

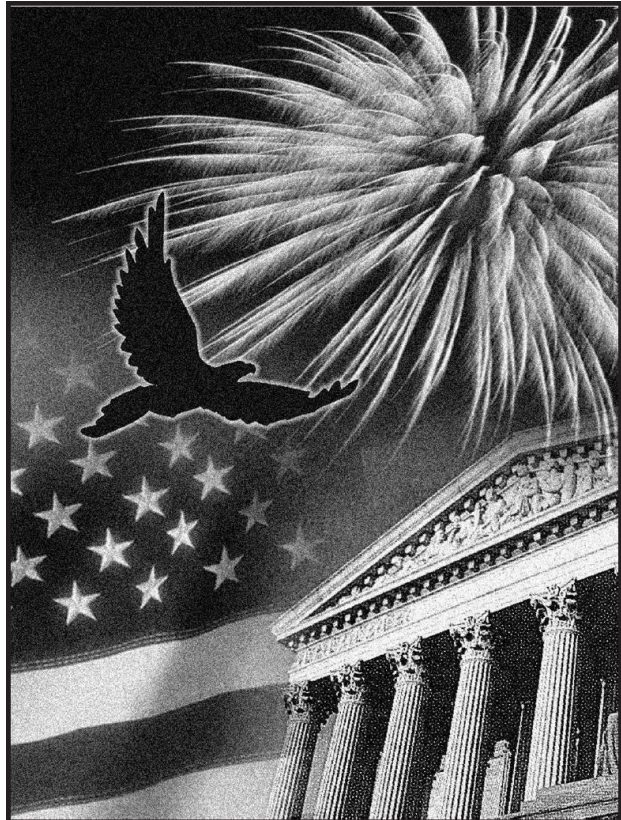
# Publication 15

## (Circular E), Employer's Tax Guide

For use in preparing

**2025** Returns

Volume 2 of 4



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***Relief provisions.*** If you have a reasonable basis for not treating a worker as an employee, you may be relieved from having to pay employment taxes for that worker. To get this relief, you must file all required federal tax returns, including information returns, on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any periods beginning after 1977. See Pub. 1976, Do You Qualify for Relief Under Section 530.

**IRS help.** If you want the IRS to determine whether a worker is an employee, file Form SS-8.

**Voluntary Classification Settlement Program (VCSP).** Employers who are currently treating their workers (or a class or group of workers) as independent contractors or other nonemployees and want to voluntarily reclassify their workers as

employees for future tax periods may be eligible to participate in the VCSP if certain requirements are met. File Form 8952 to apply for the VCSP. For more information, go to [IRS.gov/VCSP](https://www.irs.gov/VCSP).

## **Business Owned and Operated by Spouses**

If you and your spouse jointly own and operate a business and share in the profits and losses, you may be partners in a partnership, whether or not you have a formal partnership agreement. See Pub. 541 for more details. The partnership is considered the employer of any employees, and is liable for any employment taxes due on wages paid to its employees.

**Exception—Qualified joint venture.** For tax years beginning after 2006, the Small Business and Work Opportunity Tax Act of 2007 (P.L. 110-28) provides that a “qualified joint venture,” whose only members are

spouses filing a joint income tax return, can elect not to be treated as a partnership for federal tax purposes. A qualified joint venture conducts a trade or business where:

- The only members of the joint venture are spouses who file a joint income tax return,
- Both spouses materially participate (see *Material participation* in the instructions for Schedule C (Form 1040), line G) in the trade or business (mere joint ownership of property isn't enough),
- Both spouses elect to not be treated as a partnership, and
- The business is co-owned by both spouses and isn't held in the name of a state law entity such as a partnership or limited liability company (LLC).

To make the election, all items of income, gain, loss, deduction, and credit must be divided between the spouses, in accordance with each spouse's interest in the venture,

and reported as sole proprietors on a separate Schedule C (Form 1040) or Schedule F (Form 1040). Each spouse must also file a separate Schedule SE (Form 1040) to pay self-employment taxes, as applicable. See the Instructions for Form 1040-SS for American Samoa, Guam, the CNMI, the USVI, and Puerto Rico.

Spouses using the qualified joint venture rules are treated as sole proprietors for federal tax purposes and generally don't need an EIN. If employment taxes are owed by the qualified joint venture, either spouse may report and pay the employment taxes due on the wages paid to the employees using the EIN of that spouse's sole proprietorship. Generally, filing as a qualified joint venture won't increase the spouses' total tax owed on the joint income tax return. However, it gives each spouse credit for social security earnings on which retirement benefits are based and

for Medicare coverage without filing a partnership return.

**Note.** If your spouse is your employee, not your partner, see *One spouse employed by another* in section 3. For more information on qualified joint ventures, go to [IRS.gov/QJV](https://www.irs.gov/QJV).

**Exception—Community income.** If you and your spouse wholly own an unincorporated business as community property under the community property laws of a state, foreign country, or U.S. territory, you can treat the business either as a sole proprietorship (of the spouse who carried on the business) or a partnership. You may still make an election to be taxed as a qualified joint venture instead of a partnership. See *Exception—Qualified joint venture*, earlier in this section.

### 3. Family Employees

**Child employed by parents.** Payments for the services of a child under age 18 who works for their parent in a trade or business aren't subject to social security and Medicare taxes if the trade or business is a sole proprietorship or a partnership in which each partner is a parent of the child. If these payments are for work other than in a trade or business, such as domestic work in the parent's private home, they're not subject to social security and Medicare taxes until the child reaches age 21. However, see Covered services of a child or spouse, later. Payments for the services of a child under age 21 who works for their parent, whether or not in a trade or business, aren't subject to FUTA tax. Payments for the services of a child of any age who works for their parent are generally subject to income tax withholding unless the payments are for domestic work in the parent's home, or unless the payments are



for work other than in a trade or business and are less than \$50 in the quarter or the child isn't regularly employed to do such work.

**One spouse employed by another.** The wages for the services of an individual who works for their spouse in a trade or business are subject to income tax withholding and social security and Medicare taxes, but not to FUTA tax. However, the payments for services of one spouse employed by another in other than a trade or business, such as domestic service in a private home, aren't subject to social security, Medicare, and FUTA taxes.

**Covered services of a child or spouse.**

The wages for the services of a child or spouse are subject to income tax withholding as well as social security, Medicare, and FUTA taxes if they work for:

- A corporation, even if it is controlled by the child's parent or the individual's spouse;

- A partnership, even if the child's parent is a partner, unless each partner is a parent of the child;
- A partnership, even if the individual's spouse is a partner; or
- An estate, even if it is the estate of a deceased parent.

In these situations, the child or spouse is considered to work for the corporation, partnership, or estate, not you.

**Parent employed by their child.** When the employer is a child employing their parent, the following rules apply.

- Payments for the services of a parent in their child's (the employer's) trade or business are subject to income tax withholding and social security and Medicare taxes.

- Payments for the services of a parent not in their child's (the employer's) trade or business are generally not subject to social security and Medicare taxes.



*Social security and Medicare taxes do apply to payments made to a parent for domestic services if all of the following apply.*

- The parent is employed by their child (the employer).
- The employer has a child or stepchild (including an adopted child) living in the home.
- The employer is a surviving spouse, divorced and not remarried, or living with a spouse who, because of a mental or physical condition, can't care for their child or stepchild for at least 4 continuous weeks in the calendar quarter in which the service is performed.

