances, you'll see a message with the number of allowances to claim on line 5 of your W-4.

3. Make sure you revert to your prior W-4 the following pay period to avoid a possible substantial penalty.

Obviously, members can choose to avoid all this hassle and simply receive any over-withholding from the July 20th check as part of a tax refund after the 1st of the year. But this process is available to those who prefer it.