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|  | The Johns Hopkins Health System Policy & Procedure | <i>Policy Number</i> | FIN104 |
| | | <i>Effective Date</i> | 01-01-08 |
| | <i>Subject</i> SUPPLEMENTAL WAGES – PAYMENT AND EMPLOYMENT TAX WITHHOLDING | <i>Page</i> | 1 of 2 |
| | | <i>Supersedes</i> | 10-01-06 |

Revisions noted by vertical bar in right margin

POLICY

This policy applies to The Johns Hopkins Health System Corp. (JHHS) and the following affiliated entities: The Johns Hopkins Hospital (JHH), Johns Hopkins Bayview Medical Center (JHBMC), Howard County General Hospital (HCGH), Johns Hopkins Community Physicians (JHCP), Johns Hopkins Medical Services Corporation (JHMSC), Johns Hopkins Medicine International (JHMI), Ophthalmology Associates (OA), Johns Hopkins Employer Health Programs (EHP), Johns Hopkins Medical Management Corporation (JHMMC), Priority Partners (PP), Johns Hopkins Pharmaquip, Inc. (JHPQ), Johns Hopkins Home Health Services, Inc. (JHHHS), Johns Hopkins Pediatrics Home, Inc. (JHPAH), Johns Hopkins HealthCare (JHHC), Johns Hopkins Home Care Group (JHHCG), Suburban Health Center (SHC), Broadway Acquisition and Development, and HCGH OB/GYN Associates Series, LLC (HCGH OBGYN).

Purpose


The purpose of this policy is to establish guidelines and procedures for the payment of supplemental wages -to employees and the appropriate withholding of employment taxes from supplemental wages.

As employers, JHHS and its affiliates are required to withhold and remit to the appropriate taxing authority federal, Maryland and other state employment taxes on wages paid to their respective employees. Procedures for withholding federal, Maryland and other state employment taxes are mandated by the respective taxing authorities. Although procedures relating to regular wages (e.g., salary, vacation [not lump-sum], sick pay [not lump-sum]) are relatively straightforward, the withholding procedures relating to supplemental wages (e.g., bonuses, deferred compensation, retroactive pay increases, lump-sum payments for unused accumulated vacation, sick pay, and etc.) are somewhat complex. The intent of this policy is to clarify the method of paying and withholding employment taxes associated with supplemental wages.

All payments of supplemental wages at JHHS or its affiliates will be made in full compliance with all applicable federal, Maryland and other state employment tax withholding statutes and regulations. This will ensure consistent treatment of supplemental wage payments to employees of JHHS and its affiliates.

For purposes of this policy, supplemental wages are compensation paid in addition to an employee's regular wages and may include:

- back pay awards and retroactive wage increases;
- bonuses, commission, and overtime pay;
- prizes and awards;
- dismissal or severance pay;
- retirement incentive pay;
- payments for working during vacation;
- noncash fringe benefits (including personal use of personal vehicles and group-term life insurance in excess of \$50,000); and
- lump-sum payment for unused accumulated annual PTO/vacation and/or sick leave.
- deferred compensation
- expatriate premium
- car and housing allowances

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Federal Income Tax Withholding Procedures

If supplemental wages are paid concurrently with regular wages for a payroll period and the taxable amount of each is not specifically indicated, the employer must compute federal income tax withholding on the total of the taxable supplemental and regular wages as if they were a single payment for that payroll period.

Alternatively, if an employer pays supplemental wages separately (or combines them in a single payment with regular wages but specifies the amount of each), the income tax withholding method will depend partly on whether the employer withholds income tax from the employee's regular wages:

- If an employer withholds income tax from an employee's regular wages, it can be (1) withheld on the supplemental wages at a flat 28% rate; or the Payroll Department can (2) add the supplemental and regular wages for the most recent payroll period in the current year, then figure the income tax withholding as if the total were a single payment.
- If the employer does not withhold income tax from the employee's regular wages, only method (2) may be used.

Maryland Income Tax Withholding Procedures

If supplemental wages are paid concurrently with regular wages for a payroll period, the employer must compute Maryland income tax withholding on the total of the taxable supplemental and regular wages as if they were a single payment for that payroll period.

Alternatively, if an employer pays supplemental wages separately, the employer must withhold on the supplemental wages at a flat five (5) percent rate plus the local tax factor.

RESPONSIBILITIES

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| JHHS Payroll Manager | Ensure that the practices of the Payroll Department adhere to income tax withholding procedures described in this policy. |
| Director of Tax Compliance | Advise the Payroll Department of any federal, Maryland or other state statutory or regulatory changes which would impact the income tax withholding procedures described in this policy. |


SPONSOR

Vice President of Finance/Chief Financial Officer and Treasurer, JHHS

CYCLE REVIEW

Three (3) years

APPROVAL

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|  JOHNS HOPKINS MEDICINE <hr/> JOHNS HOPKINS HEALTH SYSTEM | The Johns Hopkins Health System Policy & Procedure | | <i>Policy Number</i> | FIN104 |
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 President, JHHS

 Date