- The child or stepchild of the employer is either under age 18 or, due to a mental or physical condition, requires the personal care of an adult for at least 4 continuous weeks in the calendar quarter in which the service is performed.

Payments made to a parent employed by their child aren't subject to FUTA tax, regardless of the type of services provided.

## **4. Employee's Social Security Number (SSN)**

You're required to get each employee's name and SSN and to enter them on Form W-2. An employee's SSN consists of nine digits arranged as follows: 000-00-0000. This requirement also applies to resident and nonresident alien employees. You should ask your employee to show you their social security card, but the employee isn't required to show the card if it isn't available. However, if an employee can't provide their social

security card, you should verify their SSN and their eligibility for employment as discussed later in this section under Verification of SSNs.



*Don't accept a social security card that says "Not valid for employment." An SSN issued with this legend doesn't permit employment.*

You may, but aren't required to, photocopy the social security card if the employee provides it. If you don't provide the correct employee name and SSN on Form W-2, you may owe a penalty unless you have reasonable cause. See Pub. 1586, Reasonable Cause Regulations & Requirements for Missing and Incorrect Name/TINs on Information Returns, for information on the requirement to solicit the employee's SSN.



*In many cases, a replacement social security card can be applied for online without visiting an SSA office. In some cases, an SSN application can also be started*

*online before visiting an SSA office. For more information, go to [SSA.gov/number-card](https://ssa.gov/number-card).*

**Applying for a social security card.** Any employee who is legally eligible to work in the United States and doesn't have a social security card can get one by completing Form SS-5, Application for a Social Security Card, and submitting the necessary documentation. You can get Form SS-5 from the SSA website at [SSA.gov/forms/ss-5.pdf](https://ssa.gov/forms/ss-5.pdf), at SSA offices, or by calling 800-772-1213 or 800-325-0778 (TTY). The employee must complete and sign Form SS-5; it can't be filed by the employer. You may be asked to supply a letter to accompany Form SS-5 if the employee has exceeded their yearly or lifetime limit for the number of replacement cards allowed.

***Where to get and file Form SS-5 in the U.S. territories.*** Below is a list of the U.S. SSA offices located in the U.S. territories.

American Samoa

Centennial Building 3rd Floor, Suite 302

1 Utulei Rd

Pago Pago, AS 96799

Guam

Suite 155

770 East Sunset Blvd

Barrigada, GU 96913

Commonwealth of the Northern

Mariana Islands

MH II Building, Suite 201

Marina Heights Business Park

Saipan, MP 96950

U.S. Virgin Islands

1st Floor, Suite 14

8000 Nisky Shopping CT

St. Thomas, VI 00802

Additional information is available on the Social Security Office Locator page at [secure.ssa.gov/ICON](https://secure.ssa.gov/ICON). Also go to this website and enter your ZIP code to find your nearest SSA office in Puerto Rico.

**Applying for an SSN.** If you file Form W-2 on paper and your employee applied for an SSN but doesn't have one when you must file Form W-2, enter "Applied For" on the form. If you're filing electronically, enter all zeros (000-00-0000 if creating forms online or 000000000 if uploading a file) in the SSN field. When the employee receives the SSN, file Copy A of Form W-2c, Corrected Wage and Tax Statement, with the SSA to show the employee's SSN. Furnish Copies B, C, and 2 of Form W-2c to the employee. Up to 25 Forms W-2c for each Form W-3c, Transmittal of Corrected Wage and Tax Statements, may be filed per session online with no limit on the number of sessions. For more information, go to the SSA's Employer W-2 Filing Instructions



& Information webpage at [SSA.gov/employer](https://ssa.gov/employer). Advise your employee to correct the SSN on their original Form W-2.

**Correctly record the employee's name and SSN.** Record the name and SSN of each employee as they're shown on the employee's social security card. If the employee's name isn't correct as shown on the card (for example, because of marriage or divorce), the employee should request an updated card from the SSA. Continue to report the employee's wages under the old name until the employee shows you the updated social security card with the corrected name.

If the SSA issues the employee an updated card after a name change, or a new card with a different SSN after a change in alien work status, file a Form W-2c to correct the name/SSN reported for the most recently filed Form W-2. It isn't necessary to correct other years if the previous name and number

were used for years before the most recent Form W-2.

**IRS individual taxpayer identification numbers (ITINs) for aliens.** Don't accept an ITIN in place of an SSN for employee identification or for work. An ITIN is only available to resident and nonresident aliens who aren't eligible for U.S. employment and need identification for other tax purposes. You can identify an ITIN because it is a nine-digit number, formatted like an SSN, that starts with the number "9" and has a range of numbers from "50–65," "70–88," "90–92," and "94–99" for the fourth and fifth digits (for example, 9NN-7N-NNNN). For more information about ITINs, see the Instructions for Form W-7 or go to [IRS.gov/ITIN](https://www.irs.gov/ITIN).



*An individual with an ITIN who later becomes eligible to work in the United States must obtain an SSN. If the individual is currently eligible to work in the United States, instruct the individual to apply*

*for an SSN and follow the instructions under Applying for an SSN, earlier in this section. Don't use an ITIN in place of an SSN on Form W-2.*

**Verification of SSNs.** Employers and authorized reporting agents can use the Social Security Number Verification Service (SSNVS) to instantly verify that an employee name matches an SSN for up to 10 names and SSNs (per screen) at a time, or submit an electronic file of up to 250,000 names and SSNs and usually receive the results the next business day. Go to [SSA.gov/employer/ssnv.htm](https://ssa.gov/employer/ssnv.htm) for more information. A person may have a valid SSN but not be authorized to work in the United States. Employers may use E-Verify at [E-Verify.gov](https://e-verify.gov) to confirm the employment eligibility of newly hired employees.

**Accessing the SSNVS.** The SSA's BSO is used to access the SSNVS. BSO users will need a social security online account. You can

use your personal *my Social Security* account that was created before September 18, 2021, or an existing [Login.gov](https://www.login.gov) credential or [ID.me](https://www.id.me) credential. If you don't have a social security online account, a [Login.gov](https://www.login.gov) credential, or an [ID.me](https://www.id.me) credential, you'll need to create one. For more information, go to the SSA's website at [SSA.gov/bso](https://www.ssa.gov/bso).

## **5. Wages and Other Compensation**

Wages subject to federal employment taxes generally include all pay you give to an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions, and taxable fringe benefits. It doesn't matter how you measure or make the payments. Amounts an employer pays as a bonus for signing or ratifying a contract in connection with the establishment of an employer-employee relationship and an amount paid to an employee for cancellation of an employment contract and

relinquishment of contract rights are wages subject to social security, Medicare, and FUTA taxes and income tax withholding. Also, compensation paid to a former employee for services performed while still employed is wages subject to employment taxes.

**Cash wages paid to farmworkers.** Cash wages that you pay to employees for farmwork are generally subject to social security tax and Medicare tax. You may also be required to withhold, deposit, and report Additional Medicare Tax. See section 9 for more information. If the wages are subject to social security and Medicare taxes, they're also subject to federal income tax withholding. You're liable for the payment of these taxes to the federal government whether or not you collect them from your employees. If, for example, you withhold less than the correct tax from an employee's wages, you're still liable for the full amount. You may also be liable for FUTA tax, which

isn't withheld by you or paid by the employee. FUTA tax is discussed in section 14. Cash wages include checks, money orders, and any kind of money or cash.

