

Please note that this is a general explanation only and is not intended to be a substitute for individual advice on withholding allowances.

Claiming Withholding Allowances – A Brief Overview

Withholding allowances are used to determine how much federal and state income tax is withheld from an employee's paycheck. Withholding allowances are not the same as personal exemptions though the two terms are often confused. Personal exemptions are used to calculate the personal exemption deduction on the individual tax return. It helps to focus on the term "allowance" when you're trying to understand how much income tax will be withheld from your paycheck.

Generally, the more withholding allowances you claim, the less your income tax withholding will be. In all cases, it is your responsibility as an employee to review your withholding to be sure you're having enough tax taken out of your check throughout the year. Your employer is required to withhold taxes based on the Form W-4 and Form NC-4 that you give the employer. Your employer is not responsible for determining how much tax you need to have withheld or for advising you about income tax withholding.

Federal Income Tax Withholding

You may choose to have your withholding calculated on one of two withholding tables – Married or Single. While many married people choose the Married withholding table, others choose the higher Single withholding table to pay in more tax through their payroll withholding.

State Income Tax Withholding (NC)

You may choose to have your withholding calculated using one of three withholding tables – Married, Single, or Head of Household. The Single table generates the greatest withholding followed by the Head of Household withholding table and the Married withholding table.

Allowances

You may claim anywhere from -0- to infinity for your number of allowances. For each allowance you claim, your income tax withholding is decreased. Therefore, **if you want the highest withholding possible, you would claim the Single withholding table with -0- allowances.** You do not have to be single to claim the Single withholding table.

Neglecting to have enough tax withheld from your paycheck during the year could create a terrible burden for you when you file your income tax return. You are responsible for paying your income taxes regardless of whether they were withheld from your paycheck or not. Be sure you review your withholdings on a regular basis to determine their appropriateness.

It is possible to claim more allowances than you have personal exemptions. For example, if you have extremely high itemized deductions on your tax return that significantly reduce your taxable income, you may be allowed to claim extra allowances.

Example 1: Kate is a single person who is buying her own house. Her mortgage interest is very high. In addition, Kate gives 20% of every check to her church as a charitable contribution. Kate claims 3 withholding allowances on her Form W-4 because her mortgage interest and charitable contributions reduce her taxable income significantly.

You also may need to claim fewer allowances than you have personal exemptions.

Example 2: Todd and Mary are renting an apartment. Todd and Mary both work. In addition, Todd has some investment income. Neither Todd nor Mary gives anything to charity. Todd and Mary both claim 0 allowances on their Forms W-4 because they have very few deductions.

If you are married and file a joint return, the withholding for both you and your spouse are combined in figuring the amount due or overpaid. It does not matter how much was withheld from which spouse.

Things to Remember:

- Withholding allowances may or may not equal the number of people in your household.
- You are responsible for monitoring your own withholding and for completing a new Form W-4 or NC-4 as needed. Give the completed form to your employer or payroll processor.
- You may request that additional withholding be taken out of your check each pay period. This is also done on Form W-4 and NC-4.
- Your employer cannot give you advice on withholding other than the general guidelines above. You should consult your own tax advisor for more guidance if you need assistance in completing Form W-4 or NC-4

For More Information

Internal Revenue Service - www.irs.gov

North Carolina Department of Revenue - www.dornrc.com

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