

STATE CONTROLLER'S OFFICE  
PERSONNEL/PAYROLL SERVICES DIVISION  
P.O. BOX 942850  
Sacramento, CA 94250-5878

DATE: December 21, 2006

PAYROLL LETTER #06-030  
Civil Service Only

TO: All Agencies in the Uniform State Payroll System

FROM: Don Scheppmann, Chief  
Personnel/Payroll Services Division

RE: **NEW IRS NON-RESIDENT ALIEN FEDERAL TAX WITHHOLDING PROCEDURES**

The Internal Revenue Service (IRS) has implemented new rules to determine the federal tax withholding on wages paid to certain employees designated non-resident aliens (NRA). The new rules will be implemented effective January 1, 2007 (December 2006 pay period payments).

#### NEW IRS NRA EMPLOYEE TAX CALCULATION PROCEDURES

The IRS tax rules no longer require that NRA employees withhold an extra \$33.10 for federal tax withholding. Instead, the new procedures require that the employee's federal tax marital status be designated as "single" and that only one exemption be claimed. When payment is made to the employee, a specific dollar amount is to be added to an NRA employee's federal taxable gross wages only for the purpose of federal tax calculations. This dollar amount is determined by an employee's pay frequency and is not considered actual income. The amount added to an employee's federal taxable gross wages will be as follows:

Monthly	\$221.00
Semimonthly	\$110.00
Biweekly	\$102.00

These new procedures apply to NRA employees identified in the IRS Notice 2005-76. Please refer to the IRS website at <http://www.irs.gov/pub/irs-drop/n-05-76.pdf> to view the notice and obtain additional information.

#### NRA TAX CALCULATION

To implement the new rules, employees subject to the IRS NRA regulations will have their federal tax withholdings recalculated using a "look-back" method. Specifically, payments for NRA employees will be issued using the standard tax tables. On approximately the 15<sup>th</sup> day of the month the State Controller's Office (SCO) will select the payments of the NRA employees with issue dates from the 16<sup>th</sup> of the previous month through the 15<sup>th</sup> of the current month, except the January 15, 2007 run will select payments with an issue date from January 1, 2007 through January 15, 2007, and recalculate the federal tax amounts using the new modified federal taxable gross. The federal tax amount withheld on the original payment will be subtracted from the new computed federal tax amount. The difference will be applied to the employee's next regular payment via a one-time code 099 deduction.

## EMPLOYMENT HISTORY SYSTEM CHANGE

In order to identify NRA employees that are subject to the new IRS rules, SCO will modify the Employment History (EH) System to establish a new data field. However, the system modifications will not be completed until next year. In the meantime, departments will need to identify the employees subject to the new IRS NRA rules via manual process to the SCO.

## INTERIM PROCEDURES

The departments will need to verify that the EAR is showing the correct federal tax status and exemptions and submit a listing of NRA employees subject to the new IRS rules to SCO. The listing will need to include the SSN and name of the employee and name of the employing department, a contact number/e-mail address and be signed by a person authorized to sign EH documents. The attached form may be used for this purpose. If your department does not have any NRA employees subject to the IRS rules, please submit the attached form with the no NRA employees box checked. Send the initial completed forms by January 5, 2007 to:

State Controller's Office  
Personnel/Payroll Service Division  
Program Management and Analysis Bureau  
P.O. Box 942850  
Sacramento, CA 94250-5878  
Attn: Jeanna Bowe

Or fax to (916) 322-8137

If an NRA employee separates or is appointed to your department after the initial listing is submitted, please notify SCO of the changes by contacting Jeanna Bowe at (916) 322-3899. The SCO must be notified by the 10<sup>th</sup> of the month to ensure the most accurate run of the federal tax re-calculation program on the 15<sup>th</sup> of the month.

When the new EH NRA data field is established, a Personnel Letter will be issued with further details.

If you have any questions, please contact Jeanna Bowe at (916) 322-3899 or [jbowe@sco.ca.gov](mailto:jbowe@sco.ca.gov).

DS:JB:PMAB

Attachment