

**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 2015** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated chapter and format to comply with administrative instructions.	Revision
250101	Deleted the “Overview” paragraph; however, moved text to paragraphs 250201 and 250203.	Deletion
250101	Added a “Purpose” paragraph to comply with current administrative instructions.	Addition
250201	Modified with text from former subparagraph 250101.A.	Revision
250203	Modified with text from former subparagraph 250101.B.	Revision
250204.C.3	Changed address from “P.O. Box 7130, London, KY 40742-7130” to “8899 E. 56 th Street, Indianapolis, IN 46249-1200.”	Revision
Bibliography	Bibliography updated.	Revision

Table of Contents

2501 GENERAL 3

 *250101. Purpose 3

 250102. Authoritative Guidance 3

2502 RATES FOR REGULAR AND ADDITIONAL WITHHOLDING OF FEDERAL INCOME TAX 3

 *250201. FITW 3

 250202. Request Additional FITW 3

 *250203. FITW for an Annuitant..... 3

 *250204. Nonresident Alien 3

2503 RATES OF FITW FOR ONE-TIME PAYMENTS..... 4

 250301. One-Time Payments Made Concurrently With a Regular Monthly Payment 4

 250302. One-Time Payment Made Separately From a Regular Monthly Payment..... 5

*BIBLIOGRAPHY 6

CHAPTER 25

COMPUTATION OF FEDERAL INCOME TAX WITHHOLDING (FITW)

2501 GENERAL

*250101. Purpose

This chapter provides information pertaining to pay that is subject to FITW and how to compute the amount of FITW to withhold.

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](#). Taxable pay, as computed under provisions of Chapter 24, is subject to FITW.

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

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 and Chapter 46.

*250204. Nonresident Alien

A. Service Outside the United States. Members who are nonresident aliens are not liable for U.S. income tax on income received for service outside the United States, and such income is not subject to FITW. Service by a nonresident alien member assigned to a base outside the United States, 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 United States.

B. Service Within the United States. For purposes of this paragraph, the United States includes the 50 states and the District of Columbia. Service onboard a coast-wide vessel is regarded as service within the United States. Duty on the Great Lakes, the Mississippi River, and other inland waters of the United States, or while serving on a vessel normally operating within the territorial limit of the United States, is considered service within the United States. 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 United States 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 United States. 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 the Defense Finance and Accounting Service, U.S. Military Retirement Pay, 8899 E. 56th Street, Indianapolis, IN 46249-1200 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 INCOME TAX

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	Title 26, United States Code, section 7701(a)(9) Title 26, Code of Federal Regulations (CFR), section 1.861-4 Revenue Ruling 70-227, 1970-1 CB 155
250204.C.3	26 CFR 1.861-4

2503 – RATES OF FITW FOR ONE-TIME PAYMENTS

250301	Department of the Treasury, Internal Revenue Service Publication 15 (Circular E) Employer’s Tax Guide
* 250302	26 CFR 31.3402(g)-1 Revenue Ruling 82-200
* 250302	26 CFR 31.3402(g)-1 Revenue Ruling 66-190, 1966-2 CB 457