

III. PERSONNEL

Effective Date: April 21, 2008

C. EMPLOYEE WITHHOLDING ALLOWANCES

The employer is responsible for withholding applicable payroll taxes, such as social security/Medicare, federal and state income taxes, from wages paid to employees. The social security tax of 6.20% is calculated on earnings up to \$102,000 (2008) while the Medicare tax of 1.45% applies to all earnings. However, the amount of federal and state income taxes to be withheld depends upon the number of withholding allowances claimed by the employee.

An employer should obtain a properly completed and signed FORM W-4, "Employee Withholding Allowance Certificate", (copy attached) from each employee on or before the first day of work. If a new employee does not provide the FORM W-4, then the employer should withhold federal tax as if the employee were single and with no withholding allowances,

A FORM W-4 remains in effect until the employee gives the employer a new one. If an employee provides you a FORM W-4 that replaces an existing FORM W-4, the employer should begin withholding no later than the start of the first payroll period ending on or after the 30th day from the date the new FORM W-4 was received.

The amount of income tax withholding must be based on the employee's filing status and withholding allowances. Employees may not base their withholding amounts on a fixed dollar amount or percentage. However, the employee may specify a dollar amount to be withheld in addition to the amount of withholding based on filing status and withholding allowances claimed on FORM W-4.

Employees may claim fewer withholding allowances than they are entitled to claim. They may wish to claim fewer allowances to get a larger tax refund or to offset other sources of taxable income that are not subject to adequate withholding.

When an employer receives a new FORM W-4, there should be no adjustment to withholding for pay periods before the effective date of the new form; that is, do not adjust withholding retroactively. Also, do not accept any withholding or estimated tax payments from employees in addition to withholding based on their FORM W-4.

An employee may claim **exemption from income tax withholding** because he or she had no income tax liability last year and expects none this year. However, the wages may still be subject to social security and Medicare taxes. An employee must file a FORM W-4 each year by February 15 to claim exemption from withholding. If the employee does not give the employer a new FORM W-4, employer should withhold tax as if the employee is single with zero withholding allowances.

Employees should also complete FORM NC-4 http://www.dor.state.nc.us/downloads/NC_4_2001.pdf which is the withholding allowance certificate used to determine the amount of state income tax to be

withheld. If a new employee does not provide the FORM NC-4, then the employer should withhold state tax as if the employee were single and with no withholding allowances,

The Internal Revenue Service provides employers each year with a copy of Circular E, "Employer's Tax Guide". Also, the State Department of Revenue periodically provides employers with a copy of NC-30, "Income Tax Withholding Tables and Instructions for Employers."