

OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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February 12, 2002

Re: Our File Number LR-02-009; Payroll withholding formula questions

Dear

This is in response to your request for a written ruling on your questions regarding the proper method of withholding Oklahoma State income taxes on wages. I have scanned your questions into this document below with our responses.

#1 Does the \$22,560 threshold referred to on pages 21 - 25 of the withholding booklet mean only Oklahoma-generated income or any income for the taxpayer? It is understood that the threshold applies to gross annualized wages before any deduction for Oklahoma exemptions, Oklahoma standard deduction or Oklahoma Federal tax deduction.

Our Response: Yes, Oklahoma generated income only.

#2 Are the federal standard deduction amounts used on line 5 of the formulas supposed to match the actual federal standard deduction amounts for 2002, as they did in 2001? As currently shown on page 21, people filing as married filing separately (MFS) would be allowed \$4,700, instead of \$3,925. If \$4,700 is the correct federal standard deduction for MFS for purposes of calculating the Oklahoma federal tax deduction for withholding, we were curious why this change from last year was not highlighted as a change on page 20 with the other announcements. Similarly, we were told that the Head of Household filers were to use the federal married filing jointly federal standard deduction. This, likewise is a change from 2001, when the actual federal head of household standard deduction was used.

Our Response: The withholding tables are structured to calculate withholding for single or married status. There is no distinction made within these classes for tax filing status. Box 3 on the W-4 form, however, has three options: single, married and married

but withhold at the higher single rate. For Oklahoma withholding the formula used to calculate tax table income is the same for each option inserting the Federal standard deduction outlined in the withholding booklet.

#3 Should line 3 of the formula on page 21 state the "larger of \$500 or 15% of line 1 not to exceed \$1, 000" as it did last year for married filing separately? We were told by the auditor's office that MFS is not a valid filing status, yet Table One on page 21 suggests otherwise. Again, if there was a change in methodology for 2002, we were wondering why it was not noted on page 20.

Our Response: We do not differentiate married filing joint from married filing separate in the withholding tables. The tables are indicative of the two filing statuses for federal tax purposes.

This response applies only to the circumstances set out in your request of January 12, 2002. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law. If I can be of further assistance, please feel free to contact me.

Sincerely,

Brenda J. Sullivan
Tax Policy Analyst