



Federal Withholding FAQs

HR Resource

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Where can I find the new EAR/SPAR form?

The updated versions of the forms [STD 686](#) EAR and [STD 457](#) SPAR are located on the DGS website. You may also locate the forms on the State Controller's Office website at https://www.sco.ca.gov/ppsd_2020fedwithholdings.html

Why redesign the EAR/SPAR Form?

According to the IRS, the new design simplifies the form while increasing the transparency and accuracy of the withholding system. While it retains the same underlying information as the previous design, it replaces complicated worksheets with simpler questions that make proper withholding easier for employees. For more information, see #2 [FAQs on the 2020 Form W-4](#).

What are the new items added to the EAR/SPAR form?

Section EI – Federal Withholding

- E02 – Marital Status - HEAD OF HOUSEHOLD (New)

- E03 – EXEMPT FROM FEDERAL WITHHOLDING
- E04 - HIGHER WITHHOLDING (TWO JOB INDICATOR-STEP 2(C) ON THE IRS 2020 FORM W-4)
- E05 - CLAIM DEPENDENTS
- E06 - OTHER INCOME (NOT FROM JOBS)
- E07 - DEDUCTIONS

What amounts are entered for these new items?

Please see the instructions on the 2020 W-4 at <https://www.irs.gov/pub/irs-pdf/fw4.pdf>. The dollar amount to be entered on these new items should be an annual (full year) dollar amount (i.e. \$2,000 multiplied by number of dependents under age 17, and \$500 x number of other dependents).

Employees are encouraged to use the Tax Withholding Estimator provided by the Internal Revenue Service (IRS) at www.irs.gov/W4app.

When employees enter an amount in the Claim Dependents (E05) field, will it affect the amount withheld on the warrant?

Yes. Including these credits will increase the employee's paycheck by reducing the withholding amount and reduce the amount of any refund the employee may receive when they file their federal tax return.

Do employees need to complete these new items?

Marital Status (E02) and Higher Withholding (E04) are mandatory fields. All other fields (E03, E05-E07) are optional and completed if applicable. Completing these new items means withholding is more accurate to reflect the tax liability. For more information, see # 5, [FAQs on the 2020 Form W-4](#).

Is there a computer program employees can use to help them complete the EAR/SPAR form?

Yes. To provide maximum accuracy, employees are encouraged to use the Tax Withholding Estimator available at www.irs.gov/W4app.

For questions about the new form W-4, go to the IRS website at <https://www.irs.gov/newsroom/faqs-on-the-2020-form-w-4>. For more information on CA state withholding form, refer to EDD Form DE4, Employee's Withholding Allowance Certificate at https://edd.ca.gov/pdf/pub_ctr/de4.pdf. For help in completing/reviewing the new EAR/SPAR form consult your tax advisor.

What happened to the federal withholding allowances?

On the revised EAR/SPAR, allowances are no longer used for federal withholding. According to IRS, this change will improve the form's transparency, simplicity, and accuracy. The value of a withholding allowance was previously linked to the amount of the personal exemption. Due to the changes in law for

federal withholding, you can no longer claim personal or dependency exemptions. Please see question #3, [FAQs on the 2020 Form W-4. for more details.](#)

Can an employee claim exemptions/allowances for federal on or after 12/01/2020?

No. Effective 12/01/2020 employees cannot claim personal and additional exemptions/allowances for Federal withholding. See IRS [Publication 15-T](#), and [FAQs on the 2020 Form W-4](#).

How can an employee claim zero (0) allowances on this new EAR/SPAR form?

On the new 2020 EAR/SPAR form, the nearest equivalent of claiming zero allowances for federal is completing the Marital Status (E02) and indicating Y in Higher Withholding (E04). For state, fill out the Marital Status box and indicate "0" on regular allowances. This will determine federal and state withholding based on filing status, the tax rates, and no other adjustments.

New EAR form has a 'Head of Household' filing status option for Federal withholding; is this new?

Yes. The filing status 'Head of Household' is new for Federal withholding and can be used effective 12/01/2020. For further information, please refer to IRS, Publication 15-T. <https://www.irs.gov/pub/irs-pdf/p15t.pdf>.

What value(s) are allowed for HW (Higher Withholding)?

The value for HW must be N or Y. N (NO) means no to higher withholding. Y (YES) means yes to higher withholding. Refer to IRS website for withholding rates. <https://www.irs.gov/pub/irs-pdf/p15t.pdf>

Can the HW (Higher Withholding) field be left blank?

