UNIVERSITY TAX SERVICES

STANDARD OPERATING PROCEDURE

TSOP NO:	3.2
SUBJECT:	**Contract Pay Tax Withholding**
SOURCE:	University Tax Services – Financial Management Services
ORIGINAL DATE OF ISSUE:	1/1/16
DATE OF LAST REVISION:	2/25/16
RATIONALE:	To provide employees at Indiana University a guide to calculate Federal taxes withheld for contract pay on paychecks based on the annualized method used at Indiana University for tax withholding.
PROCEDURES:	Departments should follow these steps to calculate the amount of federal tax withholding on compensation paid to a contract employee (i.e. those employees paid as part time adjunct faculty or student academics). **PLEASE NOTE THAT WITHHOLDING FOR EACH CONTRACT AGREEMENT IS CONSIDERED WITHOUT REGARD TO ANY OTHER CONTRACTS AGREEMENTS THE INDIVIDUAL MAY HAVE AT THE TIME - UNLESS THE INDIVIDUAL'S MULTIPLE CONTRACT AGREEMENTS CONTAIN THE EXACT SAME NUMBER OF DAYS.**

STEPS	EXAMPLE
1. Determine the **monthly pay amount** and the number of days in the contract: a. Divide the contract amount by the number of payments the individual will receive, or b. Use the monthly payment amount, if known. c. Count the days between the contract start and end dates.	**1.** An individual is on a $20,000 contract paid in 5 monthly installments from 8/1/2016 to 12/7/2016. The **monthly pay amount** is $4,000. The number of days in the contract is 129 (31+30+31+30+7)
2. **Annualize** the monthly pay amount: a. Divide the number of days in the contract by 365 b. Multiply by 12. This is the **number of periods** in the contract. c. Multiply the **monthly pay amount** by the **number of periods** in the contract.	**2.** **Annualized pay…** a. 129 ÷ 365 = 0.3534 b. 0.3534 × 12 = 4.2411 c. $4,000 × 4.2411 = $16,964.40
3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the **annualized pay**. For tax year 2016, the **withholding allowance amount** can	**3.** The individual has completed form W-4 as a **single taxpayer** with **one allowance** and no additional

INDIANA UNIVERSITY
OFFICE OF FINANCIAL MANAGEMENT SERVICES

be found in Table 5 from [IRS Publication 15](#) . One **allowance** equals $4,050. The result is **taxable income**.

withholding.

$16,964.40 - $4,050.00 = $12,914.40

Payroll Period	One Withholding Allowance
Weekly	$ 77.90
Biweekly	155.80
Semimonthly	168.80
Monthly	337.50
Quarterly	1,012.50
Semiannually	2,025.00
Annually	4,050.00
Daily or Miscellaneous (each day of the payroll period)	15.60

4. Find the **taxable income** amount on the appropriate section of the **tax rate table**. Follow the instructions on the table to calculate the **annual tax amount**. The **tax rate table** can be found in Table 7 from IRS Publication 15 (Dec., 2015).

4. $12,914.40 is between $11,525 and $39,750, so the annual **tax amount** is…

$12,914.40 - $11,525.00 = $1,389.40
$1,389.40 × 15% = $208.41
$208.41 + $922.50 = $1,130.91

TABLE 7—ANNUAL Payroll Period

(a) SINGLE person (including head of household)—

If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over $2,250		$0	
Over—	**But not over—**		**of excess over—**
$2,250	—$11,525 . .	$0.00 plus 10%	—$2,250
$11,525	—$39,900 . .	$927.50 plus 15%	—$11,525
$39,900	—$93,400 . .	$5,183.75 plus 25%	—$39,900
$93,400	—$192,400 . .	$18,558.75 plus 28%	—$93,400
$192,400	—$415,600 . .	$46,278.75 plus 33%	—$192,400
$415,600	—$417,300 . .	$119,934.75 plus 35%	—$415,600
$417,300		$120,529.75 plus 39.6%	—$417,300

(b) MARRIED person—

If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over $8,550		$0	
Over—	**But not over—**		**of excess over—**
$8,550	—$27,100 . .	$0.00 plus 10%	—$8,550
$27,100	—$83,850 . .	$1,855.00 plus 15%	—$27,100
$83,850	—$160,450 . .	$10,367.50 plus 25%	—$83,850
$160,450	—$240,000 . .	$29,517.50 plus 28%	—$160,450
$240,000	—$421,900 . .	$51,791.50 plus 33%	—$240,000
$421,900	—$475,500 . .	$111,818.50 plus 35%	—$421,900
$475,500		$130,578.50 plus 39.6%	—$475,500

5. Divide the **annual tax amount** by the **number of periods** in the contract, then add any additional withholding. The result is the amount of tax withholding per pay period.

