

TAX: Income Tax Withholding

TB-23

SUBJECT: Determining the Correct Vermont Withholding by Employers **REVISED: March 17, 2014**

STATUORY REFERENCE: 32 V.S.A § 5841

Replaces previous bulletin issued January 13, 2012.

This bulletin addresses the computation of Vermont Payroll Withholding Tax. Revisions reflect changes in tax laws that have occurred since its original release.

GENERAL RULE

Employers must withhold using the Vermont withholding tables or bracket withholding charts for the applicable year. These charts are available on the “Business” webpage on the Department’s website at www.tax.vermont.gov or by telephoning the Department at **(802) 828-2515**. The tables are created each November for the following year and are available on the webpage in the last week of November with printed copies available about a week later. **Employers who do not receive the annual information from software providers or other services will need to download the charts from the webpage or request them from the Department.**

FORM W-4VT

Vermont Employee Withholding Allowance Certificate, Form W-4VT, is available for employees’ use. It is similar to federal form W-4. An employer may wish to have all employees complete form W-4VT although this is not a Department requirement. Form W-4VT is not revised annually, and forms completed by employees do not expire at the end of each year. The form may be obtained from the Department webpage or by calling the Department at the telephone number shown above.

WHEN NO W-4VT IS PROVIDED

Employees should be encouraged to complete a W-4VT. If an employee has not submitted a W-4VT, the employer should withhold based on the filing status and withholding allowances shown on the federal W-4.

If an additional amount of withholding per paycheck is shown on the federal W-4, line 6, the employer may approximate the Vermont withholding using 24% of the Line 6 amount as additional Vermont withholding.

NONPERIODIC PAYMENTS

Employers making payments to employees that do not follow a weekly, monthly, or other regular schedule cannot use the available withholding tables and charts. Detailed instructions for federal withholding are available from the IRS (Employers Tax Guide —Publication 15). When federal withholding is computed as a flat percentage under federal supplemental wage

withholding rules (for bonuses, overtime pay, tips, etc.), 24% of the federal withholding amount should be withheld for Vermont taxpayers.

EMPLOYEES IN CIVIL UNIONS OR SAME SEX MARRIAGES

Vermont income tax of a civil union partner is computed in the same manner as if the partners were married. Similarly, same sex spouses are treated the same as other married spouses. An employee in a civil union or same sex marriage should use W-4VT to show the filing status and number of withholding allowances which result in the correct Vermont tax. Partners in a civil union or any marriage may elect to have withholding taken at the higher single rate.

In determining the wages subject to Vermont withholding, employers should apply the federal rules for married individuals for all marriages and partners in civil unions.¹ For example:

- An employer provides health insurance coverage for employees and their families. Under IRS rules, the coverage for an employee's spouse is a nontaxable fringe benefit but the cost of coverage for an employee's civil union partner is taxable income to the employee. For Vermont tax purposes, the benefit for the civil union partner is treated in the same manner as any other spouse, the result being that the coverage for these partners is not taxable.
- An employer provides a "cafeteria plan" package which allows employees to use pre-tax income for health insurance payments. IRS rules allow the premiums for an employee's spouse to be pre-tax but treat the money used to pay for a civil union partner's insurance as taxable. For Vermont tax purposes, the premium for the civil union partner is also pre-tax.

Also note:

- Only employees in civil unions and same sex marriages are affected by the Vermont laws for civil unions and same sex marriage. There is no change in the tax treatment of domestic partnership benefits which may be offered to other employees.
- Only Vermont tax is affected. In some cases, federal tax and taxes of other states may not be affected.

WITHHOLDING OF INCOME FOR OUT OF STATE RESIDENTS

In general, wages, salaries, and commissions received with respect to services performed within Vermont are subject to Vermont income tax regardless of the state of residence of the employee. Vermont employers should withhold for nonresident employees in the same manner that they withhold for Vermont resident employees. When nonresident employees carry out business activities outside of Vermont, the income is not subject to Vermont income tax and not subject to withholding.

Most employees who are residents of another state are subject to income tax in their state of

¹ Taxpayers should calculate a "pro forma" federal tax taxable income amount as if federal law recognized civil unions as marriages. Taxpayers in same sex marriages do not need to calculate a "pro forma" but are required to use the same filing status (e.g., married filing jointly or married filing separately) as used on the federal return.

residence. In those cases, Vermont income is first taxed in Vermont and the tax payment is a credit against the tax liability in the resident's state. For this reason, withholding in Vermont is not reduced due to tax liability for that income in the resident state.

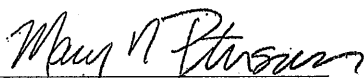
ADJUSTMENTS FOR SERVICES PERFORMED OUTSIDE VERMONT

Nonresidents: When an employee works both within Vermont and outside of the state during a pay period, the Vermont withholding is first calculated on the entire earnings, and then multiplied by the ratio of the Vermont hours to total hours during the period.

Residents: When an employee works both within Vermont and outside the state during a pay period, the Vermont withholding is computed on the entire earnings and then reduced by the amount withheld for other states where services were performed. If the work is done in a state with no income tax, the income should be treated as Vermont income for the purpose of withholding.

Questions on Vermont withholding may be directed to the Taxpayer Services Division by telephone at (802) 828-2551, option 3; email, or letter mailed to 133 State Street, Montpelier, Vt. 05633-1401.

Approved:



Mary Peterson
Commissioner of Taxes
Date: March 18, 2014