

County of Santa Clara

Finance Agency


Controller-Treasurer Department

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February 7, 2018

TO: Department Fiscal Officers
Department Payroll/Personnel Staff

FROM: Alan Minato, Controller-Treasurer  ^{DS}

SUBJECT: 2018 Tax Changes

***IMPORTANT:**

Effective Pay Period 1804 (January 29, 2018 to February 11, 2018), pay date of February 16, 2018, Federal Income Tax withholding changes will occur. Normally these changes would have occurred in Pay Period 1801. They were delayed due to the income tax changes made by the Federal government in late December 2017.

Effective Pay Period 1801 (December 18, 2017 to December 31, 2017), pay date of January 5, 2018, California Income Tax changes have been implemented.

Effective Pay Period 1801, changes to the FICA Maximum Taxable Earnings amount and to the CASDI withholding rate have been implemented.

Please inform employees in your department of the following changes:

1. FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)

The FICA tax includes two separate taxes - Social Security tax and Medicare tax. For 2018, the Social Security tax rate is 6.2% both for the employee and employer, unchanged from 2017. The Social Security wage base limit is \$128,400.

The Medicare tax rate is 1.45% both for employee and employer, unchanged from 2017. There is no wage base limit for the Medicare tax. Employees are required to pay 0.9% Additional Medicare Tax on wages in excess of \$200,000. There is no employer share for the Additional Medicare Tax.

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

SOCIAL SECURITY (Federal OASDI/EE or Federal Old-Age, Survivors, and Disability Insurance program)

<u>YEAR</u>	<u>EMPLOYEE RATE</u>	<u>EMPLOYER RATE</u>	<u>MAXIMUM TAXABLE EARNINGS</u>	<u>MAXIMUM EMPLOYEE TAX AMOUNT</u>
2017	6.2%	6.2%	\$127,200	\$7,886.40
2018	6.2%	6.2%	\$128,400	\$7,960.80

MEDICARE (Federal MED/EE or Federal Health Insurance program)

<u>YEAR</u>	<u>RATE</u>	<u>MAXIMUM TAXABLE EARNINGS</u>	<u>MAXIMUM TAX AMOUNT</u>
2017	1.45%	NO LIMIT	NO LIMIT
2017	Add'l 0.9%	>\$200,000	NO LIMIT
2018	1.45%	NO LIMIT	NO LIMIT
2018	Add'l 0.9%	>\$200,000	NO LIMIT

2. CALIFORNIA STATE DISABILITY INSURANCE (CASDI/EE)

California State Disability Insurance (CASDI) program includes Disability and Paid Family Leave insurance coverage. For employees covered by CASDI, the withholding rate for 2018 is 1.0%. The SDI taxable wage limit is \$114,967 per employee. The maximum to withhold for each employee is \$1,149.67.

<u>YEAR</u>	<u>RATE</u>	<u>MAXIMUM TAXABLE EARNINGS</u>	<u>MAXIMUM TAX AMOUNT</u>
2017	0.9%	\$110,902	\$ 998.12
2018	1.0%	\$114,967	\$ 1,149.67

3. FEDERAL AND STATE INCOME TAXES

2018 Federal and California State Income Tax Withholding Tables are listed in the Appendix I and II. These tables are excerpts from the publications on the Federal and State of California websites, and they are applicable to the Biweekly Payroll Period.

4. INCOME TAX WITHHELD ON PAYOFFS & CASH OUTS OF LEAVE BANKS

Payoffs and cash outs of leave banks will be taxed as specified by the employee on the Employee's Withholding Allowance Certificate (Federal Form W-4 and State Form DE-4).

5. CLAIMS FOR EXEMPTION FROM WITHHOLDING

With the changes to Federal and State Income Tax withholdings and your personal financial situation, there may be a benefit to consider changing your withholding status. To do so, please submit a new Form W-4 or Form DE-4. Please seek advice from your personal tax advisor if needed.