**More information.** See section 6 for a discussion of tips and section 7 for a discussion of supplemental wages. Also, see section 15 for exceptions to the general rules for wages. Pub. 15-A provides additional information on wages, including nonqualified deferred compensation, and other compensation. Pub. 15-B provides information on other forms of compensation, including:

- Accident and health benefits,
- Achievement awards,
- Adoption assistance,
- Athletic facilities,
- De minimis (minimal) benefits,
- Dependent care assistance,

- Educational assistance,
- Employee discounts,
- Employee stock options,
- Employer-provided cell phones,
- Group-term life insurance coverage,
- Health savings accounts,
- Lodging on your business premises,
- Meals,
- No-additional-cost services,
- Retirement planning services,
- Transportation (commuting) benefits,
- Tuition reduction, and
- Working condition benefits.

**Noncash wages, including commodity wages, paid to farmworkers.** Noncash wages include food, lodging, clothing, transportation passes, farm products, or other

goods or commodities. Noncash wages paid to farmworkers, including commodity wages, aren't subject to social security taxes, Medicare taxes, or federal income tax withholding. However, you and your employee can agree to have federal income tax withheld on noncash wages.

Noncash wages, including commodity wages, are treated as cash wages if the substance of the transaction is a cash payment. Noncash wages treated as cash wages are subject to social security taxes, Medicare taxes, and federal income tax withholding.

Report the value of noncash wages in box 1 of Form W-2 (box 7 of Form 499R-2/W-2PR) together with cash wages. Noncash wages for farmwork are subject to federal income tax unless a specific exclusion applies. Don't show noncash wages in box 3 or 5 of Form W-2 (box 20 or 22 of Form 499R-2/W-2PR), unless the substance of the transaction is a cash



payment and they're being treated as cash wages.

**Share farmers.** You don't have to withhold or pay social security and Medicare taxes on amounts paid to share farmers under share-farming arrangements.

A "share farmer" working for you isn't your employee. However, the share farmer may be subject to self-employment tax. In general, share farming is an arrangement in which certain commodity products are shared between the farmer and the owner (or tenant) of the land. For details, see Regulations section 31.3121(b)(16)-1.

**Compensation paid to H-2A visa holders.** Report compensation of \$600 or more paid to foreign agricultural workers who entered the country on H-2A visas in box 1 of Form W-2 (box 7 of Form 499R-2/W-2PR) but don't report it as social security wages (box 3 of Form W-2 or box 20 of Form 499R-2/W-2PR) or Medicare wages (box 5 of Form W-2 or box

22 of Form 499R-2/W-2PR) on Form W-2 because compensation paid to H-2A workers for agricultural labor performed in connection with this visa isn't subject to social security and Medicare taxes. On Form W-2, don't check box 13 (Statutory employee), as H-2A workers aren't statutory employees.

An employer isn't required to withhold federal income tax from compensation paid to an H-2A worker for agricultural labor performed in connection with this visa but may withhold if the worker asks for withholding and the employer agrees. In that case, the worker must give the employer a completed Form W-4. Federal income tax withheld should be reported in box 2 of Form W-2.

These reporting rules apply when the H-2A worker provides their TIN to the employer. If the H-2A worker doesn't provide a TIN and the total annual wages to the H-2A worker are at least \$600, the employer is required to backup withhold. See the Instructions for

Forms 1099-MISC and 1099-NEC and the Instructions for Form 945.

For more information on foreign agricultural workers on H-2A visas, go to [IRS.gov/H2A](https://www.irs.gov/H2A).

## **Employee business expense**

**reimbursements.** A reimbursement or allowance arrangement is a system by which you pay the advances, reimbursements, and charges for your employees' business expenses. How you report a reimbursement or allowance amount depends on whether you have an accountable or a nonaccountable plan. If a single payment includes both wages and an expense reimbursement, you must specify the amount of the reimbursement.

These rules apply to all allowable ordinary and necessary employee business expenses.

***Accountable plan.*** To be an accountable plan, your reimbursement or allowance arrangement must require your employees to meet all three of the following rules.

1. They must have paid or incurred allowable expenses while performing services as your employees. The reimbursement or advance must be payment for the expenses and must not be an amount that would have otherwise been paid to the employee as wages.
2. They must substantiate these expenses to you within a reasonable period of time.
3. They must return any amounts in excess of substantiated expenses within a reasonable period of time.

Amounts paid under an accountable plan aren't wages and aren't subject to income, social security, Medicare, and FUTA taxes.

If the expenses covered by this arrangement aren't substantiated (or amounts in excess of substantiated expenses aren't returned within a reasonable period of time), the amount paid

under the arrangement in excess of the substantiated expenses is treated as paid under a nonaccountable plan. This amount is subject to income, social security, Medicare, and FUTA taxes for the first payroll period following the end of the reasonable period of time.

A reasonable period of time depends on the facts and circumstances. Generally, it is considered reasonable if your employees receive their advance within 30 days of the time they pay or incur the expenses, adequately account for the expenses within 60 days after the expenses were paid or incurred, and return any amounts in excess of expenses within 120 days after the expenses were paid or incurred. Alternatively, it is considered reasonable if you give your employees a periodic statement (at least quarterly) that asks them to either return or adequately account for outstanding amounts and they do so within 120 days.

***Nonaccountable plan.*** Payments to your employee for travel and other necessary expenses of your business under a nonaccountable plan are wages and are treated as supplemental wages and subject to income, social security, Medicare, and FUTA taxes. Your payments are treated as paid under a nonaccountable plan if:

- Your employee isn't required to or doesn't substantiate timely those expenses to you with receipts or other documentation,
- You advance an amount to your employee for business expenses and your employee isn't required to or doesn't return timely any amount they don't use for business expenses,
- You advance or pay an amount to your employee regardless of whether you reasonably expect the employee to have business expenses related to your business, or

- You pay an amount as a reimbursement you would have otherwise paid as wages.

See section 7 for more information on supplemental wages.

***Per diem or other fixed allowance.*** You may reimburse your employees by travel days, miles, or some other fixed allowance under the applicable revenue procedure. In these cases, your employee is considered to have accounted to you if your reimbursement doesn't exceed rates established by the federal government. The standard mileage rate for auto expenses is provided in Pub. 15-B.

The government per diem rates for meals and lodging in the continental United States can be found by going to the U.S. General Services Administration website at [GSA.gov/PerDiemRates](https://www.gsa.gov/PerDiemRates). Other than the amount of these expenses, your employees' business expenses must be substantiated (for example, the business purpose of the travel

or the number of business miles driven). For information on substantiation methods, see Pub. 463, Travel, Gift, and Car Expenses.

If the per diem or allowance paid exceeds the amounts substantiated, you must report the excess amount as wages. This excess amount is subject to income tax withholding and payment of social security, Medicare, and FUTA taxes. Show the amount equal to the substantiated amount (that is, the nontaxable portion) in box 12 of Form W-2 using code "L." Employers in Puerto Rico report the amount in box 12 (no code needed).

**Wages not paid in money.** If in the course of your trade or business you pay your employees in a medium that is neither cash nor a readily negotiable instrument, such as a check, you're said to pay them "in kind." Payments in kind may be in the form of goods, lodging, food, clothing, or services. Generally, the FMV of such payments at the time they're provided is subject to federal



income tax withholding and social security, Medicare, and FUTA taxes.

