
Ohio Department of Administrative Services
Bob Taft, *Governor*
Scott Johnson, *Director*

Human Resources Division
28th Floor
30 East Broad Street
Columbus, Ohio 43215

614.466.3455 voice
614.466.5127 fax



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Payroll Letter 797
Supersedes Payroll Letter 794

To: Payroll Officers, Personnel Officers, Labor Relations Officers and Fiscal Officers of All Departments, Institutions, Boards and Commissions

From: Robert L. Cruse, State Payroll Administrator

Subject: Employee Withholding Allowance Certificates

The IRS and the Ohio Department of Taxation have notified the State Payroll that **NO EMPLOYEE** is exempt from paying federal or state tax, with some very strict exceptions. Therefore, we are changing the payroll system to ensure compliance. Those employees who were exempt in the past will no longer be exempt, for example, Patient Workers, Chaplains, Foster Grandparents, Students of the Deaf and Blind School and Casual Employees NEC. In addition, the IRS and Department of Taxation have indicated that any employee claiming more than 10 exemptions as well as employees claiming exemption from taxation must be documented and sent to the appropriate taxing authority for review and determination.

Effective Pay Period Ending 6/16/2001, which is Pay Day 6/29/2001, all changes in this Payroll Letter will go into effect. Employees in the classifications listed above should file a W-4 and IT-4 before the deadline, otherwise the defaults outlined in the section **COMPLETION OF EMPLOYMENT TAX FORMS BY NEW EMPLOYEES** will go into effect.

The State of Ohio withholds federal and state income taxes based on an employee's representation of the appropriate withholding status. The Employee's Withholding Allowance Certificate (**IRS Form W-4**) is used to establish the appropriate number of withholding allowances so that the proper amount of federal income tax is withheld from the employees' pay. The Employee's Withholding Exemption Certificate (**Tax Form IT-4**) is used to establish the appropriate number of withholding allowances so that the proper amount of State income tax is withheld from employees' pay. The W-4 is available on the IRS web site (http://ftp.fedworld.gov/pub/irs-pdf/fw4_00.pdf) and the IT-4 on the State Department of Taxation web site (<http://www.state.oh.us/tax/forms/Employer/it-4.pdf>).

A Form W-4 and IT-4 remains in effect until the employee provides a new one to the employee's payroll office. If an employee provides a Form W-4 or IT-4 that replaces the existing form, agencies must begin withholding no later than the first pay period that ends on or after the 30th day from the date the replacement form was received. For exceptions, see **Exemption from Income Tax Withholding, and Invalid Forms W-4.**



COMPLETION OF EMPLOYMENT TAX FORMS BY NEW EMPLOYEES

Employees need to complete the W-4 and IT-4 as part of their employee orientation. The payroll records should then be updated to reflect the appropriate taxing information. After posting the payroll record, retain the original of the W-4 and IT-4 in the employee's records. The default setting for federal and state tax is single with zero withholding allowances (the payroll record on PAYU will have S0 in the "Ftx" field and a blank in the "OH" field).

POSTING TO PAYROLL

For all other employees post federal income withholding allowances in the field labeled "Ftx" indicating the marital status, M = married or S = single, and number of allowances (i.e. "M3"). Post state income withholding allowances in the field labeled "OH" indicating the number of allowances only.

EXEMPTION FROM FEDERAL INCOME TAX

IRS regulations indicate that employees may claim exemption from federal withholding if they meet **both** of the following conditions:

1. During the previous year the employee had a right to a refund of **ALL** federal income tax withheld because the employee had **NO** tax liability **AND**
2. During the current year the employee expects a refund of **ALL** Federal Income tax withheld because the employee expects to have **NO** tax liability.

Only State Payroll Services has the authority to post exempt status to payroll. We will post the exempt status no later than the first pay period that ends on or after the 30th day from the date we receive the replacement Form W-4. An employee wishing to claim exemption from withholding must provide the following documentation to validate their adherence to the conditions described above.