Higher Withholding (HW) is a required field. The HW field must be completed with N or Y.

Can an employee claim exemptions/allowance for State withholding?

Yes. Employees can continue to claim exemptions/allowances for State withholding. See EDD [Form DE4](#) and [CA Withholding Schedules Method B](#).

Do other states conform to the federal termination of withholding allowances?

The withholding allowances are still in effect in California, New York, and Illinois.

Are all employees required to submit a new EAR (STD 686)/SPAR (STD 457) form effective 12/01/2020?

Employees who submitted EAR forms prior to December 1, 2020 are not required to provide a new EAR/SPAR form merely because of the redesigned EAR/SPAR have been redesigned. The State Controller's Office will continue to calculate withholding based on the most current EAR/SPAR form. New employees and employees who want to change their withholding must complete a new EAR/SPAR form.

Beginning December 1, 2020, new employees who do not provide a properly completed EAR/SPAR form will be treated for federal as single filer and withhold using the Standard Deduction for Single Filing Status and no other adjustments. For state withholding, employees who failed to provide a new EAR/SPAR form will be treated as Single with zero (0) allowances. For more information, refer to IRS [Publication 15-T](#) and EDD Form [DE4](#).

How is the employee's withheld amount determined?

For federal, the new EAR/SPAR form will be used to determine how much income tax to withhold based on marital status, higher withholding (HW) indicator and any other adjustments included on the form. For computation of federal withholding refer to Payroll Procedures Manual (PPM) Section H 108 https://www.sco.ca.gov/Files-PPSD/PPM/ppm_section_h_deductions.pdf

For state, the amount of tax withheld is determined by the following:

- Marital status.
- The number of allowances claimed on EAR/SPAR form.

For state withholding computation, refer to PPM Section H 110.

What tools are available for employees to use when completing the new EAR form (STD 686)?

To get the most accurate withholding, employees can use the IRS's Tax Withholding Estimator. <https://www.irs.gov/individuals/tax-withholding-estimator>. Employees can also use the paycheck calculator on the SCO's website. https://www.sco.ca.gov/ppsd_se_paycheck_calc.html.

Can employees claim Federal Additional Deduction if claiming exemption from Federal only?

Yes. Employees whom claim exempt from federal withholding can claim Federal Additional Deduction (E11). This amount should be keyed in "FEDERAL ADDL DEDUCTION" field in EH.

How does the HW (Higher Withholding) box work?

If the higher withholding (HW) indicator is yes (Y), the tax tables divide the standard deduction and tax brackets equally between two jobs, resulting in tax rates apply at nearly half of the regular income threshold. Refer to IRS [Publication 15-T](#) for more information.

What shall I do if the employee has a lock-in letter?

If the employee has submitted a change to the withholding and there is a lock-in rate in place, the withholding must be for MORE than what is currently locked by the IRS. If it is less, return to the employee, as it cannot be processed due to the lock currently in effect. If the request is for MORE withholding than what is currently locked by the IRS, SCO will need to process the EAR. Please forward the EAR to PPSP, W-2 Unit.

How should the EAR be completed if the employee is subject to a tax treaty?

If employee is subject to a treaty, the new EAR should be completed as follows:

Section E –

Section I - Federal Withholding

E01 – Nonresident Alien – **X**

Section V – Nontaxable Wages

E14 – **X the box**

Select from the dropdown - **Nonresident Alien Wages**

Please refer to the back of the EAR form:

IF YOU WILL RECEIVE NONTAXABLE WAGES, please indicate the reason on your withholding claim in the space provided. The reason must be one of the following:

b. “Nonresident Alien per Tax Treaty” (indicate on claim: “Exempt per Article _____ of treaty between United States and (Country).”) Tax Treaty must cite exemption from both Federal and State personal income tax to qualify for this exemption.

How should employees whom are Nonresident Aliens complete the new EAR?

If the employee is not subject to a treaty, the new EAR should be completed as follows:

Section E –

Section I - Federal Withholding

E01 – Nonresident Alien– **X**

E02 – Marital Status – **Single**

- Single must be marked regardless of actual marital status

E03 – Exempt from Federal Withholding – **Cannot claim exempt even if all conditions are met**

E04 – Higher Withholding – **Required**

- **Y** – if the employee has more than one job – use worksheet or select higher withholding
- **N** – only one job

E05 – Claim Dependents - **Optional**

- Only certain Nonresident Aliens should claim dependents
- NRA from Canada, Mexico, South Korea, or India may claim the child tax credit or credit for other dependents.

