



# City of Albion Income Tax Withholding Guide

Issued under the Michigan Uniform city Income Tax Ordinance.

Payments are due on or before the last day of the first month following the close of the reporting period. For example, for monthly payers withholding for the month of March is due by last day of April; for quarterly payers withholding for a quarter ending in June is due by last day of July.

Withholding may be paid to the city by check, money order, electronically via secure web-site or ACH.

Forms are available online at [www.ci.albion.mi.us](http://www.ci.albion.mi.us) or by calling 517-629-7865.

All forms, correspondence and payments are to be mailed to:

City of Albion  
Income Tax Department  
112 W. Cass St  
Albion, MI 49224

City of Albion Income Tax Department may be contacted at above address or by calling 517-629-7865.

## GENERAL INSTRUCTIONS

This guide provides instructions, general information and a summary of employers' responsibilities for withholding Albion income tax from compensation paid to employees.

### WHO MUST WITHHOLD

Every employer who does business in Albion is required to withhold Albion income tax. This applies even if you do not maintain a location in Albion, (e.g. a construction firm based in Ohio doing work in Albion is required to withhold.)

An employer is defined in the Federal Employer's Tax Guide, Circular E, as any person or organization for whom an individual performs any service as an employee. This includes any person or organization paying compensation to former employees after termination of their employment.

Nonprofit organizations that are exempt from income tax, such as charitable, religious and governmental organizations, must also withhold tax from compensation paid to their employees.

If you are located outside Albion and have employees who work in Albion, you must withhold Albion income tax from all employees working in Albion.

If you assign an Albion resident employee to work temporarily outside the city, you must withhold Albion income tax from compensation paid to the employee.

### REGISTRATION AND ACCOUNT IDENTIFICATION

To register for City of Albion income taxes complete the 'REGISTRATION FOR ALBION CITY INCOME TAX' form. Your federal tax id will be used as your account number. Form 3102, 'NOTICE OF CHANGE OR DISCONTINUANCE FOR ALBION CITY TAXES' is filed to report changes, transfer of ownership, closings, ect. Form 3102 should also be used to report any changes in federal identification number.

### WHO IS AN EMPLOYEE

An employee is an individual who performs services for an employer who controls what will be done and how it will be done. It does not matter that the employer permits the employee considerable discretion and freedom of action, as long as the employer has the legal right to control both the method and the result of the services. For further clarification of the term employee, see the Federal Employer's Tax Guide, Circular E.

### PREDOMINANT PLACE OF EMPLOYMENT

If an employee is an Albion resident, Albion income tax must be withheld from all compensation paid to

the employee regardless of the predominant place of employment.

Nonresidents of Albion are subject to withholding only if Albion is their predominant place of employment. Albion is a nonresident's predominant place of employment if: 1) the employee earns a greater percentage of compensation in Albion than in any other Michigan city with an income tax except the city of residence; and 2) this greatest percent is 25% or more of the total compensation from the employer.

Example: Jack lives in a Michigan city with an income tax and performs 60% of his work in his city of residence and 40% in Albion. Albion is the predominant place of employment because it is the taxing city, except for his city of residence, in which he earns the greatest percentage of his compensation.

An employee can have only one predominant place of employment.

In no case is an employer required to withhold for more than two cities, however where withholding is not required the employee is still responsible to file and pay income tax on compensation earned in cities with income tax.

### EMPLOYEE EXEMPTIONS

Each employee must report his or her place of residence and predominant place of employment using an Employee's Withholding Exemption Certificate (form AL-W4). Only one form is required, even if the employee is subject to withholding for more than one city. It includes the employee's city of residence and the two cities in which he or she earns the greatest percentage of compensation. Most employees will have only one city of employment, and will circle 100 percent as the percentage of compensation earned in that city.

The AL-W4 is the employee's statement of the number of exemptions claimed. The number of exemptions claimed for Albion cannot be more than the number claimed for federal withholding tax.

Each employee is allowed one \$600 exemption plus a \$600 exemption for his or her spouse and for each dependent. Additional exemptions are allowed if either the employee or his or her spouse is age 65 or older.

Do not mail AL-W4s to Albion. These cards are for the employer's use and should be kept for six years.

## HOW MUCH TO WITHHOLD

Resident income tax withholding rate is 1%; nonresident rate is ½%.

Use the 1 percent (.01) rate for: 1) Albion residents working in Albion. 2) Albion residents working outside of Albion who are not subject to withholding for another city.

Use the ½ percent (.005) rate for 1) Nonresidents of Albion working in Albion. 2) Albion residents working outside of Albion who are subject to withholding for another city they are working in.

To calculate withholding locate the amount below for the pay period and multiply by the number of exemptions, deduct this amount from the employees compensation and multiply the difference by the appropriate tax rate. If the employee refuses to furnish a W4 withholding is to be calculated on total compensation.

Weekly	11.54
Bi-weekly	23.08
Semi-Monthly	25.00
Monthly	50.00
Per Diem	1.65

Example: Jack is subject city income tax at the .005 (1/2%) rate. He is paid weekly and has a total of 4 exemptions. His weekly salary is \$500.

Calculate exemption amount:

$$11.54 \times 4 = 46.16$$

Deduct exemption amount from

compensation:  $500 - 46.16 = 453.84$

Calculate Albion withholding amount:

$$453.84 \times .005 = 2.27$$

After computing the tax, round to the nearest cent.

