

The Supplemental Flat Rate Method for Bonus Withholding

Bonuses are classified by the IRS as supplemental wages—income paid to an employee in addition to their regular salary or wages. Like regular pay, supplemental wages are considered taxable income and are subject to federal, state, and payroll taxes (Social Security and Medicare).

Employers must use an IRS-approved method to determine the federal income tax to be withheld, which includes two main options: the aggregate method or the percentage method (flat rate).**2. Supplemental Flat Rate Withholding**

The flat rate method dictates the rate of federal income tax withholding based on the cumulative amount of supplemental wages an employee receives from a single employer in a calendar year.

Supplemental Wage Amount	Withholding Rate	Mandate
Up to \$1,000,000	A flat rate of 22% is withheld from the bonus amount.	Optional/Discretionary
Over \$1,000,000	The portion of the bonus exceeding \$1 million is subject to a flat rate of 37% (the highest income tax rate).	Mandatory

The decision by an employer to withhold taxes on a bonus using the supplemental flat rate method (also known as the percentage method) is governed by IRS regulations concerning the taxation of supplemental wages.

First Student uses this method for all supplemental wages paid. This is the case whether the supplemental wages are issued on a separate check or included in an employee's regular paycheck. *Taxes withheld result in the same tax deduction amount either way.*

Discretionary Flat Rate Requirements

For supplemental wages of \$1 million or less, the employer may *choose* to use the 22% flat rate (as opposed to the aggregate method) if the following conditions are met:

- The employer has already withheld income tax from the employee's regular wages.
- The bonus payment is either not paid concurrently with the regular wages, or it is **separately stated** on the employer's payroll records.

Example of how taxes are calculated for supplemental wages issued by First Student

Each supplemental wages earnings code is setup in the First Student payroll system to calculate federal and state taxes at the flat rate. The method to calculate the taxes is determined at the earnings code level. As such, regardless of whether it is added to an employee's regular check or issued as separate check, monies issued using a supplemental wages earnings code always calculate at the flat percentage rate.

- Example 1: Employee receives supplemental wages and regular wages on the same check
 - Highlighted in yellow are the taxes calculated for the regular wages. This tax amount is calculated by the First Student payroll system based on the employee's W-4 tax elections.
 - Highlighted in green are the taxes calculated for the supplemental wages. This tax amount is calculated by the First Student payroll system based on the flat rate supplemental tax method.
 - The First Student payroll system adds these taxes together and withholds the total amount.
 - \$994 regular wages are taxed based on W-4 election = \$77.36
 - \$1,000 supplemental wages taxed at flat 22% rate = \$220.00
 - \$77.36 + \$220.00 = \$297.36 total FIT

Pay Component	Worktags	Amount	Input Value	MTD	QTD	YTD	Related Calculation	Amount	Input Value
Charter Contact Center Rep II - Jordan R Testa		1,000.00		1,000.00	1,000.00	1,581.00			
Regular - REG [USA]	Charter Contact Center Rep II - Jordan R Testa	994.00		2,982.00	2,982.00	14,984.55	Hours (unprorated)	40.00	40.00
							Rate	24.85	

Net Pay: 1432.30 USD

▼ Taxes

Taxes: 29 Items

Pay Component	Worktags	Amount	MTD	QTD	YTD	Related Calculation	Amount	MTD	QTD	YTD
OASDI [USA]		123.62	240.47	240.47	978.96	Gross Wages	1,994.00	3,982.00	3,982.00	16,565.55
						Subject Wages	1,994.00	3,878.56	3,878.56	15,789.75
						Taxable Wages	1,994.00	3,878.56	3,878.56	15,789.75
Medicare [USA]		28.91	56.24	56.24	228.95	Gross Wages	1,994.00	3,982.00	3,982.00	16,565.55
						Subject Wages	1,994.00	3,878.56	3,878.56	15,789.75
						Taxable Wages	1,994.00	3,878.56	3,878.56	15,789.75
Federal Withholding [USA]		297.36	439.66	439.66	1,382.16	Gross Wages	1,994.00	3,982.00	3,982.00	16,565.55
						Subject Wages	1,994.00	3,878.56	3,878.56	15,789.75
						Taxable Wages	1,994.00	3,878.56	3,878.56	15,789.75
						Regular Taxable Wages	994.00	2,878.56	2,878.56	14,208.75
						Standard Withholding Wages	994.00	2,878.56	2,878.56	14,208.75
						Standard Withholding Calculated Tax	77.36	219.66	219.66	1,034.34
						Flat Rate Withholding Wages	1,000.00	1,000.00	1,000.00	1,581.00
						Supplemental Taxable Wages	1,000.00	1,000.00	1,000.00	1,581.00

- Example 2: Employee receives supplemental wages on a separate check
 - Highlighted in green are the taxes calculated for the supplemental wages. This tax amount is calculated by the First Student payroll system based on the flat rate supplemental tax method. W-4 elections are not used.

Pay Component	Worktags	Amount	Input Value	MTD	QTD	YTD
Charter Contact Center Rep II - Jordan R Testa		1,000.00		1,000.00	1,000.00	1,581.00

Net Pay: 665.69 USD

▼ Taxes

Taxes: 26 Items

Pay Component	Worktags	Amount	MTD	QTD	YTD	Related Values				
						Related Calculation	Amount	MTD	QTD	YTD
OSAGO [USA]		62.00	178.85	178.85	917.34	Gross Wages	1,000.00	2,988.00	2,988.00	15,571.55
						Subject Wages	1,000.00	2,884.56	2,884.56	14,795.75
						Taxable Wages	1,000.00	2,884.56	2,884.56	14,795.75
Medicare [USA]		14.50	41.83	41.83	214.54	Gross Wages	1,000.00	2,988.00	2,988.00	15,571.55
						Subject Wages	1,000.00	2,884.56	2,884.56	14,795.75
						Taxable Wages	1,000.00	2,884.56	2,884.56	14,795.75
Federal Withholding [USA]		220.00	362.30	362.30	1,304.80	Gross Wages	1,000.00	2,988.00	2,988.00	15,571.55
						Subject Wages	1,000.00	2,884.56	2,884.56	14,795.75
						Taxable Wages	1,000.00	2,884.56	2,884.56	14,795.75
						Flat Rate Withholding Wages	1,000.00	1,000.00	1,000.00	1,581.00
						Supplemental Taxable Wages	1,000.00	1,000.00	1,000.00	1,581.00

***Results: In both examples, taxes for the supplemental wages is the same amount**