E06 – Other Income – **Optional**

E07 – Deductions – **Optional**

Section II – State Allowances

E08 – Marital Status – **Single**

E09 – Regular Allowance – **1**

E10 – Additional Allowances – **Optional**

Per IRS Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens

<https://www.irs.gov/pub/irs-pdf/n1392.pdf>

How do I key PERM exempt for a deceased employee?

When an update to the EAR is required for a deceased employee, the following fields must be completed to make them PERM exempt from withholding:

- FEDERAL MARITAL: **S**
- TOTAL: **00**
- FEDERAL ADDL DEDUCTION: **0**
- STATE ADDL DEDUCTION: **0**
- STATE MARITAL: **S**
- REG: **00**
- ADDL: **00**
- EXEMPT: **N**
- HW: **N**
- DEP AMT: **00**
- OTH INCOME: **00**

- DEDUCTION: 00

If you receive any errors, back out of the screen and rekey. All fields **must be completed**.

If the deceased employee has a lock, please forward the EAR to PPSD, W-2 Unit for processing.

What do I do if I keyed the additional withholding amount in the wrong field? This is now creating a hardship for the employee.

Due to the error being caused by the agency (employer) and not the employee, employers have a legal obligation to pay an employee all their wages earned each pay period ([See Labor Code section 204](#)). The agency would have an obligation to refund the over-withholding to the employee, resulting in a correct paycheck for that pay period. The agency would need to issue a payment via their Office Revolving Fund (or another department fund that would allow it) to make the employee whole. Due to department error, do not establish an account receivable against the original payment. The SCO, as the processor of payroll, should not use the State Payroll Revolving Fund to cover the reimbursement of another agency.

The tax withholdings are paid directly to the IRS and EDD respectively. The funds do not remain in the State Payroll Revolving Fund (SPRF) and thus, there are no funds available in the SPRF to refund to the employee.

Please contact the PPSD, W-2 Unit at PPSDW2MiscDed@sco.ca.gov for instructions on how to report the amount reimbursed to the employee to accurately reflect on the employee's Form W-2.

NOTE: A strip or redeposit of the pay warrant will not correct this error.

Where can I find information/references regarding new IRS changes?

- SCO Personnel Letter #20-028 can be referenced for additional information (https://www.sco.ca.gov/Files-PPSD-Letters/Pers/2020_e20-028.pdf)
- SCO Payroll Letter #20-028 can be referenced for additional information (https://www.sco.ca.gov/Files-PPSD-Letters/Payr/2020_p20-028.pdf)
- IRS Publication 15-T (<https://www.irs.gov/pub/irs-pdf/p15t.pdf>)
- EDD Form DE4 (https://edd.ca.gov/pdf_pub_ctr/de4.pdf)
- 2020 Form W-4 (<https://www.irs.gov/pub/irs-pdf/fw4.pdf>)
- EDD Employee Withholding Allowance (https://www.edd.ca.gov/Payroll_Taxes/Rates_and_Withholding.htm#de4)
- EDD California Withholding Schedule Method B ([2022 Contribution Rates, Withholding Schedules](#))

Is it possible for an employee who is retiring at the end of the year to request not to be taxed on his lump-sum payment since he is moving to a state with no taxes?

Currently, we have three processes for employees who reside outside of California:

1. Establish a header so that the employee is not CA taxed
2. Employee submits new EAR, Marital Status as Single, Allowances as 95 for no withholding
3. Or, have CA withholding deducted

For Options 2 and 3, the employee will need to file the [CA-540NR, California Nonresident or Part-Year Resident Income Tax Return](#) with the Franchise Tax Board (FTB). FTB will determine if any withholding is required or issue a refund.

Is the use of emergency state-owned vehicles by fire, police, or public safety officers who take home the vehicle be taxed for the use of the vehicle during the commute back and forth from work?

If an employer requires an employee to drive a company-owned vehicle home so that they can be available off duty, there may be a taxable event because the employee is using the employer's vehicle to drive to and from work for their daily commute. Personal use of a company vehicle (such as for commuting) is taxable.

