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How do I configure courtesy taxes for the US?

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Chapter 1
What are courtesy withholding taxes?

1 What are courtesy withholding taxes?

In some states, if an employee resides in a different city, county, or state and works in another, they might be required to pay taxes for both localities.

As their employer, you might not be required to withhold and deposit taxes for both.

> **Note:** Individual local and state taxation rules vary. Consult with the appropriate tax authorities for complete compliance info on whether you're required to withhold.

Here's how the courtesy tax withholding hierarchy works

Before you can set up your organization for courtesy withholding, you need to understand the hierarchy courtesy taxes use. Configurations at lower levels override those at higher levels.

1. First it checks the configuration on the payroll statutory unit (PSU).
2. Then it checks the tax reporting unit (TRU).

   Entries here override the PSU.
3. Then it checks the employee Tax Withholding card.

   Entries here override both the TRU and PSU.

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2 Courtesy Taxes

Configure Courtesy Tax Withholding

You can configure the rules that determine when the payroll process deducts courtesy taxes.

You can change this behavior through the following.

1. You can change the state withholding rules.
2. You can change the county and city withholding rules.
3. You can set overrides at the employee level.

These instructions are a generic reference. They don't apply to taxation in all circumstances, such as Indiana county and Pennsylvania Act 23 jurisdictions.

Configure State Tax Withholding for Courtesy Taxes

The US Oracle payroll tax engine (USOPTE) provides the tax data that determines:

- What resident state taxes the payroll process withholds for employees
- When it withholds them

Each state has its own withholding and reciprocity rules.

These tax withholding rules determine the resident wage accumulation rules available to you.

However, as their employer, you may not be required to withhold resident state taxes. In such cases, the withholding is considered a courtesy.

When using the **Only states under state tax rules** withholding rule on the federal income tax (FIT) component of the organization calculation card, select the appropriate resident wage accumulation rule for each state. You can also configure the resident wage accumulation rule on the employee's Tax Withholding card.

If you're using this withholding rule	It does this	And you can select this for Resident Wage Accumulation
All states	Default withholding rule for all states.	The payroll process automatically withholds for all states using the default action for each state.
Only states under state tax rules	From the states you have configured on the card, this identifies which you're withholding resident taxes. For each state you add, you select the appropriate resident wage accumulation rule.	The field displays the values appropriate for the selected state. Select one: - Calculate tax independent of all other jurisdictions - Credit resident tax by work tax, accumulate wages if taxed

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If you're using this withholding rule	It does this	And you can select this for Resident Wage Accumulation
		- Credit resident tax by work tax. Accumulate wages if work tax not withheld - Credit resident tax by work tax, always accumulate wages - No resident tax if work wages exist, always accumulate wages - No resident tax if work or residence mismatch, accrue if taxed - No resident tax if work tax greater than zero - No resident tax if work tax greater than zero, always accrue - No resident tax if work tax on nonresident, accrue if taxed - No resident tax if work tax on nonresident, always accrue - Use default action

Configure County and City Withholding Rules for Courtesy Taxes

The payroll process automatically calculates residential local tax for all employees. However, as their employer, you might not be required to withhold them. In such cases, the withholding is considered a courtesy.

By default, the payroll process withholds these courtesy taxes. If you don't want to withhold them, use the following tasks.

1. Use one of the following tasks to change the state tax withholding rule.

    o Legal Entity Calculation Cards to change the values for a payroll statutory unit (PSU)

    o Legal Reporting Unit Calculation Cards to change the values for a tax reporting unit (TRU)

      This overrides any values on the parent PSU.

    o Calculation Cards to change the values on an individual employee's Tax Withholding card

      This overrides any values on the PSU or TRU.

2. Configure any relevant counties and cities on the calculation cards.
3. Identify their resident wage-accumulation rules.

There are multiple county and city tax resident wage-accumulation rules available to you.

> **Note:** Don't configure courtesy tax withholding rules for local residence taxes that take precedence over work taxes. This includes Indiana county and Pennsylvania Act 32 jurisdictions.

