

INTERNAL REVENUE SERVICE

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Dear [REDACTED]:

This letter responds to your inquiry to [REDACTED]. You ask why the federal government charges you a 28% tax on the money you make by volunteering for extra work.

The statement at the bottom of your pay statement is somewhat misleading. The IRS does not require a 28% federal withholding tax rate on supplemental income. Your employer has a choice of withholding methods and decides whether to withhold federal income tax on supplemental wages at a flat 28% or to add the supplemental wages to the regular wages for a payroll period and figure income tax withholding on the total amount, using the information from the Form W-4 (section 3402 of the Internal Revenue Code of 1986 and section 31.3402(g)-1 of the Treasury Regulations). Supplemental wages include bonuses, commissions, overtime pay, and certain sick pay.

As a wage earner, you pay federal income tax by having it withheld from your pay during the year. Your total federal income tax liability will be determined when you complete your Form 1040 for the year 2000 using the tax tables. The amount of tax withheld by your employer will then be credited against the amount of federal income tax that you owe on your Form 1040.

The amount of federal income tax withheld by your employer on your regular wages is based on the amount that you earn and the information you give your employer on Form W-4, *Employee's Withholding Allowance Certificate*. On your Form W-4 you specify your filing status (married or single) and also claim withholding allowances that your employer will use to determine the amount of tax to withhold on your regular wages. Your Form W-4 can also be used for you to request an additional amount be withheld.

If a taxpayer determines that too much tax or too little tax is being withheld from their income, it is possible to adjust his or her tax withholding by filing a new Form W-4. I have enclosed Publication 919, *How Do I Adjust My Tax Withholding?*. This publication will help you to estimate your total tax liability for the year and to check your withholding so that the right of amount of tax is withheld for the taxable year.

This letter will be available for public inspection after we delete identifying information, including names and addresses, under the Freedom of Information Act.

I hope that this information will be helpful. If you have further questions, please contact me or Suzanne Tank (Badge 50-16201R) of Employment Tax Branch 1 at (202) 622-6040.

Sincerely,

Michael A. Swim

MICHAEL A. SWIM
Chief, Employment Tax Branch 1
Office of the Division Counsel/Associate
Chief Counsel
(Tax Exempt and Government Entities)

Attachment