However, noncash payments for household work, agricultural labor, and service not in the employer's trade or business are exempt from social security, Medicare, and FUTA taxes.

Withhold income tax on these payments only if you and the employee agree to do so.

Nonetheless, noncash payments for agricultural labor, such as commodity wages, are treated as cash payments subject to employment taxes if the substance of the transaction is a cash payment. See *Noncash wages, including commodity wages, paid to farmworkers*, earlier in this section, for more information.

**Meals and lodging.** The value of meals isn't taxable income and isn't subject to federal income tax withholding and social security, Medicare, and FUTA taxes if the meals are furnished for the employer's convenience and on the employer's premises. The value of

lodging isn't subject to federal income tax withholding and social security, Medicare, and FUTA taxes if the lodging is furnished for the employer's convenience, on the employer's premises, and as a condition of employment.

“For the convenience of the employer” means you have a substantial business reason for providing the meals and lodging other than to provide additional compensation to the employee. For example, meals you provide at the place of work so that an employee is available for emergencies during their lunch period are generally considered to be for your convenience. You must be able to show these emergency calls have occurred or can reasonably be expected to occur, and that the calls have resulted, or will result, in you calling on your employees to perform their jobs during their meal period.

Whether meals or lodging are provided for the convenience of the employer depends on all of the facts and circumstances. A written

statement that the meals or lodging are for your convenience isn't sufficient.

**50% test.** If over 50% of the employees who are provided meals on an employer's business premises receive these meals for the convenience of the employer, all meals provided on the premises are treated as furnished for the convenience of the employer. If this 50% test is met, the value of the meals is excludable from income for all employees and isn't subject to federal income tax withholding or employment taxes. For more information, see Pub. 15-B.

**Health insurance plans.** If you pay the cost of an accident or health insurance plan for your employees, including an employee's spouse and dependents, your payments aren't wages and aren't subject to social security, Medicare, and FUTA taxes, or federal income tax withholding. Generally, this exclusion also applies to qualified long-term-care insurance contracts. However, for

income tax withholding, the value of health insurance benefits must be included in the wages of S corporation employees who own more than 2% of the S corporation (2% shareholders). For social security, Medicare, and FUTA taxes, the health insurance benefits are excluded from the 2% shareholder's wages. See Announcement 92-16 for more information. You can find Announcement 92-16 on page 53 of Internal Revenue Bulletin 1992-5.

***Health savings accounts (HSAs) and medical savings accounts (MSAs).*** Your contributions to an employee's HSA or Archer MSA aren't subject to social security, Medicare, or FUTA tax, or federal income tax withholding if it is reasonable to believe at the time of payment of the contributions they'll be excludable from the income of the employee. To the extent it isn't reasonable to believe they'll be excludable, your contributions are subject to these taxes.

Employee contributions to their HSAs or MSAs through a payroll deduction plan must be included in wages and are subject to social security, Medicare, and FUTA taxes, and federal income tax withholding. However, HSA contributions made under a salary reduction arrangement in a section 125 cafeteria plan aren't wages and aren't subject to employment taxes or withholding. For more information, see the Instructions for Form 8889.

**Medical care reimbursements.** Generally, medical care reimbursements paid for an employee under an employer's self-insured medical reimbursement plan aren't wages and aren't subject to social security, Medicare, and FUTA taxes, or federal income tax withholding. See Pub. 15-B for a rule regarding inclusion of certain reimbursements in the gross income of highly compensated individuals.

**Differential wage payments.** Differential wage payments are any payments made by an employer to an individual for a period during which the individual is performing service in the uniformed services while on active duty for a period of more than 30 days and represent all or a portion of the wages the individual would have received from the employer if the individual were performing services for the employer.

Differential wage payments are wages for income tax withholding, but aren't subject to social security, Medicare, or FUTA tax.

Employers should report differential wage payments in box 1 of Form W-2 (box 7 of Form 499R-2/ W-2PR). For more information about the tax treatment of differential wage payments, see Revenue Ruling 2009-11, 2009-18 I.R.B. 896, available at [IRS.gov/irb/2009-18\\_IRB#RR-2009-11](https://www.irs.gov/irb/2009-18_IRB#RR-2009-11).

**Fringe benefits.** You must generally include fringe benefits in an employee's wages (but see *Nontaxable fringe benefits* next). The benefits are subject to income tax withholding and employment taxes. Fringe benefits include cars you provide, flights on aircraft you provide, free or discounted commercial flights, vacations, discounts on property or services, memberships in country clubs or other social clubs, and tickets to entertainment or sporting events. In general, the amount you must include is the amount by which the FMV of the benefit is more than the sum of what the employee paid for it plus any amount the law excludes. There are other special rules you and your employees may use to value certain fringe benefits. See Pub. 15-B for more information.

***Nontaxable fringe benefits.*** Some fringe benefits aren't taxable (or are minimally taxable) if certain conditions are met. See

Pub. 15-B for details. The following are some examples of nontaxable fringe benefits.

- Services provided to your employees at no additional cost to you.
- Qualified employee discounts.
- Working condition fringes that are property or services that would be allowable as a business expense or depreciation expense deduction to the employee if they had paid for them. Examples include a company car for business use and subscriptions to business magazines.
- Certain minimal value fringes (including an occasional cab ride when an employee must work overtime and meals you provide at eating places you run for your employees if the meals aren't furnished at below cost).



- Qualified transportation fringes subject to specified conditions and dollar limitations (including transportation in a commuter highway vehicle, any transit pass, and qualified parking).
- The use of on-premises athletic facilities operated by you if substantially all of the use is by employees, their spouses, and their dependent children.
- Qualified tuition reduction an educational organization provides to its employees for education. For more information, see Pub. 970.
- Employer-provided cell phones provided primarily for a noncompensatory business reason.

However, don't exclude the following fringe benefits from the wages of highly compensated employees unless the benefit is available to other employees on a nondiscriminatory basis.

- No-additional-cost services.
- Qualified employee discounts.
- Meals provided at an employer-operated eating facility.
- Reduced tuition for education.

For more information, including the definition of a highly compensated employee, see Pub. 15-B.

***When taxable fringe benefits are treated as paid.*** You may choose to treat certain taxable noncash fringe benefits as paid by the pay period, by the quarter, or on any other basis you choose, as long as you treat the benefits as paid at least once a year. You don't have to make a formal choice of payment dates or notify the IRS of the dates you choose. You don't have to make this choice for all employees. You may change methods as often as you like, as long as you treat all benefits provided in a calendar year as paid by December 31 of the calendar year.

See section 4 of Pub. 15-B for more information, including a discussion of the special accounting rule for fringe benefits provided during November and December.

***Valuation of fringe benefits.*** Generally, you must determine the value of fringe benefits no later than January 31 of the next year. Before January 31, you may reasonably estimate the value of the fringe benefits for purposes of withholding and depositing on time.

***Withholding federal income tax on fringe benefits.*** You may add the value of fringe benefits to regular wages for a payroll period and figure withholding taxes on the total, or you may withhold federal income tax on the value of the fringe benefits at the optional flat 22% supplemental wage rate. However, see *Withholding on supplemental wages when an employee receives more than \$1 million of supplemental wages during the calendar year* in section 7.

You may choose not to withhold income tax on the value of an employee's personal use of a vehicle you provide. You must, however, withhold social security and Medicare taxes on the use of the vehicle. See Pub. 15-B for more information on this election.

