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State and Federal Income Tax Policy

Effective: July 1, 2004
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Executive Summary

This policy applies to all Commonwealth departments.

As an employer, the Commonwealth is responsible for withholding state and federal employment taxes in every biweekly pay period in accordance with an employee's official Form W-4 or M-4, and the employee is responsible for confirming that tax withholdings are taken.

The Commonwealth is required to provide each employee with a yearly Form W-2 statement detailing the total amount of federal and state tax deducted from their wages.

Policy

Federal Income Tax

The Internal Revenue Service (IRS) requires employers to withhold federal income tax from wages paid to their current and former employees based on the withholding exemptions claimed on the employee's Form W-4 (Employee's Withholding Allowance Certificate).

Employee's Federal Withholding Allowance Certificates (Forms W-4)

The Form W-4 provides the basis for determining the proper amount of federal tax to withhold from an employee's wages. Form W-4s can be downloaded from the IRS Forms and Instructions website. https://www.irs.gov/pub/irs-pdf/fw4.pdf. Employers are required to provide Forms W-4 to their employees. Upon hire, employees must submit to their employer a completed Form W-4. If an employee does not submit a completed Form W-4, federal income tax will be withheld at the single status rate, with no withholding allowances.

Form W-4 withholdings must be implemented by the employee's payroll department for the first payroll period ending after the Form W-4 is submitted. A Form W-4 remains in effect until the employee submits a new one.

If employees wish to make changes to their withholding allowances, they must submit a new Form W-4 to their payroll department. This Form W-4 must be implemented by the payroll department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the payroll department.

The IRS uses information reported on Forms W-2 to identify employees with withholding compliance problems. In some cases, where a serious under-withholding problem is found to exist for a particular employee, the IRS may issue a notice (commonly referred to as a "lock-in-letter"). The IRS will provide

the employee with an opportunity to dispute the determination before their withholding is adjusted based on the lock-in letter. When an employee's withholding is locked, departments must contact the Statewide Payroll Team if the employee wants to change their withholding elections.

Supplemental Wages

Most wages are taxed at the federal level using the IRS-approved "annual" tax method. When employees receive payments called "supplemental wages," a special rate is applied to withhold federal income tax from these payments at a rate specified by the IRS. This rule is called the "supplemental" tax method. Examples of supplemental wages include overtime, bonuses, awards, settlements, judgments, retroactive pay, and sick and vacation leave payouts.

An employee could have both the annual and supplemental tax methods applied to their wages in a pay period, depending on the types of earnings they receive.

Claiming Exempt on Form W-4

Employees, including non-resident aliens, who claim an exemption from tax withholding on their Form W-4 must submit a new Form W-4 annually, attesting to their exempt status. If the employee does not submit a new Form W-4 by February 15 of the new calendar year, then their tax status will be automatically reset to the single status rate, with no withholding allowances.

State Income Tax

The Massachusetts Department of Revenue (DOR) requires employers to withhold state income tax from wages paid to their current and former employees, based on the withholding exemptions claimed on the employee's Form M-4 (Massachusetts Employee's Withholding Exemption Certificate).

Massachusetts Employee's Withholding Exemption Certificates (Form M-4)

Employees can also submit a Form M-4 "Massachusetts Employee's Withholding Exemption Certificate" to specify the withholding exemptions applicable for their state withholding tax. Form M-4s can be downloaded from the DOR website: https://www.mass.gov/lists/dor-withholding-tax-forms. Employees are not required to submit a Form M-4 if they have already submitted a Form W-4, unless they want a different withholding for state taxes. If an employee does not submit a Form M-4, state income tax will be withheld at the single status rate, with no withholding exemptions.

A Form M-4 must be implemented by the employee's payroll department for the first payroll period ending after the form is submitted. A Form M-4 remains in effect until the employee submits a new one.

If employees wish to make changes to their withholding allowances, they must submit a new Form M-4 to their payroll department. This Form M-4 must be implemented by the payroll department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the payroll department.

Claiming Exempt on Form M-4

Employees, including non-resident aliens, who claim an exemption from tax withholding on their Form M-4 must submit a new Form M-4 annually, attesting to their exempt status. If the employee does not submit a new Form M-4 by February 15 of the new calendar year, then their tax status will be automatically reset to the single status rate, with no withholding allowances.

Commonwealth Employees Who Work Outside of Massachusetts

This section applies to Commonwealth employees who are assigned to work in other states. If a department has an employee who works outside of Massachusetts, the department needs to communicate with the Statewide Payments and Tax Reporting Team at the Office of the Comptroller (CTR) to ensure compliance.

Refunds

Departments can request payroll tax refunds on behalf of an employee from the Office of the Comptroller (CTR) only when an error has been made on an employee's tax withholding. The department should request a refund by submitting the applicable Refund Request Form(s).

Both Federal and State Tax Refund Request Forms can be found at https://www.macomptroller.org/forms

Internal Controls

Department heads are required to annually complete CTR's Internal Control Certification (ICC). As part of that process, departments are required to certify compliance with this policy. CTR may also conduct periodic interviews and desk reviews to verify compliance with this policy.

Departments are responsible for complying with this policy and making any corrections necessary to bring any action contrary to CTR's instructions into compliance.

Records Management

In accordance with IRS Publication 15, if a Commonwealth payroll Department collects a form outside of the payroll system, they are required to keep Forms W-4 and M-4 on file for their employees for at least four years after the date the form was signed.

Department counsel is responsible for maintaining the original or certified "Record copies" of all documents related to a claim or identifying the repository for these records in accordance with the records retention schedule published by the Supervisor of Public Records - Records Management Unit and CTR's Fiscal Records Management Policy.

CTR will retain documents submitted for administrative processing in accordance with the records retention schedule; this does not relieve departments from their retention obligations for these records. Public record requests for copies of documents related to a claim will be fulfilled if CTR is in possession of the requested documents. If CTR does not have a copy, it will refer the request to the department that submitted it.

Contact

- CTR Solution Desk