

# Can an employee opt out of withholding on a bonus?

**Q: It's likely that later this year, one employee will receive a bonus that will boost his supplemental pay to more than \$1 million. In anticipation of that, his accountant has informed us that we don't need to withhold federal income taxes at the 39.6% rate; the employee will pay the tax on his 2015 Form 1040, instead. Is that right—it sounds fishy to us?**

**A:** The employee's accountant is incorrect. Tax regulation 31.3402(g)-1 states that you must withhold 39.6% in income taxes on supplemental pay exceeding \$1 million. You may withhold 39.6% on the entire payment, or you may withhold 25% on amounts up to \$1 million and 39.6% on the rest. If the employee is overwithheld, he may get a larger tax refund next year. In addition, the employee's Medicare tax rate will increase to 2.35% on all wages paid (not just supplemental wages) that exceed \$200,000.

*Watch out:* You're not responsible for any underwithholding if the employee pays the tax, but you remain liable for underwithholding penalties.