A Form W-4 claiming exemption from withholding is valid for only one calendar year. To continue to be exempt from withholding in 2018, an employee must submit a new Form W-4 to the Service Centers by February 28, 2018. If a new Form W-4 is not in our possession on February 28, 2018, we will withhold tax based on the last valid Form W-4 that does not claim exemption from withholding or, if one does not exist, we will withhold tax as if the employee is single with zero withholding allowances. We will not refund withheld income tax if a new W-4 is received after the due date.

PLEASE NOTE: At the start of 2018, the IRS will continue to accept the 2017 W-4 form, up until the issuance of the 2018 W-4 form.

Link to W-4 Form: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>

Additional information is available at <https://www.irs.gov/pub/irs-pdf/p15.pdf> and http://www.edd.ca.gov/pdf_pub_ctr/de44.pdf.

Please contact the Payroll Help Desk with questions at (408) 299-5277.

Federal Withholding Schedules

Table 5. Percentage Method—2018 Amount for One Withholding Allowance

Payroll Period	One Withholding Allowance
Weekly	\$ 79.80
Biweekly	159.60
Semimonthly	172.90
Monthly	345.80
Quarterly	1,037.50
Semiannually	2,075.00
Annually	4,150.00
Daily or miscellaneous (each day of the payroll period)	16.00

**Percentage Method Tables for Income Tax Withholding
(For Wages Paid in 2018)**

TABLE 2—BIWEEKLY Payroll Period

(a) SINGLE person (including head of household)—				(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over \$142	\$0	of excess over—		Not over \$444	\$0	of excess over—	
Over—	But not over—			Over—	But not over—		
\$142	—\$509	\$0.00 plus 10%	—\$142	\$444	—\$1,177	\$0.00 plus 10%	—\$444
\$509	—\$1,631	\$36.70 plus 12%	—\$509	\$1,177	—\$3,421	\$73.30 plus 12%	—\$1,177
\$1,631	—\$3,315	\$171.34 plus 22%	—\$1,631	\$3,421	—\$6,790	\$342.58 plus 22%	—\$3,421
\$3,315	—\$6,200	\$541.82 plus 24%	—\$3,315	\$6,790	—\$12,560	\$1,083.76 plus 24%	—\$6,790
\$6,200	—\$7,835	\$1,234.22 plus 32%	—\$6,200	\$12,560	—\$15,829	\$2,468.56 plus 32%	—\$12,560
\$7,835	—\$19,373	\$1,757.42 plus 35%	—\$7,835	\$15,829	—\$23,521	\$3,514.64 plus 35%	—\$15,829
\$19,373		\$5,795.72 plus 37%	—\$19,373	\$23,521		\$6,206.84 plus 37%	—\$23,521

CALIFORNIA WITHHOLDING SCHEDULES FOR 2018**METHOD B - EXACT CALCULATION METHOD**

This method is based upon applying a given percentage to the wages (after deductions) which fall within a taxable income class, adding to this product the accumulated tax for all lower tax brackets; and then subtracting a tax credit based upon the number of allowances claimed on the Employee's Withholding Allowance Certificate (Form W-4 or DE 4). **This method also takes into consideration the special treatment of additional allowances for estimated deductions.**

The steps in computing the amount of tax to be withheld are as follows:

- Step 1** Determine if the employee's gross wages are less than, or equal to, the amount shown in "TABLE 1 - LOW INCOME EXEMPTION TABLE." If so, no income tax is required to be withheld.
- Step 2** If the employee claims any additional withholding allowances for estimated deductions on a DE 4, subtract the amount shown in "TABLE 2 - ESTIMATED DEDUCTION TABLE" from the gross wages.
- Step 3** Subtract the standard deduction amount shown in "TABLE 3 - STANDARD DEDUCTION TABLE" to arrive at the employee's taxable income.
- Step 4** Use "TABLE 5 - TAX RATE TABLE" for the payroll period and marital status to find the applicable line on which the taxable income is located. Perform the indicated calculations to arrive at the computed tax liability.
- Step 5** Subtract the tax credit shown in "TABLE 4 - EXEMPTION ALLOWANCE TABLE**" from the computed tax liability to arrive at the amount of tax to be withheld.

