

## 2018 KENTUCKY WITHHOLDING TAX FORMULA

Kentucky recently enacted a new 5% flat tax rate. Due to this change, a flat withholding formula has been developed. In this new formula, exemptions are not taken into account, only the standard deduction. Employers may compute Kentucky income tax withholding by the formula shown below. No other formula or withholding method may be used unless specific written approval is granted by the Department of Revenue. Further information may be obtained by writing the Withholding Tax Branch, Kentucky Department of Revenue, P.O. Box 1274, Frankfort, KY 40602-1274.

***2018 Kentucky Standard Deduction: \$2,530***

***2018 Kentucky Tax Rate: 5% of taxable income***

***Formula:***

Wages for the pay period multiplied by the number of annual pay periods equals annual wages. Annual wages minus the Kentucky standard deduction equals annual Kentucky wages. Compute tax on wages using the 5% Kentucky flat tax rate to determine gross annual Kentucky tax. Divide the gross annual Kentucky tax by the number of annual pay periods to determine the Kentucky withholding tax for the pay period.

***2018 Examples:***

Payroll Frequency: monthly

Wages: \$3,020

1. Compute annual wages:  $\$3,020 \times 12 = \$36,240$
2. Compute Kentucky taxable wages:  $\$36,240 - \$2,530 = \$33,710$
3. Compute gross annual Kentucky tax:  $\$33,710 \times 5\% \text{ flat tax rate} = \$1,685.50$
4. Compute Kentucky withholding tax for tax period:  $\$1,685.50 \div 12 = \$140.46$  (monthly withholding)

Payroll Frequency: bi-weekly

Wages: \$1,500

1. Compute annual wages:  $\$1,500 \times 26 = \$39,000$
2. Compute Kentucky taxable wages:  $\$39,000 - \$2,530 = \$36,470$
3. Compute gross annual Kentucky tax:  $\$36,470 \times 5\% \text{ flat tax rate} = \$1,823.50$
4. Compute Kentucky withholding tax for tax period:  $\$1,823.50 \div 26 = \$70.13$  (bi-weekly withholding)

**NOTE:** The Department of Revenue annually adjusts the standard deduction in accordance with KRS 141.081(2)(a). Employers that use the formula to compute the amount of withholding may use the standard deduction for the current year.