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Select the best one based on the tax withholding rule you have chosen.

If you're using this tax withholding rule	It does this	And you can select this for Resident Wage Accumulation
All counties	Default withholding rule for all counties.	Leave blank. The payroll process automatically withholds for all counties using the default action for each county.
All cities	Default withholding rule for all cities.	Leave blank. The payroll process automatically withholds for all cities using the default action for each city.
Only counties under county tax rules	Identifies the resident counties that require special withholding rules.	The field displays the values appropriate for the selected county. Select one of the following. • Calculate tax independent of all other jurisdictions • Credit resident tax by work tax, accumulate wages if taxed • Credit resident tax by work tax, always accumulate wages • No resident tax if work or residence mismatch, accrue if taxed • Use default action
Only cities under city tax rules	Identifies the resident cities that require special withholding rules.	The field displays the values appropriate for the selected city. Select one of the following. • Calculate tax independent of all other jurisdictions • Credit resident tax by work tax, accumulate wages if taxed • Credit resident tax by work tax, always accumulate wages • No resident tax if work or residence mismatch, accrue if taxed • Use default action
Only withhold tax at work county	Withholds taxes for the work county only, and disables courtesy withholding entirely.	Leave blank. The payroll process withholds only the work county tax, so no further configuration is needed.
Only withhold tax at work city	Withholds taxes for the work city only, and disables courtesy withholding entirely.	Leave blank.

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If you're using this tax withholding rule	It does this	And you can select this for Resident Wage Accumulation
		The payroll process withholds only the work city tax, so no further configuration is needed.

How to Override USOPTE Rules for State Courtesy Taxes

The US Oracle Payroll Tax Engine (USOPTE) defines the default rules for how the payroll process handles state withholding taxes. However, there are cases where you may want to override them as a courtesy.

Here's an example where you have employees working in Alabama and living in Mississippi. Neither Alabama nor Mississippi have any reciprocal agreements.

- Mississippi doesn't require withholding for residents working in other states that collect work place taxes.
- Alabama requires withholding for employees who work there, even though they may not live there.

Your employees have requested you withhold Mississippi state income tax (SIT) in addition to the required Alabama SIT, and you agree to withhold them as a courtesy.

The following steps establish rules that:

- Override the default setting for all employees in a tax reporting unit (TRU)
- Withhold taxes for Mississippi SIT for the difference of the total calculated tax minus the work state tax

  Note: To override the default setting only for select employees, use the Calculation Cards task to override this rule on their Tax Withholding cards.

How to get Started

To set up courtesy withholding rules for Mississippi at the TRU level:

1. Start the Legal Reporting Unit Calculation Cards task from your implementation project.
2. In **Calculation Components**, select **Federal Income Tax**.
3. In **Calculation Component Details**, expand **Federal Income Tax Organization Information**.
4. For **Tax Withholding Rules**, select **Only states under state tax rules**.

Add Mississippi

To add Mississippi:

1. In **Calculation Card Overview**, select **Regional**.
2. Select **Add** from the **Actions** menu.
3. Select **Mississippi**, and click **OK**.
4. Click **Save**.

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Define the Wage Accumulation Rule

To define the wage accumulation rule for Mississippi:

1. In **Calculation Card Overview**, select **Mississippi**.
2. In **Calculation Components**, select **State Income Tax**.
3. In **Calculation Component Details**, expand **State Income Tax Organization Information**.
4. For **Resident Wage Accumulation**, select **Credit resident tax by work tax, always accumulate wages**.
5. Click **Save and Close**.

   Note: To undo this courtesy tax support, change the rule on the Mississippi SIT to **Use default behavior**. With this setting, the payroll process stops collecting courtesy taxes.

How to Override USOPTE Rules for City Courtesy Taxes

The US Oracle Payroll Tax Engine (USOPTE) defines the default rules for how the payroll process handles city courtesy taxes. However, there are cases where you may want to override them.

