Tax Withholding Workshop – Internship and Employment

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Overview

- Pre-Employment Checklist
- Employment/Employment Forms
- Taxes
- Year End Tax Forms
- Questions
Pre-Employment Checklist

✓ You have a job (and authorization to work).
  
  – Working on-campus (UC) – no additional work authorization needed.
  
  – Working on CPT/Academic Training – Cannot begin work until date listed on I-20 (page 3) or DS-2019 (line item 5).
  
  – Working on OPT – Cannot begin work until receiving EAD and start date of card.
Pre-Employment Checklist

✓ You have a Social Security Number (or will apply for one).
  – See https://internationalaffairs.uchicago.edu/practical/social_security.shtml for social security application instructions
  – F-1: can apply up to 30 days before start date if authorized for CPT
  – F-1: can apply only after EAD start date is reached if authorized for OPT
  – J-1 Academic Training: can apply after AT authorization is placed on DS-2019
  – On-Campus Employment: can apply only after start date of job is reached
Pre-Employment Checklist

✓ You know your tax residency status
  • Two statuses: Resident for Tax or Non-Resident for Tax.
  • Determined by Substantial Presence Test (SPT)
  • Generally, if an F or J student who arrived in the US…
    - in 2008 or after = Non-Resident for Tax
    - in 2007 or prior = Resident for Tax

*Review IRS publication 519 or PowerPoint (from tax session on March 6, 2012) for further details.
Substantial Presence Test

Counts days of physical presence in the US.

Current Year x 1  
1st Previous Year x 1/3  
2nd Previous Year x 1/6  

If equals 183 days or more = Resident for Tax.
If equals 182 days or less = Non-Resident for Tax.

EXCEPTIONS TO SPT

F or J students receive 5 “exempt” years. Not exempt from tax, but of counting physical days of presence in the US towards SPT.

J Non-Students receive 2 “exempt” years (of the past 6 years).

“Exempt” years are CALENDAR years, not years from date of arrival.
Employment

If working on CPT or OPT – may be considered an Employee or Independent Contractor (IC).

- **Employee**: relationship where services are performed under the direction of employer.

- **Independent Contractor**: services are usually performed on independent basis for outcome.

May actually be an employee/er relationship, but paid as an IC – because this is easier for 'employer'. Immigration wise this is okay, but may create tax issues for non-residents for tax.
Employment Forms

I-9 – Employment Eligibility Verification

Intake Form/Software (Residency Determination)- optional

W4 – Employee Withholding Allowance Certificate

State Tax Forms – Employee’s State Withholding Allowance Certificate

8233 and Statement – Optional: Tax Treaty Eligible Only

W9 Form – Only for Residents for Tax

Various Employer Specific Forms
I-9 Form

- Form is required to be completed by employees.
- To be completed within 3 days of beginning employment.
- Employer must verify actual documents, not photocopies.
- Employer cannot ask for certain documents for verification; must provide you with the list of acceptable documents. Cannot use a Social Security card that states 'Valid for Work only with DHS Authorization' for I-9 verification.
Reyes                                         Jose

6054 S. Drexel Ave
300
Chicago
IL                                    60637

04/01/1985
123-45-6789

Date DS-2019/I-20, OPT or CPT expires

Number from I-94 (upper left hand corner)

THE UNIVERSITY OF
CHICAGO
W4 and State Withholding Form

Purpose: To instruct the employer on how you want your tax withholding applied.

• The highest tax rate is ‘Single’ and ‘0’ allowances – which is the default.
• Allowances are reflected on the year-end tax return as a deduction from taxable income.
• So, if you claim more allowances than allowed, you will have under-withholding at year end.
• Since nonresidents cannot claim certain allowances and married status (typically), then they are limited as to how they complete the W4 form.
• Each state with a state tax will have a state withholding form. Some states follow federal guidelines, some do not, it is important to know the rules of the state of employment (Illinois follows federal regulations).
W4 and State Withholding Form

• **Non-Resident for Tax** – must adhere to Non-Resident Withholding Rules.
  - Single (even if married)
  - Only 1 allowance (line 5)

• **Residents for Tax** – may complete form however you wish.