The IRS has always considered the personal use of a vehicle owned by any employer, by an employee, as a "non- cash taxable fringe benefit" and the value of that benefit must be included in the employee's wages making it subject to income and employment taxes.

How do you identify employees as Registered Domestic Partner and where can you find the deduction for imputed income on the federal?

The imputed income is reported TAXI (Year-To-Date) screen. The transactions are identified with the Class Code and Serial Number of 0009-999.

SSN: NAME:		YEAR TO DATE SUMMARY SELECTION MENU						SCREEN 01 OF 02		
SEL	T	DATE	PAY PER ISSUE	WARRANT/ A/R NMBR	CP TT	PM SC	POSITION-NUMBER	GROSS	FED TAX GROSS	YTD FILE
—	0	12/21	01/01/22	07773760	10		435-247-9291-001	9804.00	7871.50	22 YTD
—	0	12/21	01/15/22		8R	N	435-247-0009-999	946.78	946.78	22 YTD
—	0	01/22	02/01/22	08257324	10		435-247-9291-001	9804.00	7871.50	22 YTD
—	0	01/22	02/15/22		8R	N	435-247-0009-999	946.78	946.78	22 YTD
—	0	02/22	03/01/22	08738002	10		435-247-9291-001	9804.00	7871.50	22 YTD
—	0	02/22	03/15/22		8R	N	435-247-0009-999	946.78	946.78	22 YTD
—	0	03/22	04/01/22	09241668	10		435-247-9291-001	9804.00	7871.50	22 YTD

On the Payment History, select the monthly warrant. On the Miscellaneous Deductions screen, the additional withholding for the imputed income will appear at the top of the screen. Domestic Partner is subject to Federal, Social Security and/or Medicare, and State Disability Insurance (SDI), if applicable.

MISCELLANEOUS DEDUCTIONS										PAGE 003 OF 006	
										CBID- S19S	
0-02-22		435-247-9291-001		PT CT		AR/WARRANT#		DATE			
				0 1		08738002		030122			
DED ORG		AMOUNT		PP TP							
						TAX GROSS					
099		208.29		0122		.00					
						AGY-RU EE GROSS		QT	FY	IY	ER
092		13.73		0122 MD		435247 946.78		0	22	22	13.73
078		3.85		SP							
077		2.00		SP							
088 027		67.00									
089 067		6.00									

Are the wages of the servicemember's spouse exempt from CA state income tax under the Servicemembers Civil Relief Act (SCRA, 2003), Military Spouses Residency Relief Act (MSRRA, 2009), and the Veterans Benefits and Transitions Act 2018 (VBTA)?

1. The Servicemembers Civil Relief Act (SCRA) and Military Spouses Residency Relief Act (MSRRA) together protect military servicemembers and their civilian spouses from being taxed in a state where the servicemember is being stationed on active-duty military orders. This is referred to as the

“duty state” or “nonresident state”. [Have a Married Military Client? | FTB.ca.gov](#); [2021 FTB Publication 1032 Tax Information for Military Personnel](#)

2. Under federal rules, the servicemember and his/her spouse remain residents of their home state for tax purposes and remain subject to tax in that home state on all or most of their income. They do not lose nor acquire residency due to a military duty station move.
3. The VBTA amended MSRRRA by adding, “For any taxable year of the marriage, the spouse of a servicemember may elect to use the same residence for purposes of taxation as the servicemember regardless of the date on which the marriage of the spouse and the servicemember occurred.” This means that the income of the spouse of a servicemember for services performed in CALIFORNIA is not subject to tax if the spouse elects to use the same residence as the servicemember who is a nonresident of CA. [S.2248 - 115th Congress \(2017-2018\): Veterans Benefits and Transition Act of 2018 | Congress.gov | Library of Congress](#)

How is the EAR processed if a servicemember’s spouse elects to use the same residence as the servicemember who is a non-resident of California for state income tax purposes?

Employee should provide supporting documentation (military orders) for the withholding change.

Currently we have three processes for employees who reside outside of California:

1. Establish a header so that the employee is not CA taxed.
2. On the EAR, key CA with S95 for no withholding
3. Or, have CA withholding deducted

For Options 2 and 3, the employee will need to file the [CA-540NR, California Nonresident or Part-Year Resident Income Tax Return](#) with the Franchise Tax Board (FTB). FTB will determine if any withholding is required or issue a refund.