- * IRS Form W-4 (Employee's Withholding Allowance Certificate claiming exemption)
- * Form 1040 (U.S. Individual Income Tax Return) showing that they did not owe **ANY** taxes for the previous year or that they received a full refund of their taxes
- * Written notarized statement that the employee expects a refund of **ALL** Federal Income tax withheld during the current year because the employee expects to have **NO** tax liability

An employee renewing a claim for exemption from withholding must complete the documentation described above and you must submit this documentation to State Payroll Services by February 15 to maintain "exempt" status. If the employee does not complete a new Form W-4 by February 15, we will begin withholding federal income tax as if the employee were single, with zero withholding allowances, beginning on the pay period that includes February 16 or the next pay period if payroll has already closed. It is the agency's responsibility to monitor the submission of the W-4s to ensure compliance with the deadline.



EMPLOYEES CLAIMING MORE THAN 10 FEDERAL WITHHOLDING ALLOWANCES

Only State Payroll Services has the authority to post federal withholding for any employee that wishes to claim more than 10 withholding allowances. Send a copy of the W-4 to the Payroll Accounting Supervisor as soon as possible. We will post the requested allowances no later than the first pay period that ends on or after the 30th day from the date we receive the replacement Form W-4.

SENDING FORM W-4 TO THE IRS

We are required to notify the IRS of any employee that is claiming exemption from federal withholding tax or is claiming more than 10 withholding allowances.

INVALID FORMS W-4

Any unauthorized change or addition to Form W-4 makes it invalid. This includes taking out any language by which the employee certifies that the form is correct. A Form W-4 is also invalid if, by the date an employee gives it to you, he or she indicates in any way that it is false. An employee who files a false Form W-4 may be subject to a \$500 penalty.

When you get an invalid Form W-4, do not use it to figure withholding. Tell the employee it is invalid and ask for another one. If the employee does not give you a valid one, withhold taxes as if the employee were single and claiming no withholding allowances. However, if you have an earlier Form W-4 for this worker that is valid, withhold as you did before.

EXEMPTION FROM STATE INCOME TAX

Every employer maintaining an office or transacting business within the State of Ohio and making payments of any compensation to an employee whether a resident or nonresident, must withhold Ohio income tax. The State of Ohio Department of Taxation has **NO** provisions to allow taxpayers to claim exemption from State Income Tax on Form IT-4 with the exception of residents of neighboring states. Employees claiming NO tax, other than the specified exception, or exemptions greater than 10 must complete an IT-4. The IT-4 along with any supporting documentation must be submitted to the State Payroll Accounting Supervisor who will send it to the Department of Taxation for determination.

RESIDENTS OF NEIGHBORING STATES

Residents who live in neighboring states, for example, Indiana, Kentucky, West Virginia, Michigan or Pennsylvania do not have to pay Ohio income tax. They should pay in their home state. If Ohio tax was withheld on income, you must file an Ohio tax return to get your refund.

Residents of these neighboring states who work in Ohio should complete **Form IT-4NR** and send it to the State Payroll Services Account Supervisor.

**EMPLOYEES CLAIMING MORE THAN 10 STATE WITHHOLDING ALLOWANCES**

Only State Payroll Services has the authority to post state withholding for any employee that wishes to claim more than 10 withholding allowances. Send a copy of the IT-4 to the Payroll Accounting Supervisor as soon as possible. We will post the requested allowances no later than the first pay period that ends on or after the 30th day from the date we receive the replacement Form IT-4.

SENDING FORM IT-4 TO THE OHIO DEPARTMENT OF TAXATION

We are required to notify the Ohio Department of Taxation of any employee that is claiming exemption from Ohio withholding tax or is claiming more than 10 withholding allowances.

Send copies of all required documentation to State Payroll Services at the following address.

Payroll Accounting Supervisor
State Payroll Services
Department of Administrative Services
30 E. Broad Street, 29th Floor
Columbus, Ohio 43215-3414 (614) 466-1565 (fax)

RLC/DAB/DAK