• If form is completed incorrectly, or not submitted, you will be taxed at "Single" "0" allowances.
<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jose Reyes</td>
<td>111-22-3333</td>
</tr>
</tbody>
</table>

**Home address (number and street or rural route)**
6054 S. Drexel Ave, Suite 300
Chicago, IL 60605

**City or town, state, and ZIP code**
Chicago, IL 60605

**W-4 Employee's Withholding Allowance Certificate**

1. Type or print your first name and middle initial.
   REYES

2. Last name.
   JOSE

3. Your social security number.
   111-22-3333

4. Single
   Married
   Maried, but withhold at higher Single rate.

Note: If married, but legally separated, or spouse is a nonresident alien, check the “Single” box.

4. If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.
   □

5. Total number of allowances you are claiming (from line 1 above or from the applicable worksheet on page 2).
   □

6. Additional amount, if any, you want withheld from each paycheck.
   □

7. I claim exemption from withholding for 2011, and I certify that I meet both of the following conditions for exemption.
   • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability.
   • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability.
   
   If you meet both conditions, write “Exempt” here. □

Employee’s signature (This form is not valid unless you sign it.)

Jose Reyes

5/2/2012
Jose Reyes
6054 S. Drexel Ave #300
Chicago, IL 60637

1 1 1

Jose Reyes
5/2/2012
Independent Contractor Forms

Intake Form/Software (Residency Determination) – *optional*

W9 – Resident for Tax Only

Various "Employer" Specific Forms

Note: If you own your own business: separate business taxes may apply. Review IRS regulations.
Part II  Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and

2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

3. I am a U.S. citizen or other U.S. person (defined below).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 4.
Taxes – How they work

Income

Salaries
- Wages
- Compensation

Independent Contractor Payments

Taxes Paid

- Withheld from payments (W4)
- Make estimated tax payments (1040-ES)

File a year-end tax return to reconcile the total income earned and the estimated taxes already paid.

Tax Return
Taxes

**Employer Relationship**

- State Tax
- Federal Tax
- OASDI and Medicare

**Independent Contractor Relationship**

- Non-Resident (NRA) – 30% in federal tax withheld only
- Resident (RA) – No taxes withheld
Federal Taxes

**Employer**

- Taxes withheld according to Income Tax Withholding Table and W4.

- Non-Residents are not eligible for the Standard Deduction, so additional amounts may be added to taxable income.

- Exempt from federal taxes only with a valid tax treaty.

**Independent Contractor**

- NRA – Federal taxes withheld at standard 30%.

- RA – No tax withheld, but does not mean no taxes are owed! Must pay estimated quarterly payments using form 1040-ES/1040-ES (NR).
## Illinois State Taxes

### Employer

- Taxes withheld according to IL regulations and IL-W-4 = 5% of taxable income.
- Based on normal taxable income only – no additional amounts added to taxable earnings.
- Exempt from Illinois taxes only with a valid tax treaty.
- Some states may not have a state tax, or will have a local tax in addition to state tax. Regulations vary with each state.

### Independent Contractor

- **NRA** – No tax withheld, but does not mean no taxes are owed! Must pay estimated quarterly taxes using form IL-1040-ES. Read requirements.
- **RA** – No tax withheld, but does not mean no taxes are owed! Must pay estimated quarterly taxes using form IL-1040-ES. Read requirements.
- Be aware of individual state requirements for estimated payments. Some states may withhold state/local taxes on IC services.
# FICA/Medicare Taxes

## Employer Relationship

- NRA holding F or J visa – No SS tax should be withheld.

- RA – SS tax will be withheld at 5.65%. This is a non-refundable tax and is required.

- These taxes can be erroneously withheld. If you believe these taxes are withheld in error, consult with your payroll department.

## Independent Contractor Relationship

- NRA – These taxes will not be withheld and you will not have a liability for these taxes.

- RA – These taxes will not be withheld, but you may have a liability for these taxes. – See Self-Employment - Schedule SE on IRS website [www.irs.gov](http://www.irs.gov)
Year End Tax Forms

**Employer Relationship**

- **W2** – Summary of calendar year earnings. Mailed by January 31. Make sure employer has correct address to mail form. (If a tax treaty was taken, form 1042-S will also be mailed by March 15)

**Independent Contractor Relationship**

- NRA – **1042S** form. Mailed by March 15. Make sure employer has correct address.

- RA – **1099** form. Mailed by January 31. Make sure 'employer' has correct address.
Tips

- Read over and understand the forms.
- Make sure taxes are correct – if you're not sure, ASK!
- Some companies will not pay you correctly – question the process, and make notes for year end tax return process.
- Keep your address updated so you will receive the forms in a timely manner.
- Make sure you are paying estimated taxes if required.
Questions

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