

Payroll Tax Withholding

FIN-PAY-IV-90



About This Policy

Effective Date:

10-01-1996

Last Updated:

07-08-2013

Responsible University Office:

Financial Management Services

Responsible University Administrator:

Vice President and Chief Financial Officer

Policy Contact:

Mary Byrde

Director, Payroll and FMS Support

mbyrde@indiana.edu

Related Information

[* Internal Revenue Code, Regulations and Publications](#)[* Immigration and Naturalization Service](#)[* Social Security Administration](#)

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Scope

Policy applies to all people paid through the University payroll system.

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Policy Statement

Indiana University shall withhold required taxes from employee regular wages in accordance with the provisions of federal and state regulations.

Withholding of taxes will be subject to the special provisions outlined below:

Assignment of Compensation: in situations where an employee has the option to either receive certain compensation in cash or have the funds directed to a research account or other location, the employee is in constructive receipt of the compensation. The total amount of the compensation must be added into the employee's regular wage record, and the appropriate federal and state taxes will be withheld, irrespective of the employee's choice of disposition of the compensation.

Tuition Benefit for Graduate Level Courses: The IRS requires that the value of employer provided educational assistance benefits, referred to at Indiana University as Tuition Benefit, that are received by IU employees, for graduate level courses that began after June 30, 1996, to be treated as taxable income and included in employee wages. The value of graduate level fee courtesy benefits is subject to regular federal, state, county and local income tax withholding, as well as (Social Security and Medicare) FICA withholding. Tuition Benefit for undergraduate level courses taken only by covered employees, their spouses and dependent children are not treated as taxable income.

Non-Cash Compensation: There are certain items of non-cash compensation which are defined as taxable income under current tax laws and regulations. These include the value of employer provided automobiles, housing allowances, tip income and certain other personal expenses that are paid for the employee's benefit. The fair market value of any non-cash compensation, as defined by IRS valuation methods, will be added to the employee's gross wages and tax will be withheld accordingly. Non-cash compensation has an alternate tax reporting period of November 1 to October 31st. This allows time to record the taxable income in the payroll system before the end of the calendar year.

Social Security and Medicare: All employees of Indiana University are subject to Social Security and Medicare tax withholding, based on the earnings levels and tax rates prescribed by the IRS. Two categories of employees may be exempt from social security tax withholding, depending on the specific facts and circumstances relating to their employment, as follows:

- students who meet the tests, defined in IU Payroll Administration Policy FIN-PAY-IV-230, for being enrolled and regularly attending classes during the academic semester in which they are employed may be exempt, and;
- nonresident aliens who hold F-1, J-1, M-1 or Q-1 visas, and who are performing employment that is consistent with the provisions of their visa status.

Supplemental Pay: All supplemental payments paid separately or combined with regular wages and separately stated will be subject to a flat rate of tax withholding as provided by the Internal Revenue Service and the Indiana Department of Revenue. Supplemental payments may include retroactive pay, terminal pay, awards, and other irregular payments.

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Reason For Policy

Indiana University is required to withhold certain federal, state, county and local taxes from employee wages, using pre-defined withholding tables and tax rates mandated by the various governmental units noted above. This policy is presented to communicate the laws and regulations regarding the withholding of taxes from employee wages, for the purposes of both informing employees, and providing adequate information for departments for budgeting purposes.

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Procedure

Tuition Benefit: The value of graduate level Indiana University Tuition Benefit will be added into employee wages on a semester by semester basis. The value of this benefit will be added to the gross earnings of bi-weekly paid staff, in four equal installments, over four consecutive bi-weekly payroll periods. The value of this benefit will be added to the gross earnings of monthly paid staff, in two equal installments, over two consecutive monthly payroll periods. An exception to this practice occurs when Tuition Benefit is not applied for in a timely fashion. Appropriate federal, state and county income taxes, and FICA tax will be withheld from those amounts.

Personal Use of University Vehicles: Employees who use Indiana University vehicles for personal use will be required to submit a mileage log for the period November 1 of the prior tax year to October 31 of the current tax year. The employee will log beginning and ending odometer reading along with monthly business and personal miles driven. The form will be provided to employees October 31st and will be due by mid-November. The value of personal use will be calculated based on IRS valuation methods.

Department Billed Non-Cash Fringes: Departments who provided housing, meals and other reportable non-cash fringes to Indiana University employee and bill other university departments will provide University Tax Services a list of the employees and the value of the benefit. The list should be reported timely for inclusion as taxable income on employee pay checks.

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Additional Contacts

<i>Subject</i>	<i>Contact</i>	<i>Phone</i>	<i>Email</i>
Tax Reporting	Vicky Fry	855-0142	vafry@iu.edu

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History

This policy was established on October 1, 1996.