Payroll Simplified: Garnishments

First things first – what is a wage garnishment? If you owe a debt, the court may order that certain amount of money (a garnishment) be taken out of your paycheck each time in order to pay the creditor. Learn how to handle your employees' garnishments as an employer.

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If you owe a debt, the court may order that a certain amount of money be taken out of your paycheck each time in order to pay the creditor. This order is called a garnishment. Debts that might be garnished include unpaid taxes, child support, defaulted student loans, overdue credit card loans, or medical bills.

How does a wage garnishment affect me as an employer?

As an employer, if you receive a court order for a garnishment, you will be required to withhold the indicated amount of money from the named employee's paycheck. You may withhold that money from hourly wages, salaries, bonuses, and commissions, but typically any tip income is exempt. Also, you can't fire an employee because of a garnishment! There are laws in place to protect the employee from that kind of retaliation.

How do I garnish wages from my employees?

Follow the rules detailed on the court order. You will likely need to start garnishing your employee's wages right away and continue either until the end date (if it's listed) or until you receive a "Notice of Termination of Wage Garnishment Order." You will need to withhold the amount indicated on the garnishment order unless it exceeds a garnishment limit set by law. A certain amount of your employee's wages will be protected – after all, your employee needs to take home some pay at the end of the day. Often, you'll receive a worksheet with the garnishment order that will help you calculate the correct amount to withhold.

Are there limits on different types of garnishments?

Yes! Depending on the garnishment, there are different rules when it comes to limiting the amount that can be withheld. Limits for some of the more common types of garnishments include:

- **Judgment creditors:** 25% of disposable earnings OR the difference between the employee's total disposable earnings and 30 times the minimum wage, whichever is lower.
- **Child support/alimony:** 60% of disposable earnings if the employee is not supporting a second family OR 50% disposable earnings if the employee does support a second family.
- **Non-tax federal debts:** under the Debt Collection Improvement Act, 15% of disposable income for federal government debts and 10% disposable income for Department of Education agencies (defaulted student loans).
- **Bankruptcy court orders** often do not have any limits.

It's also important to note that while these are federal limits, your state may have different, lower limits that override the federal ones. Make sure to check the specific laws for your state before setting up the garnishment. *For more Payroll Simplified blogs from our CPA, Malka Trump, click here.*

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