

**VOLUME 7B, CHAPTER 25: “COMPUTATION OF FEDERAL INCOME TAX
WITHHOLDING (FITW)”**

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [***bold, italic, blue, and underlined font***](#).

The previous version dated [September 2021](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated chapter formatting and hyperlinks to comply with administrative instructions.	Revision

Table of Contents

VOLUME 7B, CHAPTER 25: “COMPUTATION OF FEDERAL INCOME TAX WITHHOLDING (FITW)” 1

1.0 GENERAL 3

 1.1 Purpose 3

 1.2 Authoritative Guidance 3

2.0 RATES FOR REGULAR AND ADDITIONAL WITHHOLDING OF FITW 3

 2.1 FITW 3

 2.2 Request Additional FITW 3

 2.3 FITW for an Annuitant..... 3

 2.4 Nonresident Alien 4

3.0 RATES OF FITW FOR ONE-TIME PAYMENTS..... 4

 3.1 One-Time Payments 4

 3.2 Blended Retirement System (BRS) Lump Sum Payments 5

REFERENCES 6

CHAPTER 25

COMPUTATION OF FEDERAL INCOME TAX WITHHOLDING (FITW)

1.0 GENERAL

1.1 Purpose

This chapter provides information pertaining to Retired and Annuitant (R&A) pay that is subject to FITW and the computation of FITW.

1.2 Authoritative Guidance

The pay policies and requirements established by the DoD in this chapter are derived primarily from, and prepared in accordance with Title 26 of the United States Code (U.S.C.). Due to the subject matter in this chapter, the list of authoritative sources is extensive. The specific statutes, regulations, and other applicable guidance that govern each section are listed in a reference section at the end of the chapter.

2.0 RATES FOR REGULAR AND ADDITIONAL WITHHOLDING OF FITW

2.1 FITW

Federal income tax *is* withheld in accordance with the Department of the Treasury, Internal Revenue Service [*\(IRS\) Publication 15, \(Circular E\)*](#), Employer's Tax Guide. Taxable pay, as computed under provisions of Chapter 24, is subject to FITW.

2.2 Request Additional FITW

A member may authorize an additional monthly amount of federal income tax to be withheld.

2.3 FITW for an Annuitant

The gross monthly amount of the annuity, or the monthly amount of the Survivor Benefit Plan (SBP) annuity remaining after it has been reduced by a Dependency and Indemnity Compensation award and/or Social Security offset (as applicable), is taxable income and subject to FITW unless the annuitant elects no withholding. See also Chapter 37 for Retired Serviceman's Family Protection Plan Annuities and Chapter 46 for SBP Annuities.

2.4 Nonresident Alien

Federal income tax is withheld for a nonresident alien pursuant to [26 U.S.C. § 871](#) and Title 26, Code of Federal Regulations (CFR), section 1.861-4 ([26 CFR 1.861-4](#)). Taxable retired pay, as determined under Chapter 24, is subject to FITW at the rate of 30 percent, without being reduced by withholding allowances of personal exemptions, unless the member is a citizen of a country that has a tax treaty with the United States. Use the withholding rate specified in the treaty if the member files [IRS Form W8BEN](#), Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals), with the Defense Finance and Accounting Service, Military Retirement Pay.

Note: When a member files an income tax return, the IRS will refund any excess tax withheld. A member who is not a U.S. citizen or resident alien is responsible for reporting the income to the country of the member's citizenship and paying any tax owed on this income.

3.0 RATES OF FITW FOR ONE-TIME PAYMENTS

3.1 One-Time Payments

When DFAS Retired Pay pays a one-time payment concurrently with a regular monthly payment, it separately identifies the one-time payment from the regular payment. As such, the same FITW computation rules apply if the one-time payment is made concurrently with or separately from the regular monthly payment. There are two computation methods, and the method that may be used depends upon whether federal income tax was withheld from regular monthly payments of retired pay made to the member during the current or immediately preceding calendar year. (See IRS Publication 15, section 7.)

3.1.1. When federal income tax was not withheld from regular payments during the current or preceding calendar year, the one-time payment must be combined with the wages paid for the last pay period (in the same calendar year) or with the wages paid for the current pay period. The amount of withholding is then computed as if this was a single payment, taking into consideration the member's claimed withholding exemptions. Compute the aggregate withholding amount. Subtract the amount of federal income tax previously withheld or the amount scheduled to be withheld from the regular wages for the current period. The excess amount would then be deducted from the one-time payment.

3.1.2. When federal income tax was withheld from regular monthly payments made during either the current or immediately preceding calendar year, there are two alternatives:

3.1.2.1. Use the procedure described in subparagraph 3.1.1; or

3.1.2.2. Withhold a flat 22 percent of the taxable portion of the one-time payment without regard to the withholding exemptions claimed. (See Revenue Ruling 66-190, 1966 CB 457.)

3.2 Blended Retirement System (BRS) Lump Sum Payments

BRS lump sum payments made under [10 U.S.C. § 1415\(b\)](#) are treated as supplemental wages for tax purposes. Federal income tax is withheld from BRS lump sum payments in the same manner as described in paragraph 3.1.

REFERENCES

CHAPTER 25 – COMPUTATION OF FITW

2.0 – RATES FOR REGULAR AND ADDITIONAL WITHOLDING OF FITW

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|-----|---|
| 2.1 | IRS Publication 15, (Circular E) |
| 2.4 | 26 U.S.C. § 871
26 CFR 1.861-4
26 U.S.C. § 1441 |

3.0 – RATES OF FITW FOR ONE-TIME PAYMENTS

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|-----|---|
| 3.1 | IRS Publication 15, (Circular E), Section 7
26 CFR § 31.3402(g)-1
Revenue Ruling 82-200 |
| 3.2 | 26 CFR § 31.3402(g)-1
Revenue Ruling 66-190, 1966-2 CB 457
10 U.S.C. § 1415(b) |