City of Eugene

Guide for Calculating the Employee Payroll Tax

Introduction. This guide provides information and examples for calculating the *employee payroll tax*. The employee payroll tax withholding requirement applies to *pay periods starting on or after January 1, 2021*. If the pay period began in 2020, but the wages were paid in 2021, those wages are not subject to the employee payroll tax.

Determine the applicable tax rate. Follow these steps to calculate the employee payroll tax for each employee. *Important* – If the employer has multiple business locations, the hours spent at business locations outside the City limits are not subject to the tax.

1. **Start with gross wages.** To calculate the tax for each employee, start with gross wages for the pay period paid for services performed by an employee for an employer located in the Eugene city limits, including the cash value of all remuneration paid in any medium other than cash. This includes, but not limited to salaries, overtime, fees, tips, bonuses, or commission on sales.

   Example: Liam is paid a salary of $1,000 bi-weekly. For the pay period, Liam also received $300 in commissions and a $125 bonus. Liam's gross wages for the pay period is $1,425.

   Example: Nicole receives $14 per hour and is paid weekly. For the week, Nicole worked 36 hours and received $220 in tips. Nicole's gross wages for the pay period are $724.

   Example: Marvin works for an employer that has two business locations – one in Eugene and another in Cottage Grove. Marvin rotates between locations working every other week at each. Only Marvin's wages for the time he spends at the Eugene location are subject to the tax.

2. **Subtract overtime wages.** Overtime wages, both the base and premium portion, are not considered when determining the tax rate. Overtime wages should be calculated consistent with the Fair Labor Standards Act (FLSA) and applicable Oregon state law. If the employee did not work any overtime, you can skip to Step 3.

   Example: Pedro receives $15 per hour and is paid weekly. For the pay period, Pedro worked 50 hours and received a non-discretionary bonus of $100. Pedro's gross wages for the week are $935 calculated using FLSA rules –

   - Regular rate = $15 x 50 hours = $750 + $100 bonus = $850 / 50 hours = $17 Regular Rate
   - $17 x 40 hours = $680 Regular wages
   - $17 x 1.5 x 10 hours = $255 Overtime wages
   - Gross wages - $935
   - *Amount for determining the tax rate -* ***$680***

Example: Alexi receives $12 per hour and is paid weekly. For the pay period, Alexi worked 43 hours and received commissions of $75. Alexi's gross wages for the week are $611.43 calculated using FLSA rules –

- Regular rate = $12 x 43 hours = $516 + $75 commissions = $591 / 43 hours = $13.74 Regular Rate
- $13.74 x 40 hours = $549.60 Regular wages
- $13.74 x 1.5 x 3 hours = $61.83 Overtime wages
- Gross wages - $611.43
- *Amount for determining the tax rate -* ***$549.60***

3. **Get the applicable tax rate using the tax rate charts.** Once you have subtracted overtime wages from gross wages, use the remaining amount to get the applicable tax rate based on the applicable pay period. If the employee had no overtime for the pay period, you'll use gross wages.

   Example: Mark is paid monthly and receives a salary of $2,500 per month. For the pay period, Mark had no overtime. Using the monthly tax rate chart, the applicable tax rate is .0030.

   Example: Anna is paid bi-weekly and receives $13 per hour. For the pay period, Anna had gross wages of $1,400 with $360 in overtime wages. Using $1,040 ($1,400 - $360), the applicable tax rate is .0030.

   Example: Maria is paid twice monthly and receives $12 per hour (or minimum wage). For the pay period, Maria had gross wages of $1,200 with $200 in overtime wages. Using $1,000 ($1,200 - $200), Maria's wages are exempt.

   Example: Muriel is paid weekly and receives a salary of $1,000 per week. For the pay period, Muriel also received $320 in commissions and a sales bonus of $130. Using $1,450 ($1,000 + $320 + $130), the applicable tax rate is .0044.

   FAQ - *What about part-time employees? Is the tax rate determined differently?*

   No. If the employee did not make enough wages to be subject under the tax rate charts for the applicable pay period, those wages are exempt. **Note** – if the employee is exempt from the employee payroll tax, the subject wages must still be reported on the Form EUG-PY-ED, *Employee Detail Return,* with -0- in the tax column.

   Example: Maggie works 10 hours per week at $14.00 per hour. For the pay period, Maggie had gross wages of $140 and is exempt from the tax.

   FAQ – *What about employees that resign or are terminated before the end of the pay period? Do we need to use a different tax rate chart?*

   No. You will use the same tax rate chart for the pay period. You do not need to adjust the charts to the number of days or hours worked during the pay period.

   Example: Elliot is paid a monthly salary of $3,000. During the pay period, Elliot resigned from his position and received a final check that included a vacation leave payout for gross wages of $2,200. His applicable tax rate is .0030.

FAQ – *How do I determine the tax rate for supplemental payments that are not paid on the regular payday?*

If an employee receives supplemental wages that are paid at a different time than an employee's regular payday, use the daily pay period tax rate chart. Supplemental wages can include bonuses, overtime pay, commissions, or any other form of payment received in addition to the employee's regular pay. You do not need go back and reconcile or recalculate the tax rate for another pay period.

Example: Jody is paid a monthly salary of $4,000. In the middle of the pay period, Jody received a discretionary bonus of $100 from her employer. Using the daily tax rate chart, the applicable tax rate is .0030. Jody's employer does not need to consider the $4,000 salary when determining the tax rate.

4. **Apply the applicable tax rate to Subject Wages.** "Subject wages" are those wages subject to Oregon Revised Statute (ORS) Chapter 316 withholding, or gross wages after pre-tax deductions.

Example: Manny received $2,000 in gross wages for a twice-monthly pay period with $300 in pre-tax deductions including $50 for a flexible spending account, $150 in insurance premiums, and $100 in retirement contributions. Manny's tax rate is .0044 and is applied to taxable wages of $1,700 for a tax of $7.48.

Example: Sara is paid bi-weekly and receives a salary of $900 per pay period. For the pay period, Sara also received $100 in commissions, a $125 bonus, and $240 in overtime wages. Sara also has $210 in pre-tax deductions.

Sara's gross wages for the pay period are $1,365. Sara's employer will not consider the overtime wages in determining the applicable tax rate and use $1,125 in the bi-weekly pay period tax rate chart. Sara's tax rate is .0030.

Sara's employer will apply the tax rate to subject wages – gross wages ($1,365) less pre-tax deductions ($210) equals $1,155. Sara's tax to be withheld is $3.47 ($1,155 * .0030).

FAQ – *If my employee is exempt, do I need to report the subject wages?*

Yes. If the employee is exempt from the employee payroll tax, the subject wages must still be reported on the Form EUG-PY-ED, *Employee Detail Return*, with -0- in the tax column. As the employer, those wages are subject to the employer payroll tax.

For more information on the employer payroll tax, please see our FAQ.