***Withholding social security and Medicare taxes on fringe benefits.*** You add the value of fringe benefits to regular wages for a payroll period and figure social security and Medicare taxes on the total.

If you withhold less than the required amount of social security and Medicare taxes from the employee in a calendar year but report and pay the proper amount, you may recover the taxes from the employee. See Pub. 15-B for more information.

***Depositing taxes on fringe benefits.*** Once you choose when fringe benefits are paid, you must deposit taxes in the same deposit period you treat the fringe benefits as paid. To avoid

a penalty, deposit the taxes following the general deposit rules for that deposit period.

If you determine by January 31 you overestimated the value of a fringe benefit at the time you withheld and deposited for it, you may claim a refund for the overpayment or have it applied to your next employment tax return. See *Valuation of fringe benefits*, earlier in this section. If you underestimated the value and deposited too little, you may be subject to a failure-to-deposit (FTD) penalty. See section 11 for information on deposit penalties.

If you deposited the required amount of taxes but withheld a lesser amount from the employee, you can recover from the employee the social security, Medicare, or income taxes you deposited on their behalf and included in the employee's Form W-2. However, you must recover the income taxes before April 1 of the following year.

**Back pay.** Back pay, including retroactive wage increases (but not amounts paid as liquidated damages), is taxed as ordinary wages in the year paid. For information on reporting back pay to the SSA, see Pub. 957.

**Sick pay.** In general, sick pay is any amount you pay under a plan to an employee who is unable to work because of sickness or injury. These amounts are sometimes paid by a third party, such as an insurance company or an employees' trust. In either case, these payments are subject to social security, Medicare, and FUTA taxes. These taxes don't apply to sick pay paid more than 6 calendar months after the last calendar month in which the employee worked for the employer. The payments are always subject to federal income tax. See section 6 of Pub. 15-A for more information.

**Identity protection services.** The value of identity protection services provided by an employer to an employee isn't included in an

employee's gross income and doesn't need to be reported on an information return (such as Form W-2) filed for an employee. This includes identity protection services provided before a data breach occurs. This exception doesn't apply to cash received instead of identity protection services or to proceeds received under an identity theft insurance policy. For more information, see Announcement 2015-22, 2015-35 I.R.B. 288, available at [IRS.gov/irb/2015-35\\_IRB#ANN-2015-22](https://www.irs.gov/irb/2015-35_IRB#ANN-2015-22); and Announcement 2016-02, 2016-3 I.R.B. 283, available at [IRS.gov/irb/2016-03\\_IRB#ANN-2016-02](https://www.irs.gov/irb/2016-03_IRB#ANN-2016-02).

## 6. Tips



*You're permitted to establish a system for electronic tip reporting by employees. See Regulations section 31.6053-1(d).*

Cash tips your employee receives from customers are generally subject to withholding. Your employee must report cash tips to you by the 10th of the month after the month the tips are received. Cash tips include tips paid by cash, check, debit card, and credit card. The report should include tips you paid over to the employee for charge customers, tips the employee received directly from customers, and tips received from other employees under any tip-sharing arrangement. Both directly and indirectly tipped employees must report tips to you. No report is required for months when tips are less than \$20. If you don't give your employees any specific method to report tips (for example, an electronic tip reporting system), your employees must give you a statement reporting their tips.



The statement must be signed and dated by the employee and must include:

- The employee's name, address, and SSN;
- Your name and address;
- The month and year (or the beginning and ending dates, if the statement is for a period of less than 1 calendar month) the report covers; and
- The total of tips received during the month or period.

You may also suggest that your employees see Pub. 531, Reporting Tip Income.

**Collecting taxes on tips.** You must collect federal income tax, employee social security tax, and employee Medicare tax on the employee's tips. The withholding rules for withholding an employee's share of Medicare tax on tips also apply to withholding the Additional Medicare Tax once wages and tips exceed \$200,000 in the calendar year.

You can collect these taxes from the employee's wages (excluding tips) or from other funds they make available. See *Tips are treated as supplemental wages* in section 7 for more information. Stop collecting the employee social security tax when their wages and tips for tax year 2025 reach \$176,100; collect the income and employee Medicare taxes for the whole year on all wages and tips. You're responsible for the employer social security tax on wages and tips until the wages (including tips) reach the limit. You're responsible for the employer Medicare tax for the whole year on all wages and tips. Tips are considered to be paid at the time the employee reports them to you. Deposit taxes on tips based on your deposit schedule as described in section 11. File Form 941 or Form 944 to report withholding and employment taxes on tips.

**Ordering rule.** If, by the 10th of the month after the month for which you received an employee's report on tips, you don't have enough employee funds available to deduct the employee tax, you no longer have to collect it. If there aren't enough funds available, withhold taxes in the following order.

1. Withhold on regular wages and other compensation.
2. Withhold social security and Medicare taxes on tips.
3. Withhold income tax on tips.

**Reporting tips.** Report tips and any collected and uncollected social security and Medicare taxes on Form W-2 (Form 499R-2/W-2PR for employers in Puerto Rico) and on Form 941, lines 5b, 5c, and, if applicable, 5d (Form 944, lines 4b, 4c, and, if applicable, 4d). Report a negative adjustment on Form 941, line 9 (Form 944, line 6), for the

uncollected social security and Medicare taxes. Enter the amount of uncollected social security tax and Medicare tax in box 12 of Form W-2 with codes "A" and "B," respectively. On Form 499R-2/W-2PR, enter the amount of uncollected social security and Medicare taxes in boxes 25 and 26, respectively. Don't include any uncollected Additional Medicare Tax in box 12 of Form W-2. For additional information on reporting tips, see section 13 and the General Instructions for Forms W-2 and W-3. Employers in Puerto Rico, see the Instructions for Form W-3 (PR) and Form W-3C (PR).

Revenue Ruling 2012-18 provides guidance for employers regarding social security and Medicare taxes imposed on tips, including information on the reporting of the employer share of social security and Medicare taxes under section 3121(q), the difference between tips and service charges, and the section 45B credit. See Revenue Ruling 2012-

18, 2012-26 I.R.B. 1032, available at [IRS.gov/irb/2012-26\\_IRB#RR-2012-18](https://www.irs.gov/irb/2012-26_IRB#RR-2012-18).

**FUTA tax on tips.** If an employee reports to you in writing \$20 or more of tips in a month, the tips are also subject to FUTA tax.

**Allocated tips.** If you operate a large food or beverage establishment, you must report allocated tips under certain circumstances. However, don't withhold income, social security, or Medicare taxes on allocated tips.

A large food or beverage establishment is one that is located in the 50 states or the District of Columbia, provides food or beverages for consumption on the premises, where tipping is customary, and where there were normally more than 10 employees on a typical business day during the preceding year.

The tips may be allocated by one of three methods—hours worked, gross receipts, or good faith agreement. For information about these allocation methods, and for information

about required electronic filing of Form 8027, see the Instructions for Form 8027. For more information on filing Form 8027 electronically with the IRS, see Pub. 1239.

**Tip Rate Determination and Education Program.** Employers may participate in the Tip Rate Determination and Education Program. The program primarily consists of two voluntary agreements developed to improve tip income reporting by helping taxpayers to understand and meet their tip reporting responsibilities. The two agreements are the Tip Rate Determination Agreement (TRDA) and the Tip Reporting Alternative Commitment (TRAC). A tip agreement, the Gaming Industry Tip Compliance Agreement (GITCA), is available for the gaming (casino) industry. For more information, see Pub. 3144.

