ALABAMA DEPARTMENT OF REVENUE
ADMINISTRATIVE CODE

CHAPTER 810-3-71
WITHHOLDING TAX

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810-3-71-.01 Employers Required To Withhold Tax From Wages.

(1) Each calendar quarter every withholding agent shall deduct, withhold, and pay over to the Department of Revenue on or before the last day of the month following the close of each quarterly period a tax, computed as indicated in Rule 810-3-71-.02 on the compensation paid within each quarter for personal services of covered employees. For employers required to submit payment monthly see Rule 810-3-74-.01.

(2) All employers or withholding tax agents are required to register with the Alabama Department of Revenue prior to withholding Alabama income tax. Employers must register online for an Alabama withholding tax account number via the Department's website.

(3) Similar to the provisions of 26 U.S.C §3504, the Alabama Department of Revenue also allows common-pay agents to register with the Department and withhold Alabama income tax on behalf of employers or other withholding tax agents. Common-pay agents are required by 26 U.S.C §3504 to make written request to the Internal Revenue Service for permission to act as a common-pay agent.

(4) Alabama income tax must be withheld on the total wages subject to Alabama income tax.

(5) An employer who is a resident of Alabama is required to withhold tax from the wages of his or her employees who are residents of Alabama, regardless of whether the wages are earned in Alabama or outside the State; except that if the employer is withholding tax for the state in which the employee is working, the employer is not required to withhold tax for Alabama.

(6) An employer who is a resident of Alabama is required to withhold tax from the wages of employees who are not residents of Alabama only to the extent that the wages are earned in Alabama. In other words, a nonresident employee of an Alabama employer should have Alabama income tax withheld only on wages earned in Alabama.

(7) An employer who is not a resident of Alabama is required to withhold tax from the wages of employees to the extent that such wages are earned in Alabama, whether the employee is a resident or a nonresident of the State. A nonresident employer is not required to withhold Alabama income tax on wages paid for services performed outside of Alabama, whether such wages are paid to a resident or to a nonresident of Alabama.

(8) Public Law 91-569 provides that the withholding tax of an employee of a water or air carrier that does not earn more than 50% of their compensation from said carrier in any one state shall be required only for the State of the employee’s residence.

(9) Beginning July 6, 1990, the Amtrack Reauthorization and Improvement Act (P.L. 101-322) provides that no part of the compensation paid to an employee of an interstate railroad subject to the jurisdiction of the Interstate Commerce Commission (ICC) may be subject to the income tax laws of any state except the state of the employee's residence when such employee performs regularly assigned duties in more than one state. The bill also precludes the taxation of compensation paid by an interstate motor carrier subject to the jurisdiction of the ICC or to an employee of a motor private carrier performing services in two or more states except by the state of the employee's residence. For purposes of the motor carrier, "employee" is as defined in §204 of the Motor Carrier Act of 1984 (40 U.S.C. 2503).

(10) The burden and duty is placed upon the employer to determine the place of residence of each employee, and to determine the exact part of each employee's earnings which is attributable to the services performed within Alabama and to apportion such earnings accordingly for the purpose of withholding the tax.

(11) An employer and employee may agree to the withholding of Alabama income tax in addition to the amounts specified in this rule. The employee may request such withholding by proper indication on Form A-4, or any other means acceptable to the employer. If the employer withholds such additional amounts from the employee's wages, such action constitutes agreement to withhold the additional amounts, and to submit such additional amounts at the same time and in the same manner that other withholding is submitted. An agreement for additional withholding continues in effect until canceled or modified by the employer and/or employee.

(12) Any person paying winnings subject to withholding is required to withhold income tax from such winnings in the same manner as if the person receiving such winnings was an employee and the payer was an employer.
Author: Ewell Berry, Ann F. Winborne, CPA, Kathleen Abrams, Neal Hearn, CPA
Statutory Authority: Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-70, 40-18-91,41-10-44.8(a)(2), 41-10-44.8(b).
History: Adopted September 30, 1982. Amended September 7, 1988; amended February 8, 1989, filed March 20, 1989. **Amended:** Filed August 26, 1994; effective September 30, 1994. **Amended:** Filed May 3, 2000; effective June 7, 2000. **Amended:** Filed December 4, 2017; effective January 18, 2018.

810-3-71-.02 Computing Tax Withheld.

(1) Employers may elect to compute the amount of Alabama income tax to be withheld from the wages of employees in one of two ways.

(a) The withholding tax may be computed using the withholding tax tables, which are available on the Department's website. The tables show amounts to be withheld for weekly, biweekly, semimonthly, monthly, and quarterly payroll periods.

(b) Alabama withholding tax may also be computed using the following formula, based on information provided by the employee on the Alabama Form A-4, Employee's Withholding Exemption Certificate:

1. The employee will select a withholding exemption, and indicate the selected exemption on the Form A-4.

(i) A withholding exemption of "0" indicates that no personal exemption is selected.

(ii) A withholding exemption of "S" indicates that a full personal exemption is selected.

(iii) A withholding exemption of "M" indicates that personal exemptions for both spouses are being selected.

(iv) A withholding exemption of "H" indicates that the employee is single, has one or more qualifying dependents and is claiming head of family. This has the same value as does the "M" exemption.

