

**Article: 303703****Title: How does the application calculate Federal Income Taxes?**

**This article applies to:** Sage MIP Fund Accounting, version 10.1

**Question**

How does the application calculate Federal Income Taxes?

**Answer**

The Sage MIP Fund Accounting application calculates federal taxes by annualizing a periods earnings and comparing that value to the formula provided by the IRS.

Example:

Jefferies' Pay Cycle is set up to be paid Biweekly. His salary is \$1500/pay period. He is single with no additional withholdings and has a 401K that he contributes 10% to.

To calculate the taxes, the application would take  
 $\$1500 \times .9 = \$1350$  taxable income per pay period after the 401K. If we consider that the employee is Biweekly they get taxed as if their annual income was \$35,100. You could check the calculation by going to the Circular E and looking at the Biweekly tables.

**Question**

Sometimes I give my employees a bonus or extra pay, why does this calculate at a different rate?

**Answer**

The reason that bonuses might be taxed at different rates goes back to the annualizing of the income. The application assumes that whatever the employee makes this pay period they will make every pay period and calculates the taxes accordingly.

Example

On the last payroll of the year, Jefferies receives a \$1000 bonus on his paycheck. When it does the calculation, it is going to calculate his taxable income as \$1500 (regular income) + \$1000 (bonus) = \$2500  $\times .9 = \$2250$ . This payroll will be taxed as if his annual income was \$58,500 instead of \$36,100 (his regular income plus the \$1000 bonus). Consequently the tax rate for that pay check will be much higher.

**Question**

If the tax rate changes in the middle of the year or the current year update was not installed until after some payrolls have been processed; what is going to happen?

## Answer

Since Federal Income Tax collected is merely an estimate, it should not be a problem. The employee will account for the difference when they file their taxes. The amount of withholding on the next paycheck will be at the new rate. It will not try to adjust the amount withheld based on the fact that the employee has under/over withheld on a YTD basis. If you feel you need to adjust the employees withholdings, you would need to do that in *Activities>Set Up/Adjust Employee Balances* on the *Taxes* tab.

## Question

Is there a way to see what tax tables are being used? Is there a way to manually update the taxes?

## Answer

No, there is not a way to see what tax tables are being used. Unfortunately, the tax tables are incorporated into the program as formulas. The best way to see if you have the most current tax tables is to check the modified date of the *NPSTAX.DLL* file. The default location of *NPSTAX.DLL* is at *C:\Program Files\MIP\Progs*. The modified date should be consistent with what is listed in the Knowledgebase Article you downloaded the tax update from.

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