**More information.** Advise your employees to see Pub.531 or use the IRS Interactive Tax Assistant at [IRS.gov/TipIncome](https://www.irs.gov/TipIncome) for help in determining if their tip income is taxable and for information about how to report tip income.

## 7. Supplemental Wages



*References to federal income tax withholding don't apply to employers in American Samoa, Guam, the CNMI, the USVI, and Puerto Rico, unless you have employees who are subject to U.S. income tax withholding. Contact your local tax department for information about income tax withholding.*

Supplemental wages are wage payments to an employee that aren't regular wages. They include, but aren't limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, reported tips,

retroactive pay increases, and payments for nondeductible moving expenses. However, employers have the option to treat overtime pay and tips as regular wages instead of supplemental wages. Other payments subject to the supplemental wage rules include taxable fringe benefits and expense allowances paid under a nonaccountable plan. How you withhold on supplemental wages depends on whether the supplemental payment is identified as a separate payment from regular wages. See Regulations section 31.3402(g)-1 for additional guidance. Also see Revenue Ruling 2008-29, 2008-24 I.R.B. 1149, available at [IRS.gov/irb/ 2008-24 IRB#RR-2008-29](https://www.irs.gov/irb/2008-24_IRB#RR-2008-29).

**Withholding on supplemental wages when an employee receives more than \$1 million of supplemental wages from you during the calendar year.** Special rules apply to the extent supplemental wages paid to any one employee during the calendar



year exceed \$1 million. If a supplemental wage payment, together with other supplemental wage payments made to the employee during the calendar year, exceeds \$1 million, the excess is subject to withholding at 37% (or the highest rate of income tax for the year). Withhold using the 37% rate without regard to the employee's Form W-4. In determining supplemental wages paid to the employee during the year, include payments from all businesses under common control. For more information, see Treasury Decision 9276, 2006-37 I.R.B. 423, available at [IRS.gov/irb/ 2006-37 IRB#TD-9276](https://www.irs.gov/irb/2006-37_IRB#TD-9276).

**Withholding on supplemental wage payments to an employee who doesn't receive \$1 million of supplemental wages during the calendar year.** If the supplemental wages paid to the employee during the calendar year are less than or equal to \$1 million, the following rules apply

in determining the amount of income tax to be withheld.

**Supplemental wages combined with regular wages.** If you pay supplemental wages with regular wages but don't specify the amount of each, withhold federal income tax as if the total were a single payment for a regular payroll period.

**Supplemental wages identified separately from regular wages.** If you pay supplemental wages separately (or combine them in a single payment and specify the amount

of each), the federal income tax withholding method depends partly on whether you withhold income tax from your employee's regular wages.

1. If you withheld income tax from an employee's regular wages in the current or immediately preceding calendar year, you can use one of the

following methods for the supplemental wages.

- a. Withhold a flat 22% (no other percentage allowed).
- b. If the supplemental wages are paid concurrently with regular wages, add the supplemental wages to the concurrently paid regular wages and withhold federal income tax as if the total were a single payment for a regular payroll period. If there are no concurrently paid regular wages, add the supplemental wages to, alternatively, either the regular wages paid or to be paid for the current payroll period or the regular wages paid for the preceding payroll period. Figure the income tax withholding as if the total of the regular wages and supplemental wages is a

single payment. Subtract the tax already withheld or to be withheld from the regular wages. Withhold the remaining tax from the supplemental wages. If there were other payments of supplemental wages paid during the payroll period made before the current payment of supplemental wages, aggregate all the payments of supplemental wages paid during the payroll period with the regular wages paid during the payroll period, figure the tax on the total, subtract the tax already withheld from the regular wages and the previous supplemental wage payments, and withhold the remaining tax.

2. If you didn't withhold income tax from the employee's regular wages in the current or immediately preceding calendar year, use method 1b.

Regardless of the method you use to withhold income tax on supplemental wages, they're subject to social security, Medicare, and FUTA taxes.

**Example 1.** You pay John Peters a base salary on the first of each month. John's most recent Form W-4 is from 2018, and John is single, claims one withholding allowance, and didn't enter an amount for additional withholding on Form W-4. In January, John is paid \$1,000. You decide to use the Wage Bracket Method of withholding. Using Worksheet 3 and the withholding tables in section 3 of Pub. 15-T, you withhold \$11 from this amount. In February, John receives salary of \$1,000 plus a commission of \$500, which you combine with regular wages and don't separately identify. You figure the

withholding based on the total of \$1,500. The correct withholding from the tables is \$62.

**Example 2.** You pay Sharon Warren a base salary on the first of each month. Sharon submitted a 2025 Form W-4 and checked the box for Single or Married filing separately. Sharon didn't complete Steps 2, 3, and 4 on Form W-4. Sharon's May 1 pay is \$2,000. You decide to use the Wage Bracket Method of withholding. Using Worksheet 2 and the withholding tables in section 2 of Pub. 15-T, you withhold \$77. On May 15, Sharon receives a bonus of \$1,000. Electing to use supplemental wage withholding method 1b, you do the following.

1. Add the bonus amount to the amount of wages from the most recent base salary pay date (May 1) ( $\$2,000 + \$1,000 = \$3,000$ ).
2. Determine the amount of withholding on the combined \$3,000 amount to be \$190 using the wage bracket tables.

3. Subtract the amount withheld from wages on the most recent base salary pay date (May 1) from the combined withholding amount ( $\$190 - \$77 = \$113$ ).
4. Withhold \$113 from the bonus payment.

**Example 3.** The facts are the same as in *Example 2*, except you elect to use the flat rate method of withholding on the bonus. You withhold 22% of \$1,000, or \$220, from Sharon's bonus payment.

**Example 4.** The facts are the same as in *Example 2*, except you elect to pay Sharon a second bonus of \$2,000 on May 29. Using supplemental wage withholding method 1b, you do the following.

1. Add the first and second bonus amounts to the amount of wages from the most recent base salary pay date

(May 1) ( $\$2,000 + \$1,000 + \$2,000 = \$5,000$ ).

2. Determine the amount of withholding on the combined \$5,000 amount to be \$427 using the wage bracket tables.
3. Subtract the amounts withheld from wages on the most recent base salary pay date (May 1) and the amounts withheld from the first bonus payment from the combined withholding amount ( $\$427 - \$77 - \$113 = \$237$ ).
4. Withhold \$237 from the second bonus payment.

**Tips are treated as supplemental wages.**

Withhold income tax on tips from wages earned by the employee or from other funds the employee makes available. Don't withhold the income tax due on tips from employee tips. If an employee receives regular wages and reports tips, figure income tax withholding as if the tips were supplemental



wages. If you withheld income tax from the regular wages in the current or immediately preceding calendar year, you can withhold on the tips by method 1a or 1b discussed earlier in this section under Supplemental wages identified separately from regular wages. If you didn't withhold income tax from the regular wages in the current or immediately preceding calendar year, add the tips to the regular wages and withhold income tax on the total by method 1b discussed earlier.

Employers also have the option to treat tips as regular wages rather than supplemental wages. Service charges aren't tips; therefore, withhold taxes on service charges as you would on regular wages.

**Vacation pay.** Vacation pay is subject to withholding as if it were a regular wage payment. When vacation pay is in addition to regular wages for the vacation period (for example, an annual lump-sum payment for unused vacation leave), treat it as a

supplemental wage payment. If the vacation pay is for a time longer than your usual payroll period, spread it over the pay periods for which you pay it.

