

CALCULATION OF WITHHOLDING

Computer Formula

The State of Iowa offers two formulas, either of which may be used by withholding agents in calculating the correct amount of Iowa tax to withhold from an employee's paycheck. The regular formula utilizes values for the actual pay period to calculate liability. The annualized formula projects all values to an annual basis, then reduces the tax back to the amount due for the pay period. For withholding agents who must calculate withholding for more than one length of pay period, the annualized formula may be particularly beneficial.

Values of Variables used in the Formula

Standard Deduction Amounts

Pay Period	Number of Personal Allowances Claimed	
	0 or 1	2 or more
Weekly	\$31.73	\$78.08
Biweekly	\$63.46	\$156.15
Semimonthly	\$68.75	\$169.17
Monthly	\$137.50	\$338.33
Annually	\$1,650.00	\$4,060.00

Tax Rate and Bracket Amounts

Rates	Weekly	Biweekly	Semimonthly	Monthly	Annually
0.0036 x 1st	\$25.00	\$50.00	\$54.17	\$108.33	\$1,300.00
0.0072 x next	\$25.00	\$50.00	\$54.17	\$108.33	\$1,300.00
0.0243 x next	\$50.00	\$100.00	\$108.33	\$216.67	\$2,600.00
0.0450 x next	\$125.00	\$250.00	\$270.83	\$541.67	\$6,500.00
0.0612 x next	\$150.00	\$300.00	\$325.00	\$650.00	\$7,800.00
0.0648 x next	\$125.00	\$250.00	\$270.83	\$541.67	\$6,500.00
0.0680 x next	\$250.00	\$500.00	\$541.67	\$1,083.33	\$13,000.00
0.0792 x next	\$375.00	\$750.00	\$812.50	\$1,625.00	\$19,500.00
0.0898 x remaining amount					

Top Bracket

Amounts	\$1,150.00	\$2,300.00	\$2,500.00	\$5,000.00	\$60,000.00
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Personal Allowance Amounts

Pay Period	1st Personal allowance	2nd Personal allowance	3rd and Each Subsequent Personal allowance
Weekly	\$0.77	\$0.77	\$0.77
Biweekly	\$1.54	\$1.54	\$1.54
Semimonthly	\$1.67	\$1.67	\$1.67
Monthly	\$3.33	\$3.33	\$3.33
Annually	\$40.00	\$40.00	\$40.00

Number of Pay Periods Per Year

Daily:	260	Semimonthly:	24		
Weekly:	52	Monthly:	12	Semiannually:	2
Biweekly:	26	Quarterly:	4	Annually:	1

FORMULA EXAMPLES AND INSTRUCTIONS

DEFINITIONS OF VARIABLES

G = Taxable Wages for Pay Period R = Iowa Tax Rates
 W = Federal Tax Withheld for Pay Period C = Personal Allowance Amount
 S = Standard Deduction P = Number of Pay Periods
 A = Additional Withholding Requested N = Number of Personal Allowances

INSTRUCTIONS FOR REGULAR FORMULA

Items T₁ through T₄ represent the values derived at each step in arriving at the tax to be withheld. Be sure to use the values for the correct pay period.

Subtract Federal withholding from taxable wages. Certain payments made by the employer into employee retirement plans or for employee health insurance are not considered wages and are not included in the calculations of withholding tax.

$$T_1 = G - W$$

Subtract the standard deduction from T₁

$$T_2 = T_1 - S$$

Multiply T₂ (taxable income) by the tax rates (1)

$$T_3 = T_2 \times R$$

Subtract the personal allowance credits from the gross tax to arrive at final tax liability

$$T_4 = T_3 - [C \times N]$$

Add the additional amount of withholding requested on the employee's IA W-4

$$T_5 = T_4 + [A \div P]$$

Example: Biweekly wages of \$740

(3 total personal allowances claimed, no additional amount requested)

T ₁ = G - W	T ₁ = \$740.00	- \$5.12	=	\$734.88
T ₂ = T ₁ - S	T ₂ = \$734.88	- \$156.15	=	\$578.73
T ₃ = T ₂ x R	T ₃ = 0.0036 x 1st \$50.00	\$50.00	=	\$ 0.18
	0.0072 x next \$50.00	\$50.00	=	\$ 0.36
	0.0243 x next \$100.00	\$100.00	=	\$ 2.43
	0.0450 x next \$250.00	\$250.00	=	\$ 11.25
	0.0612 x remaining \$128.73	\$128.73	=	\$ 7.88
	T ₃ =			\$ 22.10
T ₄ = T ₃ - (CxN)	T ₄ = \$22.10 - (\$1.54 x 3)		=	\$ 17.48
T ₅ = T ₄ - (A÷P)	T ₅ = \$17.48 + (\$0.00 x 26)		=	\$ 17.48

Iowa tax to be withheld=\$17.48

INSTRUCTIONS FOR ANNUALIZED FORMULA

The annualized formula is identical to the regular formula with one overall modification.

