

**DATE:** December 29, 2006  
**TO:** Agency Payroll Staff  
**FROM:** Mary Muellner, Director  
Statewide Payroll Services  
**SUBJ:** Changes to Supplemental Withholding

Effective 1/1/2007, the IRS regulation for withholding tax on supplemental wages has changed. The regulation continues to allow a flat rate method of withholding 25% for supplemental wages, but now permits this method to be used only if the employee has received regular wages in the current or prior calendar year.

The IRS defines **regular wages** as “amounts paid by the employer for a pay period at a regular hourly rate or in a predetermined fixed amount.” **Supplemental wages** “may include reported tips, overtime pay, bonuses, back pay, commissions, reimbursements, noncash fringe benefits, sick pay, and other irregular payments.”

For employees who have received no wages or only supplemental wages in the current and prior calendar year, the aggregate method of withholding will be used. The aggregate method totals all supplemental wages for the current calendar year. The total is taxed as a single wage payment for the current pay period, offset by prior tax withholding for the year. The taxes are calculated based on the current tax tables.

This change will affect very few employees, but payroll staff should be aware that occasionally the 25% flat rate will not be used for federal withholding. State withholding is not affected by this change; it is based on a flat rate only.

Agency payroll or HR staff should contact Karen McQuillan at 651.201.8067 or [karen.mcquillan@state.mn.us](mailto:karen.mcquillan@state.mn.us) if there are questions.