



Information Announcement

Payroll Update - Employees Paid Supplemental Wages

July 20, 2017

The Office of the State Comptroller (OSC) recently released [Payroll Bulletin 1575](#) regarding Supplemental Wages, the earnings codes classified as Supplemental Wages and the methods for withholding income taxes from Supplemental Wages.

IRS Definitions:

“Supplemental wages are all wages paid by an employer that are not regular wages. They include, but are not limited to, bonuses, overtime pay, payments for accumulated sick leave, severance pay, awards, back pay, retroactive pay increases, and payments for nondeductible moving expenses.” Supplemental wages include wage payments made without regard to an employee's payroll period, but also may include payments made for a payroll period.”

“As distinguished from Supplemental Wages, regular wages are amounts that are paid at a regular hourly, daily, or similar periodic rate (and not an overtime rate) for the current payroll period or at a predetermined fixed determinable amount for the current payroll period. Thus, among other things, wages that vary from payroll period to payroll period ... are not regular wages.”

Permitted exceptions:

Treasury (IRS) Regulations section 31.3402(g) -1(a)(1)(iv) provide an option for overtime pay to be treated as regular wages Pursuant to this section, OSC will treat overtime pay as Regular Wages.

Tax Withholdings:

Regular Wages:

Income tax withholding on Regular Wages is calculated and withheld from paychecks using the Percentage (Annualized) Method (see [IRS Publication 15, Section 17 - How To Use the Income Tax Withholding Tables](#)).

Supplemental Wages:

The IRS identifies two allowable income tax withholding methods for Supplemental Wages:

- **Optional Flat Rate Method:** applies a flat rate percentage (25% for Federal, 9.62% for NYS, 4.25% for NYC, 1.61135% for Yonkers Residents and 0.5% for Yonkers Non-Residents) to the Supplemental Wages to calculate the tax withholding.
- **Aggregate Method:** combines regular and Supplemental Wages to calculate the tax withholding (see calculation in [IRS Publication 15, Section 7 – Supplemental Wages](#)).

OSC Actions:

OSC recently analyzed the impact of both allowable withholding methodologies on Supplemental Wages. Based on that analysis, OSC has reconfigured the payroll system to apply the Aggregate Method to Supplemental Wage payments. The Aggregate Method results in the withholding of a lower amount of combined income taxes than the Flat Rate Method for most payments. The following income tax withholding methods will be used for Supplemental Wage payments:

- **Federal:** Aggregate
- **State:** Aggregate
- **NYC:** Aggregate when Supplemental Wages are paid with Regular Wages.
- **NYC:** Flat Rate at 4.25% when Supplemental Wages are paid in a separate check (Use of the Flat Rate method is temporary).
- **Yonkers:** Flat Rate based on the Resident/Non-Resident Status (Resident – 1.61135% and Non-Resident – 0.50% - the Flat Rate method is the only withholding option for Yonkers income taxes).

It is important to note that when Supplemental Wages are paid in the same check as regular wages, there is no income tax withholding difference between the Percentage (Annualized) and the Aggregate methodologies.

Effective Date:

Beginning with the Institution Pay Check dated June 8, 2017 and thereafter. Payroll officers should become familiar with the differences between Regular Wages and Supplemental Wages and the differences between the Flat Rate and Aggregate withholding methodologies to address questions.

Please note if you need more information regarding Supplemental Wages, please see [Payroll Bulletin Number: 1575](#), which has been provided by the Office of the State Comptroller Bureau of State Payroll Services.

For any questions regarding this announcement, please contact the BSC Payroll Unit at BSCPayrollAdmin@ogs.ny.gov or (518) 457-4272.