

FEDERAL TAX WITHHOLDING CALCULATION

Federal tax withholding is an ongoing prepayment system where your employer takes money from each paycheck and sends it to the IRS on your behalf. The exact amount withheld is a complex calculation based on your income and the information you provide on your Federal form W-4, Employee's Withholding Certificate, which you complete online in Workday.

Key Factors in the Calculation

The amount withheld depends on three primary factors:

- **Federal Taxable Income:** The total amount you earn each pay period minus any deductions that may be tax exempt (S125 Insurance, HSA, pretax 403b)
- **Pay Frequency:** How often you are paid (bi-weekly or semi-monthly). This determines the specific tax tables used in the calculation.
- **Form W-4 Information:** The details you provide to your employer, which typically include:
 - Your **filing status** (Single, Married Filing Jointly, etc.).
 - Information about **multiple jobs** or a working spouse.
 - **Dependents** and other tax credits you claim.
 - Any additional income, deductions, or extra withholding you want applied.
 - Nonresident Alien status

The Calculation Process (Simplified)

Employers use the information above with official IRS tax tables, specifically the Percentage Method or Wage Bracket Method described in [IRS Publication 15-T](#), to determine the precise withholding amount for each paycheck. This is done each time an employee is paid. If hourly, the taxable wages will vary with the hours worked and pay earned.

Conceptually, the calculation works as follows:

1. **Determine Taxable Wages:** Your gross pay is reduced by any pre-tax deductions (like for health insurance or retirement contributions).
2. **Annualize Wages:** The employer estimates your annual income by multiplying your pay-period taxable wages by the number of pay periods in the year.

3. **Apply W-4 Adjustments:** The employer incorporates the information from your W-4 (like standard deductions, credits, and other income/deductions) to find your estimated annual tax liability.
4. **Calculate Per-Paycheck Withholding:** The total estimated annual tax is divided by the number of pay periods to determine the amount to withhold from that specific check.

Nonresident Alien selection on W4 in Workday:

There is a box on the Workday W4 that can be checked to indicate that the worker is a Nonresident Alien. More information can be found in Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens.

Nonresident Alien: If you're a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Nonresident Alien

Basically, Nonresident Aliens are not allowed to claim the standard deduction on their federal Form 1040 when they file their return. Therefore, if this box is checked on the W-4 in Workday, when the tax calculation is performed, there is an additional \$15,000 added in Step 2 above, the annualization step. That annualized wage amount is used to then determine the tax amount to withhold on that check.

There is no penalty for not checking the NRA box on the W4 in Workday. If not checked, the result is less tax will be withheld. If it is checked, more tax will be withheld.

As with every employee, regardless of their citizenship status, what you owe or what you are refunded for the previous year is determined when filing your personal federal return.

How to Estimate Your Withholding

For an easy and accurate estimate of your federal tax withholding, the IRS recommends using their official [Tax Withholding Estimator](#). This tool helps you ensure you are not withholding too little (which could result in a tax bill or penalties) or too much (which results in a large refund of money you could have had throughout the year). If the results indicate a need for a change, you can use the tool to fill out a new Form W-4 and submit it to your employer.