## **8. Payroll Period**

Your payroll period is a period of service for which you usually pay wages. When you have a regular payroll period, withhold income tax for that time period even if your employee doesn't work the full period.

**No regular payroll period.** When you don't have a regular payroll period, withhold the tax as if you paid wages for a daily or miscellaneous payroll period. Figure the number of days (including Sundays and holidays) in the period covered by the wage payment. If the wages are unrelated to a specific length of time (for example, commissions paid on completion of a sale), count back the number of days from the payment period to the latest of:

- The last wage payment made during the same calendar year;
- The date employment began, if during the same calendar year; or
- January 1 of the same year.

**Employee paid for period less than 1 week.** When you pay an employee for a period of less than 1 week, and the employee signs a statement under penalties of perjury indicating they aren't working for any other employer during the same week for wages subject to withholding, figure withholding based on a weekly payroll period. If the employee later begins to work for another employer for wages subject to withholding, the employee must notify you within 10 days. You then figure withholding based on the daily or miscellaneous period.

## 9. Withholding From Employees' Wages



*References to federal income tax withholding don't apply to employers in American Samoa, Guam, the CNMI, the USVI, and Puerto Rico, unless you have employees who are subject to U.S. income tax withholding. Contact your local tax department for information about income tax withholding.*

### **Federal Income Tax Withholding**

**Redesigned Form W-4.** The IRS redesigned Form W-4 for 2020 and subsequent years. Before 2020, the value of a withholding allowance was tied to the amount of the personal exemption. Due to changes in the law, taxpayers can no longer claim personal exemptions or dependency exemptions; therefore, Form W-4 no longer asks an employee to report the number of withholding allowances that they are claiming. The

revised Form W-4 is divided into five steps. Step 1 and Step 5 apply to all employees. In Step 1, employees enter personal information like their name and filing status. In Step 5, employees sign the form. Employees who complete only Step 1 and Step 5 will have their withholding figured based on their filing status's standard deduction and tax rates with no other adjustments. If applicable, in Step 2, employees increase their withholding to account for higher tax rates due to income from other jobs in their household. Under Step 2, employees either enter an additional amount to withhold per payroll period in Step 4(c) or check the box in Step 2(c) for higher withholding rate tables to apply to their wages. In Step 3, employees decrease their withholding by reporting the annual amount of any credits they will claim on their income tax return. In Step 4, employees may increase or decrease their withholding based on the annual amount of other income or deductions they will report on their income

tax return and they may also request any additional federal income tax they want withheld each pay period.

An employee who submitted Form W-4 in any year before 2020 isn't required to submit a new form merely because of the redesign. Employers will continue to figure withholding based on the information from the employee's most recently submitted Form W-4. The withholding tables in Pub. 15-T allow employers to figure withholding based on a Form W-4 for 2019 or earlier, as well as the redesigned Form W-4. While you may ask your employee who was first paid wages before 2020 who hasn't yet submitted a redesigned Form W-4 to submit a new Form W-4 using the redesigned version of the form, you should explain to them that they're not required to do this and if they don't submit a new Form W-4, withholding will continue based on a valid Form W-4 previously submitted. All newly hired employees must

use the redesigned form. Similarly, any other employees who wish to adjust their withholding must use the redesigned form.

Pub. 15-T provides an optional computational bridge to treat 2019 and earlier Forms W-4 as if they were 2020 or later Forms W-4 for purposes of figuring federal income tax withholding. This computational bridge allows you to use computational procedures and data fields for a 2020 and later Form W-4 to arrive at the equivalent withholding for an employee that would have applied using the computational procedures and data fields on a 2019 or earlier Form W-4. See *How To Treat 2019 and Earlier Forms W-4 as if They Were 2020 or Later Forms W-4* under *Introduction* in Pub. 15-T.

***More information.*** For more information about the redesigned Form W-4 and regulations that provide guidance for employers concerning income tax withholding from employees' wages, see Treasury

Decision 9924, 2020-44 I.R.B. 943, available at [IRS.gov/irb/2020-44\\_IRB#TD-9924](https://www.irs.gov/irb/2020-44_IRB#TD-9924). For information about Form W-4, go to [IRS.gov/FormW4](https://www.irs.gov/FormW4). Employer instructions on how to figure employee withholding are provided in Pub. 15-T, available at [IRS.gov/Pub15T](https://www.irs.gov/pub15t).



*Farm operators and crew leaders must withhold federal income tax from the wages of farmworkers if the wages are subject to social security and Medicare taxes.*

**Using Form W-4 to figure withholding.** To know how much federal income tax to withhold from employees' wages, you should have a Form W-4 on file for each employee. Encourage your employees to file an updated Form W-4 for 2025, especially if they owed taxes or received a large refund when filing their 2024 tax return.

Ask all new employees to give you a signed Form W-4 when they start work. Make the form effective with the first wage payment. If a new employee doesn't give you a completed



Form W-4 in 2025 (including an employee who previously worked for you and was rehired in 2025, and who fails to furnish a Form W-4), treat the new employee as if they had checked the box for Single or Married filing separately in Step 1(c) and made no entries in Step 2, Step 3, or Step 4 of the 2025 Form W-4. An employee who was paid wages before 2020 and who failed to furnish a Form W-4 should continue to be treated as single and claiming zero allowances on a 2019 Form W-4. If you use the optional computational bridge, described earlier under Redesigned Form W-4, you may treat this employee as if they had checked the box for Single or Married filing separately in Step 1(c), and made no entries in Step 2 and Step 3, an entry of \$8,600 in Step 4(a), and an entry of zero in Step 4(b) of the 2025 Form W-4.

***Electronic system to receive Form W-4.***

You may establish a system to electronically receive Forms W-4 from your employees. See Regulations section 31.3402(f) (5)-1(c) and Pub. 15-T for more information.

***Effective date of Form W-4.*** A Form W-4 for 2024 or earlier years remains in effect for 2025 unless the employee gives you a 2025 Form W-4. When you receive a new Form W-4 from an employee, don't adjust withholding for pay periods before the effective date of the new form. If an employee gives you a Form W-4 that replaces an existing Form W-4, begin withholding no later than the start of the first payroll period ending on or after the 30th day from the date when you received the replacement Form W-4. For exceptions, see *Exemption from federal income tax withholding, IRS review of requested Forms W-4*, and *Invalid Forms W-4*, later in this section.



*A Form W-4 that makes a change for the next calendar year won't take effect in the current calendar year.*

***Successor employer.*** If you're a successor employer (see *Successor employer*, later in this section), secure new Forms W-4 from the transferred employees unless the "Alternative Procedure" in section 5 of Revenue Procedure 2004-53 applies. See Revenue Procedure 2004-53, 2004-34 I.R.B. 320, available at [IRS.gov/irb/ 2004-34 IRB#RP-2004-53](https://www.irs.gov/irb/2004-34_IRB#RP-2004-53).



*You may advise your employees to use the IRS Tax Withholding Estimator available at [IRS.gov/W4App](https://www.irs.gov/W4App) for help in determining how to complete their Forms W-4. An employee that makes a mid-year change to their withholding after using the IRS Tax Withholding Estimator may be underwithheld or overwithheld once their Form W-4 is applied to the next full calendar year. Therefore, you should remind employees that made a mid-year change to*

*revisit the IRS Tax Withholding Estimator in early January and submit a new Form W-4 for the year.*

**Completing Form W-4.** The amount of any federal income tax withholding must be based on filing status, income (including income from other jobs), deductions, and credits. Your employees may not base their withholding amounts on a fixed dollar amount or percentage. However, an employee may specify a dollar amount to be withheld each pay period in addition to the amount of withholding based on filing status and other information reported on Form W-4.