5. $1,130.91 ÷ 4.2411 = $266.65

ADDITIONAL EXAMPLES

EMPLOYEE 1 (A TYPICAL ACADEMIC SEMESTER CONTRACT)

Compensation	Contract Begin Date	Contract End Date	Amount per Pay Period	W-4 Marital Status	Withholding Allowance	Additional Withholding per Month
$10,000	01/01/2016	05/6/2016	$2,000	Married	1	$0

1. Determine the monthly pay and the number of days in the contract	**1.** Monthly pay = $2,000 Days in Contract = 127 (31+29+31+30+6)
2. **Annualize** the monthly pay amount: a. Divide the number of days in the contract by 365 b. Multiply by 12. This is the **number of periods** in the contract. c. Multiply the **monthly pay amount** by the **number of periods** in the contract.	**2.** a. 127 ÷ 365 = 0.3479 b. 0.3479 × 12 = 4.1753 c. $2,000 × 4.1753 = $8,350.60
3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the **annualized pay**. For tax year 2014, the **withholding allowance amount** can be found in Table 5 from IRS Publication 15 (Dec.,2015). One **allowance** equals $4,000. The result is **taxable income**.	**3.** $8,350.60 - $4,050.00 = $4,300.60
4. Find the **taxable income** amount on the appropriate section of the **tax rate table**. Follow the instructions on the table to calculate the **annual tax amount**. The **tax rate table** can be found in Table 7 from IRS Publication 15 (Dec., 2015).	**4.** $4,350.60 is less than $8,550.00 so no tax will be withheld. If the employee determines that she will owe tax when she completes her tax return, she may request additional withholding on Form W-4.

EMPLOYEE 2 (A TYPICAL ADJUNCT 10 MONTH CONTRACT)

Compensation	Contract Begin Date	Contract End Date	Amount per Pay Period	W-4 Marital Status	Withholding Allowance	Additional Withholding per Month
$20,000	08/01/2015	05/31/2016	$2,000	Married	1	$100

1. Determine the monthly pay and the number of days in the contract	**1.** Monthly pay = $2,000 Days in Contract = 304 (31+30+31+30+31+31+28+31+30+31)
2. Determine the annualized pay amount: a. Divide the number of days in the contract by 365. b. Multiply by 12. This is the **number of periods** in the contract. c. Multiply the **monthly pay amount** by the **number of periods** in the contract.	**2.** a. 304 ÷ 365 = 0.8329 b. 0.8329 × 12 = 9.9945 c. $2,000 × 9.9945 = $19,989

	3. Subtract the appropriate number of withholding allowance based on the most current submitted W-4 from the **annualized pay**. For tax year 2016, the **withholding allowance amount** can be found in Table 1 from IRS Publication 15 (Dec., 2015). One **allowance** equals \$4,050. The result is **taxable income**.	**3.** \$19,989 - \$4,050 = \$15,939
	4. Find the **taxable income** amount on the appropriate section of the **tax rate table**. Follow the instructions on the table to calculate the **annual tax amount**. The **tax rate table** can be found in Table 7 from IRS Publication 15 (Dec., 2015).	**4.** \$15,989 is between \$8,600 and \$27,050 so the **annual tax amount** is… \$15,939 - \$8,550 = \$7,389.00 \$7,389 x 10% = \$738.90 \$=738.90
	5. Divide the **annual tax amount** by the **number of periods** in the contract, then add any additional withholding. The result is the amount of tax withholding per pay period.	**5.** \$738.90 ÷ 9.9945 = \$73.93 \$75.93 + \$100.00 = \$173.93
DEFINITIONS:	Percentage Method – method prescribed by the IRS based on tables provided by the IRS for withholding calculation purposes for Federal taxes Annualized pay **-** How much the payee would receive if the payment was for an entire year Number of periods **-** The number of months, and fractions of a month, in a contract Monthly pay amount **-** The amount a payee will receive each monthly paycheck during the contract period Withholding allowance amount/allowance **-** An amount equal to one personal exemption for the current tax year Taxable income **-** Total income, less total withholding allowances and before tax deductions (if any) Tax rate table **-** A table published annually by the IRS to assist with determining tax liabilities or withholding Annual tax amount **-** The total amount of tax that would be withheld if the payee received the payment for an entire year	
CROSS REFERENCES:	See TSOP 3.1 for Federal Income Tax Withholding Calculation for withholding tax calculation for employees paid monthly on non-contract pay	