

Gross-Up Computation Worksheet

An employer may gross-up wages for purposes of taxable fringe benefits so that the employer, and not the employee, pays the payroll taxes on the benefit. If the employer grosses up the wage to pay the tax on the benefit, the gross-up is also taxable to the employee. Since the employer may also want to gross-up the taxable benefit of paying the employee's tax, that too would be subject to tax. This cycle would continue until the payment of the employee's tax no longer increases taxable wages. To calculate the gross-up wage, use the following worksheet.

- 1) Enter the net wage or value of the fringe benefit the employee actually received..... 1) _____
- 2) Enter 100% as a decimal number (100% = 1.00) 2) 1.00
- 3a) Enter the FICA withholding percentage as a decimal (*Example:* If the taxpayer's FICA percentage is 7.65% enter 0.0765). **Note:** If the employee has exceeded the Social Security wage limit, enter the Medicare tax portion of FICA (1.45% = 0.0145)..... 3a) _____
- 3b) Enter the federal tax withholding percentage as a decimal (*Example:* If the taxpayer's withholding percentage is 15% enter 0.15) 3b) _____
- 3c) Enter the state tax withholding percentage as a decimal (*Example:* If the taxpayer's withholding percentage is 5% enter 0.05)..... 3c) _____
- 3d) Add lines 3a + 3b + 3c and enter as a decimal (cannot be greater than 1)..... 3d) _____
- 4) Subtract line 3d from line 2 and enter as a decimal 4) _____
- 5) **Gross-Up Wage:** Divide line 1 by line 4..... 5) _____

Gross Wage	FICA Withheld	Federal Withheld	State Withheld	Net Wage

Note: Employers can use this computation only if the percentage method of withholding is used for federal withholding.

Example: Ken gives all of his employees \$500 cash as a holiday bonus at the end of the year. Tony is one of Ken's employees who received the cash. Tony's federal withholding rate is 15% and his state withholding rate is 5%. Tony does not exceed the Social Security maximum wage. The \$500 cash payment to Tony is the net wage. To calculate the gross wage (the gross-up amount), the worksheet example is as follows:

- 1) Enter the net wage or value of the fringe benefit the employee actually received..... 1) 500.00
- 2) Enter 100% as a decimal number..... 2) 1.0000
- 3a) Enter the total percentage for FICA as a decimal number..... 3a) 0.0765
- 3b) Enter the federal tax withholding percentage as a decimal..... 3b) 0.1500
- 3c) Enter the state tax withholding percentage as a decimal..... 3c) 0.0500
- 3d) Add lines 3a + 3b + 3c and enter as a decimal 3d) 0.2765
- 4) Subtract line 3d from line 2 and enter as a decimal 4) 0.7235
- 5) **Gross-Up Wage:** Divide line 1 by line 4..... 5) 691.09

Gross Wage	FICA Withheld	Federal Withheld	State Withheld	Net Wage
\$691.09	\$52.87	\$103.67	\$34.55	\$500.00