In Step T₁, wages are multiplied by the number of pay periods in a year to arrive at annual wages. Then in each subsequent Step (T₂ - T₄) annual values are used. See the following page for alternate rates to be entered at Step T₃. Finally, in Step T₅, the annual liability is divided by the number of pay periods in the year to arrive at the tax for the pay period.

Example: Monthly wages of \$2,750 (4 total personal allowances claimed)

$T_1 = (G - W) \times P$	$T_1 = (\$2,750.00 - \$98.30) \times 12$				$= \$31,820.40$
$T_2 = T_1 - S$	$T_2 = \$31,820.40 - \$4,060.00$				$= \$27,760.40$
$T_3 = T_2 \times R$	$T_3 = 0.0036 \times \$1,300.00$				$= \$ 4.68$
	$0.0072 \times \$1,300.00$				$= \$ 9.36$
	$0.0243 \times \$2,600.00$				$= \$ 63.18$
	$0.0450 \times \$6,500.00$				$= \$ 292.50$
	$0.0612 \times \$7,800.00$				$= \$ 477.36$
	$0.0648 \times \$6,500.00$				$= \$ 421.20$
	$0.0680 \times \$1,760.40$				$= \$ 119.71$
	$T_3 =$				$\$ 1,387.99$
$T_4 = T_3 - (C \times N)$	$T_4 = \$1,387.99 - (\$40 \times 4)$				$= \$ 1,227.99$
$T_5 = T_4 + A$	$T_5 = \$1,227.99 + \0				$= \$ 1,227.99$
$T_6 = T_5 \div P$	$T_6 = \$1,227.99 \div 12$				$= \$ 102.33$

Iowa tax to be withheld = \$102.33

RATE TABLE FOR COMPUTER FORMULA

The following table is presented as an alternative for withholding agents using personal computers with purchased software: Such software often requires that the Iowa rate table be entered in a format similar to that used by the Internal Revenue Service in their Circular E. Employers' Tax Guide. If you choose to use this table, it should be entered at Step T₃ of the formula as follows:

Over	But Not Over	Tax		Tax Rate	Of Excess Over
\$ 0	\$ 1,300	0	plus	0.0036	\$ 0
\$ 1,300	\$ 2,600	\$ 4.68	plus	0.0072	\$ 1,300
\$ 2,600	\$ 5,200	\$ 14.04	plus	0.0243	\$ 2,600
\$ 5,200	\$11,700	\$ 77.22	plus	0.0450	\$ 5,200
\$11,700	\$19,500	\$ 369.72	plus	0.0612	\$11,700
\$19,500	\$26,000	\$ 847.08	plus	0.0648	\$19,500
\$26,000	\$39,000	\$1,268.28	plus	0.0680	\$26,000
\$39,000	\$58,500	\$2,152.28	plus	0.0792	\$39,000
\$58,500		\$3,696.68	plus	0.0898	\$58,500

Another, alternative method of calculation is presented below:

If the employee's Wages are:

Over	But Not Over		Withholding is		
\$0	\$1,300	Taxable Wage times	0.0036	less	0
\$1,300	\$2,600	Taxable Wage times	0.0072	less	\$4.68
\$2,600	\$5,200	Taxable Wage times	0.0243	less	\$49.14
\$5,200	\$11,700	Taxable Wage times	0.0450	less	\$156.78
\$11,700	\$19,500	Taxable Wage times	0.0612	less	\$346.32
\$19,500	\$26,000	Taxable Wage times	0.0648	less	\$416.52
\$26,000	\$39,000	Taxable Wage times	0.0680	less	\$499.72
\$39,000	\$58,500	Taxable Wage times	0.0792	less	\$936.52
\$58,500		Taxable Wage times	0.0898	less	\$1,556.62