From the desk of
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Backup withholding rate now 24 Percent, Bonuses 22 Percent

The backup withholding tax rate has been changed to 24 percent, and the withholding rate that applies to bonuses and other supplemental wages is now 22 percent.

Backup Withholding

Under a key change made by the Tax Cuts and Jobs Act (TCJA) enacted in December 2017 the backup withholding tax rate dropped from 28 percent to 24 percent effective January 1, 2018.

Backup withholding applies in various situations including when a taxpayer fails to supply their correct taxpayer identification number (TIN) to a payer such as a bank, brokerage, and most importantly in a contracted relationship.

A TIN is a Social Security number (SSN), or an employer identification number (EIN), individual taxpayer identification number (ITIN), or adoption taxpayer identification number (ATIN).

Backup withholding also applies following notification by the IRS where a taxpayer under-reported interest or dividend income on their federal income tax return.

When backup withholding applies, payers must withhold tax from payments not otherwise subject to withholding.

This includes most payments reported on Form 1099, such as interest, dividends, payments to independent contractors and payment card and third-party network transactions.

Payees may be subject to backup withholding if they:

- Fail to provide a TIN,
- Give an incorrect TIN,
- Supply a TIN in an improper manner,
- Under-report interest or dividends on their income tax return, or
- Fail to certify that they’re not subject to backup withholding for under-reporting of interest and dividends.
To avoid backup withholding the payee must provide the payor a correctly completed W9.


**Bonuses and other supplemental wages**

TCJA also lowered the tax withholding rates that normally apply to bonuses, back wages, payments for accumulated leave and other supplemental wages. In most cases the new rate is 22 percent effective January 1, 2018.

For payments exceeding $1 million the withholding rate is 37 percent.

**Paycheck Checkup**

Though a good idea any year checking withholding is especially important this year given the number of changes brought about by the TCJA, and the nasty surprises that many found themselves faced with this past tax season being under-withheld.

For those who were in that situation changing your tax withholding as early as possible in 2019 is the best way to head off another tax-time surprise next year.

Anyone who had an important life change such as getting married, divorced, buying a home or having a baby should also consider a payroll withholding review.

Give us a call if you believe that you need to adjust your withholding this year.

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