(v) A withholding exemption of "MS" indicates that the employee is married, but filing a separate return. This has the same value as does the "S" exemption.

2. Compute the Employee's Gross Income or GI. Multiply the employee's gross wages for the current payroll period by the number of such payroll periods in the year.

3. Compute the Standard Deduction. Employers may round GI to the nearest dollar in determining the standard deduction. A Standard Deduction chart is also provided in the withholding tax tables available online.

(i) Employee claims "0" or "Single (S)" exemption:

(I) GI of $20,499 or less deduct $2,500;

(II) GI greater than $20,499 but less than $30,000 deduct $2,500 less $25 for each $500 increment or part thereof of GI above $20,499; or

(III) GI of $30,000 or more deduct $2,000.

(ii) Employee claims "Married Filing Separately (MS)" exemption:

(I) GI of $10,249 or less deduct $3,750;

(II) GI greater than $10,249 but less than $15,000 deduct $3,750 less $88 for each $250 increment or part thereof of GI above $10,249; or

(III) GI of $15,000 or more deduct $2,000.

(iii) Employee claims "Married Filing Jointly (M)" exemption:

(I) GI of $20,499 or less deduct $7,500;

(II) GI greater than $20,499 but less than $30,000 deduct $7,500 less $175 for each $500 increment or part thereof of GI above $20,499; or

(III) GI of $30,000 or more deduct $4,000.

(iv) Employee claims "Head of Family (H)" exemption:

(I) GI of $20,499 or less deduct $4,700;

(II) GI greater than $20,499 but less than $30,000 deduct $4,700 less $135 for each $500 increment or part thereof of GI above $20,499; or

(III) GI of $30,000 or more deduct $2,000.

4. Compute the Federal Withholding Tax. Multiply the employee's actual federal withholding tax for the payroll period by the number of such payroll periods in the year.

5. Determine the Personal Exemption. If the employee claims the "0" withholding exemption, the personal exemption is zero. If the employee claims the "S" or the "MS" withholding exemption, the personal exemption is $1,500. If the employee claims the "M" or the "H" withholding exemption, the personal exemption is $3,000.

6. Compute the Dependency Exemption: Multiply number of dependents other than spouse by the following:

(i) $1,000 if GI less than or equal to $20,000;

(ii) $500 if GI greater than $20,000 but less than or equal to $100,000; or

(iii) $300 if GI greater than $100,000.

7. Add the amounts determined in subparagraphs 3 through 6, above.

8. Compute the taxable amount by subtracting the amount determined in subparagraph 7 from the amount determined in subparagraph 2.

9. Compute the tax for the taxable amount computed in subparagraph 8, as follows:

(i) If the employee is claiming the "0", "S", "H" or "MS" withholding exemption, the tax will be equal to the sum of:

(I) 2% of the first $500,

(II) 4% of the next $2,500, and

(III) 5% of the amount over $3,000.

(ii) If the employee is claiming the "M" withholding exemption, the tax will be equal to the sum of:

(I) 2% of the first $1,000,

(II) 4% of the next $5,000, and

(III) 5% of the amount over $6,000.

10. Compute the Alabama withholding tax by dividing the amount determined in subparagraph 9, above, by the number of such payroll periods in the year.

(c) The withholding tax to be remitted to the Department may be rounded to the nearest dollar.

(2) Tax to be withheld from supplemental wage payments such as bonuses, commissions and overtime pay shall be computed by one of the following methods:

(a) If paid at the same time as regular wages, the tax to be withheld shall be determined as if the aggregate of the supplemental and regular wages were a single wage payment for the regular payroll period.

(b) If paid at a time different from the regular payroll period, the tax to be withheld may be determined by aggregating the supplemental wage either with the regular wages for the current payroll period or with the regular wages for the last preceding payroll period within the same calendar year. First, compute the tax to be withheld on the aggregate amount of wages and compute the tax to be withheld on the regular wages. Next, subtract the tax withheld on the regular wages from the tax withheld on the aggregate wages to leave the balance of tax withheld on the supplemental wages.

(c) Tax for supplemental wage payments may be withheld using a flat rate of 5% without allowance for exemptions or dependents.

(3) Withholding on vacation pay shall be computed as follows:

(a) If the employee receives vacation pay in lieu of regular wages, tax shall be withheld as though it were regular wage payments.

(b) If the employee receives vacation pay in addition to regular wages, such payments shall be treated as supplemental payments and the tax shall be withheld in accordance with paragraph (2).

(4) When wages are paid in a form other than cash (such as certain fringe benefits required to be treated as wages) tax shall be collected and paid to the Department in the same manner as tax withheld on other supplemental wages. See paragraph (2).

(a) The employer must make the necessary arrangements to insure that the amount of tax required to be collected is available for payment in cash.

(5) For payments of all winnings subject to withholding, income tax shall be withheld at the rate of 5% of the amount of proceeds from a wager.

Author: Neal Hearn, CPA, Ann F. Winborne, CPA
Statutory Authority: Code of Ala. 1975, §§40-2A-7(a)(5), 40-18-71, 40-18-91.

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810-3-71-.03 Job Development Fee (Repealed 10/14/2024).

(Repealed)
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810-3-71-.04 Information Submitted To The Department By The State Industrial Development Authority (Repealed 12/15/2024).

(Repealed)
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