

City or Local Tax Withholding

REFERENCE:

- DoD Financial Management Regulation Volume 8, Chapter 4, dated July 2008

TERMS USED:

- Civilian Payroll Office = DFAS (Indy)
- Employing Activity = DLA
- CSR = CoE

AS CITED:

040702. Voluntary Withholding of City or Local Tax:

A. ***Nonresident Employees.*** An employee who does not reside in the state in which the city or county (place of employment) is located is exempt from mandatory withholding; however, if there is an agreement between the city or county taxing authority and the Secretary of the Treasury, the civilian payroll office may withhold tax with the employee's consent. **The employee must submit a withholding certificate.**

B. ***Allotment for Voluntary Deduction.*** Employees have the option of making voluntary allotments for the payroll deduction of taxes of their city or county of residence if they are employed outside that location. The fact that taxes are withheld for the city or county of employment does not affect the employee's voluntary allotment.

1. An employee may make a voluntary allotment for withholding even though the city or county does not have a withholding agreement.

2. The civilian payroll office shall set the allotment amount on the city or county withholding method or deduct a whole dollar amount set by the employee. **The employee must submit a proper withholding certificate.**

C. ***Accounting for Voluntary Withholding.*** The civilian payroll office shall account for voluntary tax deductions as prescribed for mandatory withholdings.

D. ***Amount of Withholding***

1. The civilian payroll office shall withhold tax based on:

a. The proper city or county tax withholding rate set in the city or county instructions;

b. The prescribed percentage or formula method; or c. Computation of a set amount to be deducted from the employee's pay each pay period.

2. The civilian payroll office shall deduct an amount, at a minimum, nearly equal to the tax required by the city or county.

040703. Withholding Certificates:

A. **Employees must submit withholding certificates; they must provide the CSR with all the information needed to properly deduct city or county income taxes.** If an employee does not furnish a certificate, the civilian payroll office shall withhold tax at the highest level that applies to that employee's annual wages; however, the civilian payroll office shall not withhold any tax from wages of an out-of-state employee until they submit a form consenting to withholding.

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B. Employing activities may use a withholding or exemption certificate furnished by a city or county if it contains all required information. If the form does not contain all needed information, employing activities may use FMS Form 7311 (Employee Withholding Certificate for Local Taxes).

C. The CSR may furnish copies of the employees' withholding forms to the city or county on request; however, only information properly releasable under the Privacy Act shall be released.

040704. Accounting for City and County Mandatory and Voluntary Withholdings:

A. The civilian payroll office shall record amounts withheld each pay period in the employee's pay records when a special payment occurs; otherwise, the system will automatically update an employee's record.

B. Deposits. The civilian payroll office shall make a one-line entry on the **DD Form 592** as follows:

1. Enter "Withheld City (or County) Income Tax" below state or territorial tax and the total amount withheld each pay period.
2. Credit the withheld tax to deposit fund account--X6275 for city and county tax.

C. Correcting Errors. Civilian payroll offices shall apply the same instructions applicable to the withholding of state taxes. Refer to subparagraph 040601.A.11.c. of this volume for procedures.

D. Paying Out Withheld Taxes. Civilian payroll offices shall apply instructions for state tax.

E. Annual Form W-2 Reporting. Refer to Chapter 9, subparagraph **090207.C.** of this volume, for reporting procedures.

040705. Recordkeeping:

A. Civilian payroll offices shall keep all records of city or county income tax deductions. Records should include the:

1. EIN assigned by the city or county;
2. Amounts and dates of all wages subject to city or county tax withholding;
3. Names, addresses, and SSN of employees;
4. Dates and amounts of city or county tax paid; and
5. Copies of all returns filed.

B. **The employing activity shall file withholding authorization certificates for city tax deductions in a file for each employee until superseded or canceled.**