

The Rules

Section 3402 of the Internal Revenue Code (IRC) provides legal authority for income tax withholding from wages and other forms of income. Withholding allowances are given for:

- a. Personal and dependency exemptions.
- b. Special withholding allowances.
- c. Itemized deductions, tax credits and other items specified in the regulations.

Penalties

You may have to pay a penalty of \$500 if both of the following apply:

- You make statements or claim withholding allowances on your Form W-4 that reduce the amount of tax withheld, and
- You have no reasonable basis for those statements or allowances at the time you prepare your Form W-4.

There is also a criminal penalty for willfully supplying false or fraudulent information on your Form W-4 or for willfully failing to supply information that would increase the amount withheld.

The penalty upon conviction can be either a fine of up to \$1,000 or imprisonment for up to one year, or both. These penalties will apply if you deliberately and knowingly falsify your Form W-4 in an attempt to reduce or eliminate the proper withholding of taxes.

A simple error — an honest mistake — will not result in one of these penalties.

For example, a person who has tried to figure the number of withholding allowances correctly, but claims seven when the proper number is six, will not be charged a W-4 penalty.

The Internal Revenue Service has focused its efforts against willful non-filers and non-compliance schemes by adopting a twofold approach;

1. Assist taxpayers to correct their filing status and comply with the tax law.
2. Vigorously apply both civil and criminal sanctions against individuals who persist in violating the tax law.

Maintaining public confidence in the fairness of tax laws is paramount. Recommending prosecution of those who willfully violate tax laws demonstrates the IRS' commitment to ensuring that everyone pays their fair share of taxes.



Report suspicious or misleading tax information to your local IRS office or call 1-800-829-0433

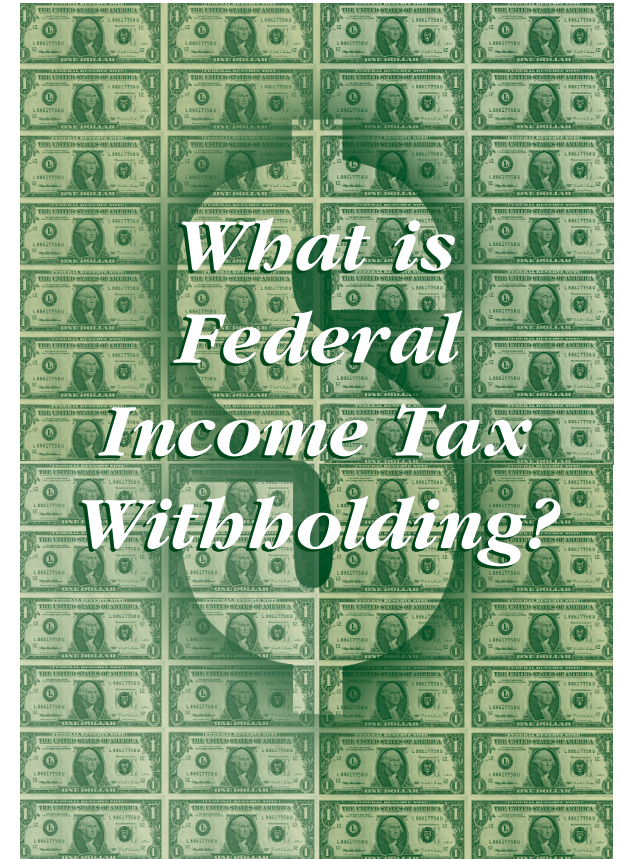


Department of the Treasury
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EMPLOYEE INCOME TAX WITHHOLDING



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**The Federal Income Tax is
a pay-as-you-go tax.**

**You must pay the tax
as you earn or receive income
during the year.**

When Should I Check My Withholding?

**Since you last filed Form W-4 with
your employer did you...**

**Marry or divorce?
Gain or lose a dependent?
Change your name?**

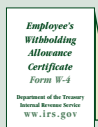
or

Were there any major changes to...

- Your non-wage income
(interest, dividends, capital
gains, etc)?**
- Your family wage income (you
or your spouse started or
ended a job)?**
- Your itemized deductions?**
- Your tax credits?**

If you answered "yes" ... to any of
these questions or you owed extra tax when you filed
last year's return, you may need to file a new Form W-4
for the current year.

See your employer for a copy of the current year
Form W-4 or call the IRS at 1-800-829-1040.



For more information:

Publication 919

How Do I Adjust My Tax Withholding?

Publication 505

Tax Withholding and Estimated Tax

What about... those who believe they don't have to pay taxes?

There have always been individuals who, for a variety of reasons, argue that various taxes are illegal. They use false, misleading, or unorthodox tax advice to gain followers. The courts have repeatedly rejected their arguments as frivolous, and now routinely impose financial penalties for raising such meritless defenses.

The promoters of this tax advice often charge hefty fees or commissions to subscribe to their philosophies. Unfortunately, in this end, you may pay more in penalties, interest, and legal fees for following their bad advice. Their philosophies have lead to the financial ruin of innocent taxpayers deceived by false information.

Believe it or not — a number of individuals who market these ideas actually pay taxes.

F R E Q U E N T L Y A S K E D Q U E S T I O N S

What form do I use to claim income tax withholding?

Form W-4, Employee's
Withholding Allowance Certificate

How many withholding allowances should I claim on my Form W-4?

You can claim the number of
withholding allowances that you
are entitled to based on the Form
W-4, Employee's Withholding
Allowance Certificate, worksheets.
You can claim less than you are
entitled, but not more

Do I put the same number of exemptions on my tax return as I put on my W-4 form?

What you put on your Form W-4 is
withholding allowances, not

exemptions. An exemption is
allowed on your tax return for
yourself, your spouse (if married
filing jointly), and qualifying
dependents (if you are a U.S.
citizen or resident alien).

Can I claim exempt from withholding?

To claim exemption from
withholding the following must be
true:

- For the previous year, you had a
right to a refund of all income
tax withheld because you had no
tax liability, and
- For the current year, you expect
a refund of all income tax
withheld because you expect to
have no tax liability.

What will happen if I do not give a Form W-4 to my employer?

Publication 15, Circular E, Employers
Tax Guide, states that if an employee
does not give them a completed
Form W-4, they are to withhold tax
as if he or she is single, with no
withholding allowances.

**Your employer is
required
by federal law
to withhold income taxes
from employee wages.**

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