

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

SUMMARY OF MAJOR CHANGES

All changes are 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 August 2013 is archived.

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

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CHAPTER 25

COMPUTATION OF FEDERAL INCOME TAX WITHHOLDING (FITW)

2501 GENERAL

250101. Overview

A. Wages or Annuity Subject to Withholding of Federal Income Tax. Taxable pay, as computed under provisions of Chapter 24, is subject to federal income tax withholding (FITW).

B. Annuity Amount. The gross monthly amount of the annuity, or the monthly amount of the Survivor Benefit Plan annuity remaining after it has been reduced by a Dependency and Indemnity Compensation award and/or Social Security offset, is taxable income and is subject to FITW unless the annuitant elects no withholding. See Chapter 37, Section 3718 and Chapter 46, Section 4614.

250102. Authoritative Guidance

The bibliography at the end of this chapter lists the authoritative references.

2502 RATES FOR REGULAR AND ADDITIONAL WITHHOLDING OF FEDERAL INCOME TAX

250201. FITW

Federal income tax will be withheld in accordance with the [Department of the Treasury, Internal Revenue Service, Publication 15 \(Circular E\) Employer's Tax Guide.](#)

250202. Request Additional FITW

Consistent with the member's tax liability and tax planning, a member may authorize an additional monthly amount of Federal income tax to be withheld.

250203. FITW for an Annuitant

See Chapter 37, Section 3718 and Chapter 46, Section 4614.

250204. Nonresident Alien

A. Service Outside the United States (U.S.). Members who are nonresident aliens are not liable for U.S. income tax on income received for service outside the U.S., and such income is not subject to FITW. Service by a nonresident alien member assigned to a base outside the U.S., or to a U.S. vessel (other than vessels normally used in coastal waters only) on which the enlisted members are entitled to sea duty pay, is considered service outside the U.S.

B. Service Within the U.S. For purposes of this paragraph, the U.S. includes the 50 states and the District of Columbia. Service onboard a coast-wide vessel is regarded as service within the U.S. Duty on the Great Lakes, the Mississippi River, and other inland waters of the U.S., or while serving on a vessel normally operating within the territorial limit of the U.S., is considered service within the U.S. Gross pay for this service is subject to FITW.

C. FITW Computation

1. Step 1. Compute the member's FITW wages from gross retired pay as if he or she is a U.S. citizen.

2. Step 2. Determine the ratio of the number of days of active duty inside the U.S. to the total number of days of active duty.

3. Step 3. Multiply FITW wages determined under Step 1 by the ratio determined under Step 2. The resulting amount 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 U.S. Use the withholding rate specified in the treaty if the member files Form W-8BEN, "Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals)," with Defense Finance and Accounting Service, U.S. Military Retirement Pay, P.O. Box 7130, London, KY 40742-7130 and the Director of International Operations, Internal Revenue Service, Washington, DC 20225. Note that when the member files an income tax return, the Internal Revenue Service will refund any excess tax withheld. A member in this status is responsible for reporting the income to the country of the member's citizenship and paying any tax owed on this income.

2503 RATES OF FITW FOR ONE-TIME PAYMENTS

Special computation rules have been developed by the Internal Revenue Service for the computation of FITW for one-time payments. These rules differentiate whether the taxable portion of a one-time payment must be lumped together with normal taxable pay or treated separately. The rules are differentiated by whether the taxable portion of the one-time payment is made concurrently with a regular payment, or made separately from the regular monthly payment.

250301. One-Time Payments Made Concurrently With a Regular Monthly Payment

When a one-time payment is combined with the regular monthly payment, FITW may be computed at 25 percent on the one-time payment portion if it is separately identified and if tax is withheld on the monthly payment of retired pay at the appropriate rate. See Revenue Ruling 82-200 and Department of the Treasury, Internal Revenue Service, Publication 15 (Circular E) Employer's Tax Guide.

250302. One-Time Payment Made Separately From a Regular Monthly Payment

There are two computation rules available. The difference between the rules is not the type of payment, but whether Federal income tax previously was withheld from the member's regular monthly payment of retired pay.

A. When Federal income tax was not withheld because the member's exemptions exceeded the taxable portion of retired or retainer pay, 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.

B. When Federal income tax has been withheld, there are two alternatives:

1. Combine the taxable portion of the payments, as in subparagraph 250302.A, and compute the aggregate withholding amount. Then subtract the amount of Federal income tax previously withheld or the amount scheduled to be withheld for the current period. The excess amount then would be deducted from the one-time payment; or

2. Withhold a flat 25 percent of the taxable portion of the one-time payment without regard to the withholding exemptions claimed. This option cannot be used when the regular monthly payment does not have a FITW. (See Revenue Ruling 66-190, 1966-2 CB 457.)

BIBLIOGRAPHY

**CHAPTER 25 – COMPUTATION OF FEDERAL INCOME TAX WITHHOLDING
(FITW)**2502 – RATES FOR REGULAR AND ADDITIONAL WITHHOLDING OF FEDERAL
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| 250201 | Department of the Treasury, Internal Revenue Service,
Publication 15 (Circular E) Employer’s Tax Guide |
| 250204.A | Revenue Ruling 70-227, 1970-1 CB 155 |
| 250204.B | 26 U.S.C. 7701(a)(9),
26 CFR 861- 4(c),
Revenue Ruling 70-227, 1970-1 CB 155 |
| 250204.C.3 | 26 CFR 1.861-4(b)(1) |

2503 – RATES OF FITW FOR ONE-TIME PAYMENTS

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| 250301 | Department of the Treasury, Internal Revenue Service,
Publication 15 (Circular E) Employer’s Tax Guide
26 CFR 31.3402(g)(a)(6)
Revenue Ruling 82-200 |
| 250302 | 26 CFR 31.3402(g)(a)(6)
26 CFR 31.3402(g)(a)(7)
Revenue Ruling 66-190, 1966-2 CB 457 |