*If the employee uses additional allowances claimed for estimated deductions, such allowances **MUST NOT** be used in the determination of tax credits to be subtracted.

EXAMPLE A: Weekly earnings of \$210, single, and claiming one withholding allowance on a Form W-4 or DE 4.

- Step 1** Earnings for the weekly payroll period are LESS than the amount shown in "TABLE 1 - LOW INCOME EXEMPTION TABLE" (\$270); therefore, no income tax is to be withheld.
-

EXAMPLE B: Biweekly earnings of \$1,250, married, and claiming three withholding allowances, one of which is for estimated deductions.

- Step 1** Earnings for the biweekly payroll period are GREATER than the amount shown in "TABLE 1 - LOW INCOME EXEMPTION TABLE" (\$1,081); therefore, income tax should be withheld.
- Step 2**
- | | | |
|---|--|-------------------|
| Earnings for biweekly payroll period. | | \$1,250.00 |
| Subtract amount from "TABLE 2 - ESTIMATED DEDUCTION TABLE." | | -38.00 |
| Salaries and wages subject to withholding. | | <u>\$1,212.00</u> |
- Step 3**
- | | | |
|--|--|-----------------|
| Subtract amount from "TABLE 3 - STANDARD DEDUCTION TABLE." | | -326.00 |
| Taxable income. | | <u>\$886.00</u> |
- Step 4**
- | | | |
|---|--|--------------|
| Tax computation from "TABLE 5 - TAX RATE TABLE:" | | |
| Entry covering \$886 (over \$632 but not over \$1,500). | | |
| • 2.2% amount over \$632 (.022 x [\$886 - \$632]). | | \$ 5.59 |
| • Plus the marginal amount. | | <u>+6.95</u> |
| • Computed tax. | | <u>12.54</u> |
- Step 5**
- | | | |
|---|--|----------------|
| Subtract amount from "TABLE 4 - EXEMPTION ALLOWANCE TABLE." | | |
| for two regular withholding allowances. | | -9.65 |
| Net amount of tax to be withheld. | | <u>\$ 2.89</u> |

NOTE: Table 5 provides a method comparable to the federal alternative method for percentage calculation of withholding. This method is a minor simplification of the exact calculation method described above in that the tax rate applies to the total taxable income with the excess amount subtracted.

CALIFORNIA WITHHOLDING SCHEDULES FOR 2018

METHOD B—EXACT CALCULATION METHOD

TABLE 1 - LOW INCOME EXEMPTION TABLE

PAYROLL PERIOD	SINGLE, DUAL INCOME MARRIED OR MARRIED WITH MULTIPLE EMPLOYERS	MARRIED		UNMARRIED HEAD OF HOUSEHOLD
		ALLOWANCES ON DE 4 OR W-4		
		'0' OR '1'	'2' OR MORE	
WEEKLY	\$270	\$270	\$540	\$540
BIWEEKLY	\$540	\$540	\$1,081	\$1,081
SEMI-MONTHLY	\$585	\$585	\$1,171	\$1,171
MONTHLY	\$1,171	\$1,171	\$2,341	\$2,341
QUARTERLY	\$3,512	\$3,512	\$7,024	\$7,024
SEMI-ANNUAL	\$7,024	\$7,024	\$14,048	\$14,048
ANNUAL	\$14,048	\$14,048	\$28,095	\$28,095
DAILY/MISCELLANEOUS	\$54	\$54	\$108	\$108

