the taxpayer’s allocations is warranted and complete any such examination.
The separate cycle will be worked as resources are available and may not have the same estimated completion date as the other issues under examination for the taxable year. The IRS may ask the taxpayer to extend the statute of limitations on assessment and collection for the taxable year to permit examination of the taxpayer’s method of allocation, including an extension limited, where appropriate, to the taxpayer’s method of allocation.

Example 1. * * * * Unrelated company U pays D sick pay as an agent of the employer R and such sick pay is supplemental wages pursuant to §31.3402(g)(1)(a)(8) of this section, withholding would be calculated at 25 percent of the $1,000,000 portion of the payment and would be $250,000.

(iv) * * * If R elects to use optional flat rate withholding provided under paragraph (a)[7](iii)(f) of this section, withholding would be calculated at 25 percent of the $50,000 of sick pay would be calculated at 25 percent of the $50,000 payment and would be $12,500.

SUMMARY: This document contains corrections to final regulations (TD 9276) that were published in the Federal Register on Tuesday, July 25, 2006 (71 FR 42049), amending the regulations that provide for determining the amount of income tax withholding on supplemental wages. These regulations apply to all employers and others making supplemental wage payments to employees.

DATES: The correction will be effective January 1, 2007.

FOR FURTHER INFORMATION CONTACT: A.G. Kelley, (202) 622–6040 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The final regulations that are the subject of these corrections are under sections 3401 and 3402 of the Internal Revenue Code.

Need for Corrections

As published, final regulations (TD 9276) contain errors that may prove to be misleading and are in need of clarification.

List of Subjects in 26 CFR Part 31

Employment taxes, Income taxes, Penalties, Pensions, Railroad retirement, Reporting and recordkeeping requirements, Social security, Unemployment compensation.

Correction of Publication

Accordingly, 26 CFR part 31 is corrected by making the following correcting amendments:

PART 31—EMPLOYMENT TAXES AND COLLECTION OF INCOME TAX AT SOURCE

Paragraph 1. The authority citation for part 31 continues to read, in part, as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 31.3402(g)(1)(a)(8) is amended by revising the fifth sentence of Example 1 paragraph (iii), the fifth sentence of Example 3 paragraph (iv) and the third sentence of Example 3 paragraph (vi). The revisions read as follows:

§31.3402(g)–1 Supplemental wage payments.

(a) * * * *(8) * * * Example 1. * * *

(iii) * * * * If Y elected to withhold income tax using paragraph (a)(7) of this section, Y would withhold on the $400,000 component at 25 percent (pursuant to paragraph (a)[7](iii)(f) of this section), which would result in $100,000 tax withheld. * * * * *