## PAYMENTS NOT SUBJECT TO WITHHOLDING

Withholding does not apply to any of the following:

1. Wages paid to domestic help.
2. Compensation paid for professional services (brokers, ect.) or to any independent contractors.
3. Payments to a nonresident employee for work performed in Albion **if** the employee's **predominant place of employment is not Albion**.
4. Payments to a nonresident employee for work performed outside the city.
5. Pensions and annuities, worker's compensation and similar benefits.
6. Amounts paid for sickness, personal injury or disability, to the extent that these amounts are exempt from federal income tax. You may withhold Albion tax from these payments if you also withhold federal tax from them.

7. Amounts paid to employees as reimbursements for expenses incurred in performing their work.

**NOTE:** While individuals with income described in items 1, 2 and 3 are not subject to withholding on this income, these individuals are required to file Albion income tax returns (AL-1040) and report this income if they are Albion residents, or are nonresidents earning income in Albion.

## WITHHOLDING REQUIRED ON RESIDENTS

The withholding rate for Albion residents who are not subject to withholding in any other city is 1 percent (.01). This is applied to the total compensation after exemptions.

The withholding rate for residents of Albion whose predominant placed of employment is another Michigan city with an income tax is 0.5 percent (.005). In addition to withholding half of one percent for Albion, you must withhold half of one percent for the other taxing city in Michigan.

If an Albion resident works for you in two other cities that have an income tax you must withhold: 1) 0.5 percent for Albion, the city of residence; 2) 0.5 percent for whichever of the two cities is the predominant place of employment 3) nothing for the 3<sup>rd</sup> city. In no case are you required to withhold for more than two cities, the city of residence and the city which is the predominant place of employment.

## WITHHOLDING REQUIRED ON NONRESIDENTS

The withholding rate is 0.5 percent on nonresidents of Albion who have Albion as their predominant place of employment.

If an employee lives in a city which also has an income tax, you may be required to also withhold 0.5 percent for the city of residence.

## REPORTING AND PAYING AMOUNTS WITHHELD

All withholding payments are due on the last day of the first month following the reporting period. You may file quarterly if total withholding is less than \$100 per month; if withholding is \$100 or more per month then you must file monthly. Payments may be paid by check or electronically. Payments by check must be submitted with appropriate form (AL-941 M, monthly or AL-941 Q, quarterly); to pay electronically contact the City income tax department at 517-629-7865.

## STATEMENT OF WAGES AND TAXES WITHHELD (W2)

You must furnish an annual statement (W-2) giving name, address, Social Security number, gross earnings and Albion income tax withheld to each

employee before January 31 of the succeeding year.

You may use one of the Internal Revenue Service approved combined W-2 forms available commercially.

If an employee quits or is fired before the end of the calendar year and is not expected to return to work within the calendar year, a combined W-2 must be given to the employee no later than 30 days after the last payment of compensation.

If after reasonable effort you are unable to deliver the W-2s to an employee, follow the instructions in the Federal Employer's Tax Guide, Circular E.

### **ANNUAL RETURNS**

To reconcile your income tax withheld every year, file the *City of Albion Income Withholding Return* (form AL-W3). A copy of the combined W-2 and a copy of the third party sick pay W-2 furnished to each employee must accompany the annual return.

### **EMPLOYER DISCONTINUANCE**

If you go out of business or are no longer an employer, you must do all of the following:

- 1) File a final monthly or quarterly withholding tax return and pay all money due within 30 days after you discontinue the business.
- 2) Furnish a completed combined W-2, Wage and Tax Statement, to each employee within 30 days after the last payment of compensation.
- 3) Complete and file the *City of Albion Income Withholding Return* (form AL-W3), together with the City of Albion copy of the combined W-2 provided to each employee within 30 days after the last payment of compensation.

### **CORRECTING ERRORS**

If you find a withholding error in the same calendar year that the error was made, adjust a later paycheck and make the same adjustment in your next payment.

### **CORRECTING W-2 ERRORS**

If you find an error in a W-2 after it has been issued to the employee, do not issue a corrected W-2 for less withholding than was on the original W-2. Corrections like this must be handled between the employer and the employee or by the employee on the *Albion Income Tax Return* (form AL-1040).

If the error was for more withholding than was on the original W-2, issue a corrected W-2 and send a copy to Albion. The corrected form should be clearly marked: "Corrected by Employer."

If an issued W-2 is lost or destroyed, give the employee a substitute copy clearly marked: "Reissued by Employer."

If you find an error in the next calendar year or you find an error in a former employee's withholding, notify the City of Albion by filing an amended AL-W3 and a corrected W-2 form.

### **RECORD KEEPING**

Keep all withholding tax records available for inspection by Albion. The records are similar to those necessary for federal income withholding as shown in the Federal Employer's Tax Guide, Circular E.

Records must show the amounts and dates of all compensation payments subject to this tax. Include employee name, address, Social Security number, Withholding Exemption Certificates, occupation and period of employment. Include records that show periods an employee was paid by the employer while absent from work due to sickness or personal injury. Show the amount and weekly rate of such payments.

These records should be kept at least six years after the date the tax is due or the date the tax is paid, whichever is later.

### **PENALTY**

If you do not pay withheld taxes on time, you will be assessed with statutory penalties and interest.

### **OFFICER LIABILITY**

The corporate officers who have control of filing returns or making payments are personally liable for failure to file or for unpaid taxes, including penalty and interest.

### **SUCCESSOR LIABILITY**

If you sell your business, your successor must hold enough of the purchase money to satisfy any withholding tax, interest and penalties that may be due. This money must be held until you produce a receipt for payment of the tax from Albion or a certificate that states taxes are not due. If the successor fails to withhold sufficient funds, he or she will be held liable for any debts.

### **OTHER QUESTIONS**

If you have any questions about Albion withholding please contact:

City of Albion  
Income Tax Department  
112 W Cass St  
Albion, MI 49224-0900  
(517) 629-7865