

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 2017](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated chapter and format to comply with administrative instructions.	Revision
250204	Revised and streamlined paragraph for clarity.	Revision
250204	Provided references for the computation of withholding tax to nonresident aliens.	Revision
250204	Deleted the phrase, “and the Director of International Operations, IRS, Washington, DC 20225” to comply with instructions to Form W-8BEN.	Deletion
250301	Consolidated the former paragraphs 250301 and 250302 for clarity.	Revision
250301.B.2	Updated the FITW flat rate from 25 percent to 22 percent in accordance with Internal Revenue Service Publication 15, section 7.	Revision
250302	Added tax implication on Blended Retirement System Lump Sum Payments.	Addition
Bibliography	Renamed “Bibliography” to “References.”	Revision

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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 pay policies and requirements established by the Department of Defense in this chapter are derived primarily from, and prepared in accordance with the United States Code (U.S.C.), including Title 26. 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 individual section are listed in a reference section at the end of the chapter.

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 (IRS), [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

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

Federal income tax is withheld for a nonresident alien pursuant to Title 26, U.S.C., [section 871](#) and Title 26, Code of Federal Regulations (CFR), [section 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 [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. Note that when the member files an income tax return, the IRS 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

*250301. 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.

A. 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 then would be deducted from the one-time payment.

B. When Federal income tax [was withheld from regular monthly payments made during either the current or immediately preceding calendar year](#), there are two alternatives:

1. [Use the procedure described](#) in subparagraph 250301.A; or

* 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, 1966-2 CB 457.)

*250302. 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 manner described in paragraph 250301.

REFERENCES*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, IRS, Publication 15
(Circular E) Employer's Tax Guide

250204 [26 U.S.C. § 871](#)
[26 CFR § 1.861-4](#)

2503 – RATES OF FITW FOR ONE-TIME PAYMENTS

250301 Department of the Treasury, IRS, Publication 15
(Circular E) Employer's Tax Guide,
Section 7
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