TABLE 2 - ESTIMATED DEDUCTION TABLE

ADDITIONAL WITHHOLDING ALLOWANCES*	PAYROLL PERIOD							
	WEEKLY	BI- WEEKLY	SEMI- MONTHLY	MONTHLY	QUARTERLY	SEMI- ANNUAL	ANNUAL	DAILY/ MISC.
1	\$19	\$38	\$42	\$83	\$250	\$500	\$1,000	\$4
2	\$38	\$77	\$83	\$167	\$500	\$1,000	\$2,000	\$8
3	\$58	\$115	\$125	\$250	\$750	\$1,500	\$3,000	\$12
4	\$77	\$154	\$167	\$333	\$1,000	\$2,000	\$4,000	\$15
5	\$96	\$192	\$208	\$417	\$1,250	\$2,500	\$5,000	\$19
6	\$115	\$231	\$250	\$500	\$1,500	\$3,000	\$6,000	\$23
7	\$135	\$269	\$292	\$583	\$1,750	\$3,500	\$7,000	\$27
8	\$154	\$308	\$333	\$667	\$2,000	\$4,000	\$8,000	\$31
9	\$173	\$346	\$375	\$750	\$2,250	\$4,500	\$9,000	\$35
10**	\$192	\$385	\$417	\$833	\$2,500	\$5,000	\$10,000	\$38

* Number of Additional Withholding Allowances for Estimated Deductions claimed on Form DE 4 or W-4.

** If the number of Additional Withholding Allowances for Estimated Deductions claimed is greater than 10, multiply the amount shown for one Additional Allowance by the number claimed.

CALIFORNIA WITHHOLDING SCHEDULES FOR 2018

METHOD B--EXACT CALCULATION METHOD

TABLE 3 - STANDARD DEDUCTION TABLE

PAYROLL PERIOD	SINGLE, DUAL INCOME MARRIED OR MARRIED WITH MULTIPLE EMPLOYERS	MARRIED		UNMARRIED HEAD OF HOUSEHOLD
		ALLOWANCES ON DE 4 OR W-4		
		'0' OR '1'	'2' OR MORE	
WEEKLY	\$81	\$81	\$163	\$163
BIWEEKLY	\$163	\$163	\$326	\$326
SEMI-MONTHLY	\$177	\$177	\$353	\$353
MONTHLY	\$353	\$353	\$706	\$706
QUARTERLY	\$1,059	\$1,059	\$2,118	\$2,118
SEMI-ANNUAL	\$2,118	\$2,118	\$4,236	\$4,236
ANNUAL	\$4,236	\$4,236	\$8,472	\$8,472
DAILY/MISCELLANEOUS	\$16	\$16	\$33	\$33

TABLE 4 - EXEMPTION ALLOWANCE TABLE

ALLOWANCES ON DE 4 OR W-4	PAYROLL PERIOD							
	WEEKLY	BI- WEEKLY	SEMI- MONTHLY	MONTHLY	QUARTERLY	SEMI- ANNUAL	ANNUAL	DAILY/ MISC.
0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1	\$2.41	\$4.82	\$5.23	\$10.45	\$31.35	\$62.70	\$125.40	\$0.48
2	\$4.82	\$9.65	\$10.45	\$20.90	\$62.70	\$125.40	\$250.80	\$0.96
3	\$7.23	\$14.47	\$15.68	\$31.35	\$94.05	\$188.10	\$376.20	\$1.45
4	\$9.65	\$19.29	\$20.90	\$41.80	\$125.40	\$250.80	\$501.60	\$1.93
5	\$12.06	\$24.12	\$26.13	\$52.25	\$156.75	\$313.50	\$627.00	\$2.41
6	\$14.47	\$28.94	\$31.35	\$62.70	\$188.10	\$376.20	\$752.40	\$2.89
7	\$16.88	\$33.76	\$36.58	\$73.15	\$219.45	\$438.90	\$877.80	\$3.38
8	\$19.29	\$38.58	\$41.80	\$83.60	\$250.80	\$501.60	\$1,003.20	\$3.86
9	\$21.70	\$43.41	\$47.03	\$94.05	\$282.15	\$564.30	\$1,128.60	\$4.34
10*	\$24.12	\$48.23	\$52.25	\$104.50	\$313.50	\$627.00	\$1,254.00	\$4.82

* If the number of allowances claimed exceeds 10, you may determine the amount of tax credit to be allowed by multiplying the amount for one allowance by the total number of allowances.