Employees that are married filing jointly and have spouses that also currently work, or employees that hold more than one job at the same time, should account for their higher tax rate by completing Step 2 of their 2025 Form W-4. Employees also have the option to report on their 2025 Form W-4 other income they will receive that isn't subject to

withholding and other deductions they will claim in order to increase the accuracy of their federal income tax withholding.

See Pub. 505 for more information about completing Form W-4. Along with Form W-4, you may wish to order Pub. 505 for use by your employees.

Don't accept any withholding or estimated tax payments from your employees in addition to withholding based on their Form W-4. If they require additional withholding, they should submit a new Form W-4 and, if necessary, pay estimated tax by filing Form 1040-ES or by making an electronic payment of estimated taxes. Employees who receive tips may provide funds to their employer for withholding on tips; see *Collecting taxes on tips* in section 6.

**Exemption from federal income tax withholding.** Generally, an employee may claim exemption from federal income tax withholding because they had no income tax

liability last year and expect none this year. See the Form W-4 instructions for more information. However, the wages are still subject to social security and Medicare taxes.

See also *Invalid Forms W-4*, later in this section.

A Form W-4 claiming exemption from withholding is effective when it is given to the employer and only for that calendar year. To continue to be exempt from withholding, an employee must give you a new Form W-4 by February 15. If the employee doesn't give you a new Form W-4 by February 15, begin withholding as if they had checked the box for Single or Married filing separately in Step 1(c) and made no entries in Step 2, Step 3, or Step 4 of the 2025 Form W-4. If the employee provides a new Form W-4 claiming exemption from withholding on February 16 or later, you may apply it to future wages but don't refund any taxes withheld while the exempt status wasn't in place.

**Withholding federal income taxes on the wages of nonresident alien employees.** In general, you must withhold federal income taxes on the wages of nonresident alien employees. However, see Pub. 515 for exceptions to this general rule. See section 5 for more guidance on H-2A visa workers.

**Withholding adjustment for nonresident alien employees.** Nonresident aliens may not claim the standard deduction on their tax returns; therefore, employers must add an amount to the wages of nonresident alien employees performing services within the United States in order to figure the amount of federal income tax to withhold from their wages. The amount is added to their wages solely for calculating federal income tax withholding. The amount isn't included in any box on the employee's Form W-2 and doesn't increase the income tax liability of the employee. The amount also doesn't increase the social security tax or Medicare tax liability

of the employer or the employee, or the FUTA tax liability of the employer. See *Withholding Adjustment for Nonresident Alien Employees* under *Introduction* in Pub. 15-T for the amount to add to their wages for the payroll period.

***Supplemental wage payment.*** The adjustment for determining the amount of income tax withholding for nonresident alien employees doesn't apply to a supplemental wage payment (see section 7) if the 37% mandatory flat rate withholding applies or if the 22% optional flat rate withholding is being used to calculate income tax withholding on the supplemental wage payment.

### **Nonresident alien employee's Form W-4.**

When completing Forms W-4, nonresident aliens are required to:

- Not claim exemption from income tax withholding (even if they meet both of the conditions to claim exemption from



withholding listed in the Form W-4 instructions);

- Request withholding as if they're single, regardless of their actual filing status;
- Not claim the child tax credit or credit for other dependents in Step 3 of Form W-4 (if the nonresident alien is a resident of Canada, Mexico, or South Korea, or a student from India, or a business apprentice from India, they may claim, under certain circumstances (see Pub. 519, U.S. Tax Guide for Aliens), the child tax credit or credit for other dependents); and
- Write "Nonresident Alien" or "NRA" in the space below Step 4(c) of Form W-4.

If you maintain an electronic Form W-4 system, you should provide a field for nonresident aliens to enter nonresident alien status instead of writing "Nonresident Alien" or "NRA" in the space below Step 4(c) of

Form W-4. You should instruct nonresident aliens to see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing Form W-4.

**Form 8233.** If a nonresident alien employee claims a tax treaty exemption from withholding, the employee must submit Form 8233 with respect to the income exempt under the treaty, instead of Form W-4. For more information, see the Instructions for Form 8233 and *Pay for Personal Services Performed under Withholding on Specific Income* in Pub. 515.

### **IRS review of requested Forms W-4.**

When requested by the IRS, you must make original Forms W-4 available for inspection by an IRS employee. You may also be directed to send certain Forms W-4 to the IRS. You may receive a notice from the IRS requiring you to submit a copy of Form W-4 for one or more of your named employees. Send the requested copy or copies of Form W-4 to the IRS at the

address provided and in the manner directed by the notice. The IRS may also require you to submit copies of Form W-4 to the IRS as directed by a revenue procedure or notice published in the Internal Revenue Bulletin.

After submitting a copy of a requested Form W-4 to the IRS, continue to withhold federal income tax based on that Form W-4 if it is valid (see *Invalid Forms W-4*, later in this section). However, if the IRS later notifies you in writing that the employee isn't entitled to claim exemption from withholding or a claimed amount of deductions or credits, withhold federal income tax based on the effective date, employee's permitted filing status, and withholding instructions specified in the IRS notice (commonly referred to as a "lock-in letter").

***Initial lock-in letter.*** The IRS uses information reported on Form W-2 to identify employees with withholding compliance problems. In some cases, if a serious

underwithholding problem is found to exist for a particular employee, the IRS may issue a lock-in letter to the employer specifying the employee's permitted filing status and providing withholding instructions for the specific employee. You'll also receive a copy for the employee that identifies the permitted filing status and provides a description of the withholding instructions you're required to follow and the process by which the employee can provide additional information to the IRS for purposes of determining the appropriate withholding and/or modifying the specified filing status. You must furnish the employee copy to the employee within 10 business days of receipt if the employee is employed by you as of the date of the notice. You may follow any reasonable business practice to furnish the employee copy to the employee. Begin withholding based on the notice on the date specified in the notice.

***Implementation of lock-in letter.*** When you receive the notice specifying the permitted filing status and providing withholding instructions, you may not withhold immediately on the basis of the notice. You must begin withholding tax on the basis of the notice for any wages paid after the date specified in the notice. The delay between your receipt of the notice and the date to begin the withholding on the basis of the notice permits the employee time to contact the IRS.

***Seasonal employees and employees not currently performing services.*** If you receive a notice for an employee who isn't currently performing services for you, you're still required to furnish the employee copy to the employee and withhold based on the notice if any of the following apply.

- You're paying wages for the employee's prior services and the wages are subject

to income tax withholding on or after the date specified in the notice.

- You reasonably expect the employee to resume services within 12 months of the date of the notice.
- The employee is on a leave of absence that doesn't exceed 12 months or the employee has a right to reemployment after the leave of absence.

***Termination and rehire of employees.*** If you must furnish and withhold based on the notice and the employment relationship is terminated after the date of the notice, you must continue to withhold based on the notice if you continue to pay any wages subject to income tax withholding. You must also withhold based on the notice or modification notice (explained next) if the employee resumes the employment relationship with you within 12 months after the termination of the employment relationship.