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(c) As to the number of withholding exemptions to which an employee is entitled, see § 31.3402(f)(1)–1.

[T.D. 6516, 25 FR 13032, Dec. 20, 1960, as amended by T.D. 7423, 41 FR 26217, June 23, 1976; T.D. 7682, 45 FR 15526, Mar. 11, 1980; T.D. 7803, 47 FR 3547, Jan. 26, 1982]

§ 31.3401(f)–1 Tips.

(a) *Tips considered wages.* Tips received after 1965 by an employee in the course of his employment are considered to be wages, and thus subject to withholding of income tax at source. For an exception to the rule that tips constitute wages, see §§ 31.3401(a)(16) and 31.3401(a)(16)–1, relating to tips paid in a medium other than cash and cash tips of less than $20. For definition of the term ''employee,'' see §§ 31.3401(c) and 31.3401(c)–1.

(b) *When tips deemed paid.* Tips reported by an employee to his employer in a written statement furnished to the employer pursuant to section 6053(a) (see § 31.6053–1) shall be deemed to be paid to the employee at the time the written statement is furnished to the employer. Tips received by an employee which are not reported to his employer in a written statement furnished pursuant to section 6053(a) shall be deemed to be paid to the employee at the time the tips are actually received by the employee.

[T.D. 7001, 34 FR 1001, Jan. 23, 1969]

§ 31.3402(a)–1 Requirement of withholding.

(a) Section 3402 provides alternative methods, at the election of the employer, for use in computing the amount of income tax to be collected at source on wages. Under the percentage method of withholding (see § 31.3402(b)–1), the employer is required to deduct and withhold a tax computed in accordance with the provisions of section 3402(a). Under the wage bracket method of withholding (see § 31.3402(c)–1), the employer is required to deduct and withhold a tax determined in accordance with the provisions of section 3402(c). The employer may elect to use the percentage method, the wage bracket method, or certain other methods (see § 31.3402(h) (4)–1). Different methods may be used by the employer with respect to different groups of employees.

(b) The employer is required to collect the tax by deducting and withholding the amount thereof from the employee's wages as and when paid, either actually or constructively. Wages are constructively paid when they are credited to the account of or set apart for an employee so that they may be drawn upon by him at any time although not then actually reduced to possession. To constitute payment in such a case, the wages must be credited to or set apart for the employee without any substantial limitation or restriction as to the time or manner of payment or condition upon which payment is to be made, and must be made available to him so that they may be drawn upon at any time, and their payment brought within his own control and disposition.

(c) Except as provided in sections 3402 (j) and (k) (see §§ 31.3402(j)–1 and 31.3402(k)–1, relating to noncash remuneration paid to retail commission salesman and to tips received by an employee in the course of his employment, respectively), an employer is required to deduct and withhold the tax notwithstanding the wages are paid in something other than money (for example, wages paid in stocks or bonds; see § 31.3401 (a)–1) and to pay over the tax in money. If wages are paid in property other than money, the employer should make necessary arrangements to insure that the amount of the tax required to be withheld is available for payment in money.

(d) For provisions relating to the circumstances under which tax is required to be deducted and withheld from certain amounts received under accident and health plans, see paragraph (b)(8) of § 31.3401(a)–1.

(e) As a matter of business administration, certain of the mechanical details of the withholding process may be handled by representatives of the employer. Thus, in the case of an employer having branch offices, the branch manager or other representative may actually, as a matter of internal administration, withhold the tax or prepare the statements required under section 6051. Nevertheless, the legal responsibility for withholding, paying,

and returning the tax and furnishing such statements rests with the employer. For provisions relating to statements under section 6051, see § 31.6051–1.

(f) The amount of any tax withheld and collected by the employer is a special fund in trust for the United States. See section 7501.

[T.D. 6516, 25 FR 13032, Dec. 20, 1960, as amended by T.D. 7001, 34 FR 1001, Jan. 23, 1969; T.D. 7115, 36 FR 9209, May 21, 1971; T.D. 7888, 48 FR 17588, Apr. 25, 1983]

§ 31.3402(b)–1 Percentage method of withholding.

With respect to wages paid after April 30, 1975, the amount of tax to be deducted and withheld under the percentage method of withholding shall be determined under the applicable percentage method withholding table contained in Circular E (Employer's Tax Guide) according to the instructions contained therein.

(Secs. 3402(i) and (m) and 7805 of the Internal Revenue Code of 1954 (26 U.S.C. 3402 (i) and (m), 95 Stat. 172, 184; 26 U.S.C. 7805, 68A Stat. 917))

[T.D. 7915, 48 FR 44073, Sept. 27, 1983]

§ 31.3402(c)–1 Wage bracket withholding.

(a) *In general.* (1) The employer may elect to use the wage bracket method provided in section 3402(c) instead of the percentage method with respect to any employee. The tax computed under the wage bracket method shall be in lieu of the tax required to be deducted and withheld under section 3402(a). With respect to wages paid after July 13, 1968, the correct amount of withholding shall be determined under the applicable wage bracket withholding table contained in the Circular E (Employer's Tax Guide) issued for use with respect to the period in which such wages are paid.

(2) For provisions relating to the treatment of wages paid under accident and health plans and wages paid other than in cash to retail commission salesmen, see paragraph (b)(8) of § 31.3401(a)–1 and § 31.3402(j)–1, respectively.

(b) *Established payroll periods, other than daily or miscellaneous, covered by wage bracket withholding tables.* The wage bracket withholding tables contained in Circular E for established periods other than daily or miscellaneous should be used in determining the tax to be withheld for any such period without reference to the time the employee is actually engaged in the performance of services during such payroll period.

Example 1. On June 30, 1971, employee A is paid wages for a semimonthly payroll period. A has in effect a withholding exemption certificate indicating that he claims two withholding exemptions and that he is married. A's wages are determined at the rate of $2 per hour. During a certain payroll period he works only 24 hours and earns $48. Although A worked only 24 hours during the semimonthly payroll period, the applicable wage bracket withholding table contained in Circular E for a semimonthly payroll period for an employee who is married should be used in determining the tax to be withheld. Under this table it will be found that no tax is required to be withheld from a wage payment of $48 when two withholding exemptions are claimed.

Example 2. On May 14, 1971, employee B is paid wages for a weekly payroll period. B has in effect a withholding exemption certification indicating that he claims one withholding exemption and that he is single. B's wages are determined at the rate of $2 per hour. During a certain payroll period B works 18 hours and earns $36. Although B worked only 18 hours during the weekly payroll period the applicable wage bracket withholding table for a weekly payroll period for an employee who is single should be used in determining the tax to be withheld. Under this table it will be found that $0.50 is the amount of tax to be withheld from a wage payment of $36 when one withholding exemption is claimed.

(c) *Periods to which the tables for a daily or miscellaneous payroll period are applicable*—(1) *In general.* The tables applicable to a daily or miscellaneous payroll period show the tax for employees who are to be withheld from as single persons and for employees who are to be withheld from as married persons on the amount of wages for one day. Where the withholding is computed under the rules applicable to a miscellaneous payroll period, the wages and the amounts shown in the applicable table must be placed on a comparable basis. This may be accomplished by reducing the wages paid for the period to a daily basis by dividing