Here's an example where you're disabling all courtesy withholding for all locals in Ohio, except for the city of Gahanna.

You have some employees working in Columbus, Ohio and living in Gahanna. They've requested you withhold local courtesy taxes for Gahanna, and you've agreed to the courtesy withholding for those employees. The default USOPTE behavior is to withhold taxes for all cities that don't give a full credit for the work place city tax. You want to override those rules and only withhold for selected cities as a courtesy.

Note: This example assumes you have performed some configuration at the state level.

Overview

This example consists of the followings tasks.

1. Disabling all courtesy withholding for Ohio.
2. Enabling courtesy withholding for Gahanna.

Disable Ohio courtesy withholding

To disable all city courtesy withholding in Ohio at the tax reporting unit (TRU) level:

1. Start the Legal Reporting Unit Calculation Cards task from your implementation project.
2. In **Calculation Components**, select **OH State Income Tax**.
3. In **Calculation Component Details**, expand **State Income Tax Organization Information**.
4. For **Tax Withholding Rules**, select **Only cities under city tax rules**.

   This stops all courtesy taxation for cities within this state.

Enable Gahanna courtesy withholding

To enable courtesy withholding only for Gahanna:

1. Add the county of Franklin and then the city of Gahanna.

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   a. In **Calculation Card Overview**, select Ohio's state node.
   b. Select **Add** from the **Actions** menu.
   c. Select the county of Franklin, and click **OK**.
   d. Select the county's node.
   e. Select **Add** from the **Actions** menu.
   f. Add Gahanna.
2. Enable courtesy taxes for Gahanna.
   a. In **Calculation Card Overview**, select Gahanna's node.
   b. In **Calculation Components**, select **Income Tax**.
   c. In **Calculation Component Details**, expand **City Income Tax Organization Information**.
   d. For **Resident Wage Accumulation**, select **Use default behavior**.
3. Click **Save and Close**.

How to Override USOPTE Rules for Courtesy Taxes at the Employee Level

There are cases where you must override the default US Oracle Payroll Tax Engine (USOPTE) courtesy tax withholding rules for an individual employee.

Overview of Your Options

If you need to override these rules, there are a couple options available to you.

You can do this	What it does
Resident wage accumulation	This method determines how the result of one tax calculation affects the results of another.
Taxation address overrides	In cases when a person's home address alone isn't specific enough to identify the proper taxing authority, you use tax address overrides to designate an alternate taxing jurisdiction.

For further info, see the following sections.

How to use resident wage accumulation

In this example, your policy is to provide courtesy tax withholding to all workers except interns. Therefore, you define employee-level exemptions for them. This involves applying the **No resident tax if work or resident location mismatch, accrue if taxed** resident wage accumulation rule to their resident city.

Note: These steps assume you're withholding courtesy city taxes for Gahanna, Ohio. So you're now refining those courtesy tax rules to make the distinction between employees and interns.

1. Open the intern's Tax Withholding card for editing.
2. Open their **Gahanna** city component for editing.

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3. For **Resident Wage Accumulation**, select **No resident tax if work or resident location mismatch, accrue if taxed**.
4. Click **Save and Close**.

How to use taxation address overrides

In this example, you're withholding courtesy taxes for all applicable employees. However, you have an hourly employee with these conditions.

1. Works in Columbus, OH
2. Has a residential mailing address in Gahanna, OH
3. Does not actually live within the city limits of Gahanna, and is therefore not subject to Gahanna city taxes

For this employee, you set the following tax address override.

1. Start the Person Management task.
2. Search for the employee, and in the search results, select their row.
3. From the **Actions** menu, select **Personal and Employment** and then **Manage Person**.
4. On **Manage Person**, click **Create Address**.
5. Select the Resident Tax Address type.
6. Enter the taxation address.
7. Click **OK** and then **Save and Submit**.

    When complete, the taxation address appears on their Person page. The payroll process uses this address for residential taxation purposes.

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