



Supplemental Wages & Tax Withholdings

Per the Internal Revenue Service (IRS), supplemental wages include wage payments paid by an employer to an employee that aren't their regular payment, including back pay and retroactive pay increases. For payments of less than \$1 million, the withholding for payment of supplemental wages is a **flat 22% (no other percentage is allowed)** for the year 2024.

If you would like to see the Employer's Tax Guide for 2024, you can access it on:

www.irs.gov

7. Supplemental Wages



References to federal income tax withholding don't apply to employers in American Samoa, Guam, the CNMI, the USVI, and Puerto Rico, unless you have employees who are subject to U.S. income tax withholding. Contact your local tax department for information about income tax withholding.

Supplemental wages are wage payments to an employee that aren't regular wages. They include, but aren't limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, reported tips, retroactive pay increases, and payments for nondeductible moving expenses. However, employers have the option to treat overtime pay and tips as regular wages instead of supplemental wages. Other

Supplemental wages identified separately from regular wages. If you pay supplemental wages separately (or combine them in a single payment and specify the amount of each), the federal income tax withholding method depends partly on whether you withhold income tax from your employee's regular wages.

1. If you withheld income tax from an employee's regular wages in the current or immediately preceding calendar year, you can use one of the following methods for the supplemental wages.

a. Withhold a flat 22% (no other percentage allowed).

- b. If the supplemental wages are paid concurrently with regular wages, add the supplemental wages to the concurrently paid regular wages and withhold federal income tax as if the total were a single payment for a regular payroll period. If there are no concurrently paid regular wages, add the supplemental wages to, alternatively, either the regular wages paid or to be paid for the current payroll period or the regular wages paid for the preceding payroll period. Figure the income tax withholding as if the total of the regular wages and supplemental wages is a single payment. Subtract the tax already withheld or to be withheld from the regular wages. Withhold the remaining tax from the supplemental wages. If there were other payments of supplemental wages paid during the payroll period made before the current payment of supplemental wages, aggregate all the payments of supplemental wages paid during the payroll period with the regular wages paid during the payroll period, figure the tax on the total, subtract the tax already withheld from the regular wages and the previous supplemental wage payments, and withhold the remaining tax.

Southwest Airlines will be processing our Retro Pay using the manner explained in "a" - flat withholding of 22%.

Please keep in mind that this Ratification Bonus, like all earnings, is subject to all federal and state required withholdings. There will also be a deduction for your personal 401(k) contribution (and Southwest Airlines' match), if applicable.

For more information about how the IRS will treat the Retro Ratification Bonus, including a letter and info sheet from a Certified Public Account (CPA), please visit:

www.twu556ta.org