**Date: May 12, 2017** File Ref: 01-17

**To: Agency Payroll Staff**

**From: Central Payroll**

**Subject: Employees Claiming Exemption from Tax Withholding**

Employees claiming exempt from federal and/or state withholding are required to file new forms each year. Although we are late this year, we still must make the effort to have employees re-file or we must change the withholding to zero exemptions as required below. Since the normal deadlines have already passed, Central Payroll has chosen June 9 as a deadline for employees to respond before agencies must change the withholding on their behalf.

Enclosed are two spreadsheets that list employees claiming exemption from federal and state income tax withholding, respectively. Employees listed fall into at least one of the following categories taken from the Update Employee Tax Data page:

1. Special Withholding Tax Status is “Maintain Taxable Gross” (exempt from withholding)
2. Withholding Allowances are 50 or greater (almost the same as exempt from withholding)

We will treat allowances over 50 the same as those claiming exemption from withholding. Most in the second group are claiming 98 exemptions which was the method for having $0 withheld in the old system.

Note that the effective date shown in the file can represent a change to taxes or could be the beginning of the tax history for a new employee. You will have to check to see if the employee added the “Exempt” row in 2017 or was a new hire in 2017. You do not need to take any action for those employees.

**Federal Tax Withholding**

The [IRS (Circular E) Employer's Tax Guide](https://www.irs.gov/pub/irs-pdf/p15.pdf) states, “Generally, an employee may claim exemption from federal income tax withholding because he or she had no income tax liability last year and expects none this year… A Form W-4 claiming exemption from withholding is effective when it is filed with the employer and only for that calendar year.” Employees who filed a Federal Form W-4 or updated their exemptions in ESS to have no income tax withheld for 2016 should have filed a new form by February 15, 2017. Due to the lateness of this memo, agencies should notify the affected employees to do one of the following:

1. Before June 9, 2017, the employee should log into self-service, go to the W-4 Tax Information link, review the information and click the Submit button. This will take the place of a signed form and will create a new row in PeopleSoft. Payroll can verify this was completed by checking the effective date of the most recent tax row of the Update Employee Tax Data page. If this date is on or after the day you sent out your notices, you may assume this row is the updated submittal. Note that *any* change to either tax tab will change the effective date so if you received a state WT-4 or WT-4A from the employee (see #2 below), you must verify that your entry and the employee’s entry created separate rows
2. Before June 9, 2017, the employee should submit a new paper W-4 showing exemption from withholding or a new number of exemptions. If there is a change, payroll should key this new form into PS in time for the next payroll. Keep the form with the employee’s records

If the employee does not take any action, you must change the Federal withholding to single with zero allowances before payroll is processed on June 15 (pay period 13).

# **State Tax Withholding**

The [WI DOR Withholding Tax Guide](https://www.revenue.wi.gov/DOR%20Publications/pb166.pdf) states, “When an employee is claiming complete exemption from Wisconsin withholding tax, a new Form WT-4 must be filed annually. The employer must receive a completed Form WT-4 for the current income year on or before April 30 of that year. If the employee fails to furnish an exemption form, then the employee shall be considered as claiming zero withholding exemptions.”

Employees who prepay their Wisconsin Income Taxes should give you a Form W-200 for 2017. The form is only valid for that tax year.

Due to the lateness, agencies should notify the affected employees to do the following:

1. Before June 9, 2017, the employee should submit a new paper WT-4 or WT-4A indicating their updated withholding exemptions. If there is a change, payroll should key this new form into PS as soon as possible. Keep the form with the employee’s records

If the employee does not take any action, you must change the state withholding to zero allowances before payroll is processed on June 15 (Pay Period 13).

Do not include a link to ESS in your email notifications as we want to discourage employees from falling victim to phishing scams.