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Comptroller

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Director
Central Payroll Bureau

TO: All State Agencies and Employees

FROM: Robert J. Murphy, Director
Central Payroll Bureau

SUBJECT: Prompt Submission of Employee Withholding Allowance
Certificate (IRS Form W-4/Maryland form MW 507) – “Form W-4”

Prompt submission of the “Form W-4” is to the advantage of all employees. In the absence of a Form W-4, the federal and state tax laws and regulations mandate maximum income taxes be withheld as follows:

Federal maximum income tax is - single status with zero allowances (exemptions).

Maryland State maximum income tax is - single status with one allowance (exemption).

County Tax at maximum rate is currently 3.20 %, added to the State tax

Upon receiving the W-4 form from the employee the withholding status will be changed accordingly for future pays. Tax regulations preclude an employer from making retroactive adjustments to the taxes already withheld. Any over-payment of taxes is refunded to the employee when they file their taxes for that year.

Information concerning federal income tax withholding and applicable tables can be found in the IRS 2014 Publication 15 (Circular E), Employer's Tax Guide. Maryland state income tax withholding rates and personal exemption amounts may be accessed through the Comptroller's Web site www.marylandtaxes.com. Information on withholding should be reviewed prior to submission of any new W-4/MW507 form. For easy access we have provided the following articles on our Web site:

<http://www.marylandtaxes.com>

Click on - State Payroll Services (under Comptroller of Maryland-Government Services in the lower right hand corner)

General Information

2014 Instructions and Worksheet for Completing Withholding Forms for Maryland State Employees

2014 Maryland State & Local Income Tax Tables

2014 Federal Income Tax Withholding Information

2014 Annual Filing of Employee Withholding Exemption Certificate

Accuracy on the W-4 gives the employee a better match between taxes withheld and taxes that may be due at year end. As demonstrated on the following pages, maximum income tax coupled with social security taxes results in a significant tax withholding obligation for employees. Therefore, newly hired employees or employees with a changed financial status should promptly complete and submit their Form W-4/MW507 to the Central Payroll Bureau. Submission of W4/MW507 updates may be accomplished electronically by using our online system POSC. Hard copy forms may be downloaded for mailing, from our web site General Information page at the bottom under “Payroll Forms.” An original hard copy form is required for all initial submissions and when claiming “exempt” status.

Employees should also be reminded that our Net Pay Calculator is a great tool for estimating withholding tax. This feature can be found on our web site home page under Online Services. We recommend that employees use a copy of their current wage statement (pay stub) information, to help guide them through its use.

2014
Employee Taxation

Scenario #1 – Employee fails to submit a Form W-4 and maximum taxation is invoked. Employee is taxed as Single with zero allowances for Federal Income Tax; one allowance for State Income Tax and a 3.20% County Income Tax rate. The tax for Social Security purposes is 7.65% of wages and a pre-tax retirement deduction for ST EMP Pension Mod 7% was used. The data are shown at three levels of income.

| | Bi-Weekly Wage | | |
|--|----------------|---------|---------|
| | \$1,000 | \$2,000 | \$3,000 |
| Federal Income Tax | 109.03 | 283.89 | 516.34 |
| State Income tax-including County Tax at 3.20% rate | 63.60 | 143.10 | 222.60 |
| Social Security Tax | 76.50 | 153.00 | 229.50 |
| Total Tax | 249.13 | 579.99 | 968.44 |
| % of Wage | 24.91% | 29.00% | 32.28% |

Scenario #2 – Above employee submits a Form W-4 which shows that the employee is Married, claiming four allowances for both Federal and State income tax purposes. The County of Record is described as Anne Arundel (a 2.56% County), and the address verifies that claim. Employee is taxed as Married with four allowances for Federal and State income Tax and a 2.56 % County Income Tax rate. The employee is taxed for Social Security purposes at 7.65% of wages and a pre-tax retirement deduction for ST EMP Pension Mod 7% was used. The data are shown at three levels of income.

| | Bi-Weekly Wage | | |
|---|----------------|---------|---------|
| | \$1,000 | \$2,000 | \$3,000 |
| Federal Income Tax | -0- | 104.13 | 243.60 |
| State Income Tax-including County Tax At 2.56% | 31.66 | 105.16 | 178.66 |
| Social Security Tax | 76.50 | 153.00 | 229.50 |
| Total Tax | 108.16 | 362.29 | 651.76 |
| % of Wage | 10.82% | 18.11% | 21.73% |

Source: Central Payroll Bureau
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