



Office of the Comptroller

**TO:** ALL NONRESIDENT EMPLOYEES  
**FROM:** CORPORATE TAX OFFICE  
**SUBJECT:** NEW RULES FOR FEDERAL WITHHOLDING ON WAGES OF NONRESIDENT EMPLOYEES  
**DATE:** 12/08/05

On October 31, 2005 the Internal Revenue Service (IRS) issued new rules for 2006 for withholding on wages of nonresident employees. The goal of the new rules is to provide withholding wages that more closely approximates your income tax liability. The new rules accomplish this with new Form W-4 rules and special payroll computations for withholding on wages.

***New Form W-4 Rules***

When completing Form W-4 to provide information with respect to withholding on wages to be paid on or after January 1, 2006, nonresident alien employees are required to:

- 1) Not claim exemption from withholding;
- 2) Request withholding as if they are single, regardless of the actual marital status;
- 3) Claim only one allowance; and
- 4) Write "Nonresident Alien" or "NRA" above the dotted line on line 6 of Form W-4

With respect to the third requirement, if the nonresident alien is a resident of Canada, Mexico or South Korea, he or she may claim more than one allowance.

When completing a Form W-4 that will apply to wages paid on or after January 1, 2006, nonresident alien employees will no longer be required to request an additional withholding amount. However, like all other employees, nonresident aliens may request additional withholding at their option.

Nonresident alien employees who will receive remuneration for services performed for the first time after January 1, 2006 must complete Form W-4 in accordance with the "new" instructions. All current nonresident alien employees who will continue service after January 1, 2006 should complete the new Form W-4 prior to the first pay period of January 2006.

*Please Note:* This new rule does not apply to if the nonresident alien employee is a student or business apprentice who is or was a resident of the Republic of India immediately before visiting the United States and who is present in the United States principally for the purpose of his or education or training.

***Will my withholding be lower based on the new Form W-4?***

Yes, because you do not have to include an additional withholding amount.

***When should I request an additional withholding amount?***

Unfortunately, we cannot advise each individual personally on your withholding. However, the following may be helpful.

- If your total wages are less than the personal exemption amount (\$3,300 for 2006) you will have ZERO FEDERAL WITHHOLDING under the new rules.
- If your only US source income for the year is wages that are less than \$3,300, you will not have to submit a Form 1040NR-EZ.
- If your total wages exceed \$3,300, you will owe taxes with your tax return and will be subject to underwithholding penalties and interest unless you request additional withholding.

***What if I do not submit a new Form W-4?***

If you have previously submitted a Form W-4 to Payroll, which may include an additional withholding amount, your prior Form W-4 will remain effective. You should submit a new Form W-4 at least by the effective date of the new payroll calculations.

This information along with an example of the new Form W-4 and IRS Notice 2005-76 announcing these new rules will be posted on the Corporate Tax web site at <http://www.finance.upenn.edu/comptroller/tax/>

If you have any questions or concerns, please feel free to contact me at any time. I can be reached on 215-898-8967 or via email [mpiccolo@pobox.upenn.edu](mailto:mpiccolo@pobox.upenn.edu).