# FORMULA METHOD

Employers having electronic systems are authorized to use the following formula to compute the amount of withholding rather than use the withholding tables.

1.  Multiply the Period Gross Pay by the number of periods per year to arrive at annual gross pay.

    | | | |
    |---|---|---|
    | Monthly | x 12 | = Annual Gross Pay |
    | Semi-Monthly | x 24 | = Annual Gross Pay |
    | Bi-Weekly | x 26 | = Annual Gross Pay |
    | Weekly | x 52 | = Annual Gross Pay |
    | Daily | x 260 | = Annual Gross Pay |

2.  Subtract the Standard Deduction of $2,000 to arrive at Net Taxable Income.

3.  Compute Gross Tax on the net taxable income.

| OVER | BUT NOT OVER | PERCENTAGE | ON EXCESS OVER |
|---|---|---|---|
| 0 | $3,000.00 | 1% | 0 |
| $3,000.00 | $6,000.00 | $30.00 + 2.5% | $3,000.00 |
| $6,000.00 | $9,000.00 | $105.00 + 3.5% | $6,000.00 |
| $9,000.00 | $15,000.00 | $210.00 + 4.5% | $9,000.00 |
| $15,000.00 | $25,000.00 | $480.00 + 6.0% | $15,000.00 |
| $25,000.00 | | $1,080.00 + 7.0% | $25,000.00 |

4.  Multiply total number of withholding exemptions claimed on Form AR4EC times $20.00 to arrive at Personal Tax Credits.

5.  Subtract Personal Tax Credits from gross tax to arrive at Net Tax Per Year.

6.  Divide Net Tax Per Year by the number of Pay Periods in the year.

# EXAMPLE
## Computer Formula


Mr. Jones, a truck driver, works for XYZ Trucking and is paid semi-monthly $385.00 per pay period. He claims a total of 2 withholding exemptions. How much is withheld?

1. Semi-monthly pay        =  $385.00
    Semi-monthly pay periods = x     24
    Annual Gross pay       =$9,240.00

2. Annual Gross pay       =$9,240.00
    Less Standard Deduction  =$2,000.00
    Net Taxable Income     =$7,240.00

3. The income of $7,240.00 is over $6,000.00 but not over $9,000.00 so the tax computation is $105.00 plus the excess over  $6,000.00..

    $7,240.00 -$6,000 = $1,240.00
    $1,240.00 x 3.5%  = $    43.40
    $43.40 + $105.00  = $   148.40  Total Tax per year

4. Total Tax per year      =$148.40
    Less Personal Credit
    (2 exemptions x $20.00)  =$  40.00
    Net Tax per year      $108.40

5. Net Tax per year Divided by pay periods  = $108.40 / 24 = $4.52

    Compared to tax table amount of $4.53.