

## Tax Withholding on Bonus Income

The tax withheld from bonus income is often more than the tax withheld from your regular pay. The IRS withholds tax on your 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

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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. 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 25 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.

### How to Complete Your W-4 Form

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The Form W-4 can be downloaded from the IRS or Payroll Department's website. Complete sections 1 through 3 with your name, address, Social Security number and marital status, and calculated withholding adjustments. This form must be turned in to the Payroll Department to take effect. Please do not email this form.

**TIP:** If you choose to change your W-4 form for a bonus payment, it is critical that you understand the possible tax implications. Remember to submit a new W-4 form with your regular withholding allowances after you receive the bonus income. If you fail to change your allowances back, you could have insufficient withholding for the rest of the year. This 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 bonus.