For example, the amount of tax credit for a married taxpayer with 15 allowances, as determined on Form DE 4 or W-4, on a weekly payroll period would be \$36.15.

CALIFORNIA WITHHOLDING SCHEDULES FOR 2018

METHOD B—EXACT CALCULATION METHOD

TABLE 5 - TAX RATE TABLE

BIWEEKLY PAYROLL PERIODSINGLE PERSONS, DUAL INCOME MARRIED,
OR MARRIED WITH MULTIPLE EMPLOYERSIF THE TAXABLE
INCOME IS...

THE COMPUTED TAX IS...

OVER	BUT NOT OVER	OF AMOUNT OVER...	PLUS
\$0	\$316 ...	1.100%	\$0 \$0.00
\$316	\$750 ...	2.200%	\$316 \$3.48
\$750	\$1,184 ...	4.400%	\$750 \$13.03
\$1,184	\$1,642 ...	6.600%	\$1,184 \$32.13
\$1,642	\$2,076 ...	8.800%	\$1,642 \$62.36
\$2,076	\$10,606 ...	10.230%	\$2,076 \$100.55
\$10,606	\$12,726 ...	11.330%	\$10,606 \$973.17
\$12,726	\$21,210 ...	12.430%	\$12,726 \$1,213.37
\$21,210	\$38,462 ...	13.530%	\$21,210 \$2,267.93
\$38,462	and over ...	14.630%	\$38,462 \$4,602.13

MARRIED PERSONSIF THE TAXABLE
INCOME IS...

THE COMPUTED TAX IS...

OVER	BUT NOT OVER	OF AMOUNT OVER...	PLUS
\$0	\$632 ...	1.100%	\$0 \$0.00
\$632	\$1,500 ...	2.200%	\$632 \$6.95
\$1,500	\$2,368 ...	4.400%	\$1,500 \$26.05
\$2,368	\$3,284 ...	6.600%	\$2,368 \$64.24
\$3,284	\$4,152 ...	8.800%	\$3,284 \$124.70
\$4,152	\$21,212 ...	10.230%	\$4,152 \$201.08
\$21,212	\$25,452 ...	11.330%	\$21,212 \$1,946.32
\$25,452	\$38,462 ...	12.430%	\$25,452 \$2,426.71
\$38,462	\$42,420 ...	13.530%	\$38,462 \$4,043.85
\$42,420	and over ...	14.630%	\$42,420 \$4,579.37

UNMARRIED/HEAD OF HOUSEHOLDIF THE TAXABLE
INCOME IS...

THE COMPUTED TAX IS...

OVER	BUT NOT OVER	OF AMOUNT OVER...	PLUS
\$0	\$632 ...	1.100%	\$0 \$0.00
\$632	\$1,500 ...	2.200%	\$632 \$6.95
\$1,500	\$1,934 ...	4.400%	\$1,500 \$26.05
\$1,934	\$2,392 ...	6.600%	\$1,934 \$45.15
\$2,392	\$2,826 ...	8.800%	\$2,392 \$75.38
\$2,826	\$14,424 ...	10.230%	\$2,826 \$113.57
\$14,424	\$17,308 ...	11.330%	\$14,424 \$1,300.05
\$17,308	\$28,846 ...	12.430%	\$17,308 \$1,626.81
\$28,846	\$38,462 ...	13.530%	\$28,846 \$3,060.98
\$38,462	and over ...	14.630%	\$38,462 \$4,362.02