

(iii) Deduct and withhold from any payment of wages (exclusive of tips) which are under the control of the employer, or from funds referred to in section 3402(k) (see §§ 31.3402(k) and 31.3402(k)-1), such amount as may be necessary to adjust the amount of tax withheld on the estimated basis to conform to the amount required to be withheld in respect of tips reported by the employee to the employer during the calendar quarter in written statements furnished to the employer pursuant to section 6053(a). If an adjustment is required, the additional tax required to be withheld may be deducted upon any payment of wages (exclusive of tips) which are under the control of the employer during the quarter and within the first 30 days following the quarter or from funds turned over by the employee to the employer for such purpose within such period. For provisions relating to the repayment to an employee, or other disposition, of amounts deducted from an employee's remuneration in excess of the correct amount of tax, see § 31.6413(a)-1.

(2) *Estimating tips employee will report*—(i) *Initial estimate.* The initial estimate of the amount of tips that will be reported by a particular employee in a calendar quarter shall be made on the basis of the facts and circumstances surrounding the employment of that employee. However, if a number of employees are employed under substantially the same circumstances and working conditions, the initial estimate established for one such employee may be used as the initial estimate for other employees in that group.

(ii) *Adjusting estimate.* If the quarterly estimate of tips in respect of a particular employee continues to differ substantially from the amount of tips reported by the employee and there are no unusual factors involved (for example, an extended absence from work due to illness) the employer shall make an appropriate adjustment of his estimate of the amount of tips that will be reported by the employee.

(iii) *Reasonableness of estimate.* The employer must be prepared, upon request of the district director, to disclose the factors upon which he relied in making the estimate, and his rea-

sons for believing that the estimate is reasonable.

[T.D. 7053, 35 FR 11626, July 21, 1970]

**§ 31.3402(h)(2)-1 Withholding on basis of annualized wages.**

An employer may determine the amount of tax to be deducted and withheld upon a payment of wages to an employee by taking the following steps:

*Step 1.* Multiply the amount of the employee's wages for the payroll period by the number of such periods in the calendar year.

*Step 2.* Determine the amount of tax which would be required to be deducted and withheld upon the amount determined in Step 1 if that amount constituted the actual wages for the calendar year and the payroll period of the employee were an annual payroll period.

*Step 3.* Divide the amount of tax determined in Step 2 by the number of periods by which the employee's wages were multiplied in Step 1.

*Example.* On July 1, 1970, A, a single person who is on a weekly payroll period and claims one exemption, receives wages of \$100 from X Co., his employer. X Co. multiplies the weekly wage of \$100 by 52 weeks to determine an annual wage of \$5,200. It then subtracts \$650 for A's withholding exemption and arrives at a balance of \$4,550. The applicable table in section 3402(a) for annual payroll periods indicates that the amount of tax to be withheld thereon is \$376 plus \$314.50 (17 percent of excess over \$2,700), or a total of \$690.50. The annual tax of \$690.50, when divided by 52 to arrive at the portion thereof attributable to the weekly payroll period, equals \$13.28. X Co. may, if it chooses, withhold \$13.28 rather than the amount specified in section 3402 (a) or (c) for a weekly payroll period.

[T.D. 7053, 35 FR 11627, July 21, 1970]

**§ 31.3402(h)(3)-1 Withholding on basis of cumulative wages.**

(a) *In general.* In the case of an employee who has in effect a request that the amount of tax to be withheld from his wages be computed on the basis of his cumulative wages, and whose wages since the beginning of the current calendar year have been paid with respect to the same category of payroll period (e.g., weekly or semimonthly), the employer may determine the amount of tax to be deducted and withheld upon a payment of wages made to the employee after December 31, 1969, by taking the following steps: