Workplace Spotlight:

Revisions to IRS Form W-4: What's the Impact to Employers?

September 4, 2019

Disclaimer

This presentation is not:

Legal advice

The final word on today's topics

A political opinion

Before Taking Any Actions

Before taking any actions on the information contained in this presentation, employers should review this material with internal and/or external counsel.

Today's speaker

Pete Isberg is Vice President of ADP Government Affairs. He is responsible for managing legislative and regulatory affairs, covering a variety of employer compliance matters including employment tax payments and major legislative trends such as the Affordable Care Act. He has over 30 years of experience working with state legislatures and Congress, as well as the IRS and state agencies, workforce development, child support enforcement, and municipal tax authorities.

Pete holds an MBA in Finance from California State Polytechnic University.

2020 W-4 Requirements – 2019 vs. 2020 Form

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

OMB No. 1545-0074

2019

1 Your first name and middle initial | Last name | 2 Your social security number

Home address (number and street or rural route) | 3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married filing separately, check "Married, but withhold at higher Single rate."

City or town, state, and ZIP code | 4 **If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card.** ▶ ☐

5 ~~Total number of allowances you're claiming (from the applicable worksheet on the following pages)~~ 5

6 Additional amount, if any, you want withheld from each paycheck . . . . 6 $

7 ~~I claim exemption from withholding for 2019, and I certify that I meet **both** of the following conditions for exemption.~~

~~• Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and**~~

~~• This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability.~~

~~If you meet both conditions, write "Exempt" here~~ . . . . ▶ 7

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▶ Give Form W-4 to your employer.
▶ Your withholding is subject to review by the IRS.

OMB No. 1545-0074

2020

Step 1: Enter Personal Information

(a) First name and middle initial | Last name | (b) Social security number

Address

City or town, state, and ZIP code

▶ **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☐ **Single or Married filing separately**
☐ **Married filing jointly** (or Qualifying widow(er))
☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2 through 4 ONLY if they apply to you. To see if you are exempt from withholding or if you have concerns about your privacy, see page 2. Everyone must complete Step 5. See instructions on page 2.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for most accurate withholding; **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . ▶ ☐

CAUTION: If you have privacy concerns, choose **(a)** or **(b).** If you and/or your spouse have income from self-employment, including as an independent contractor, choose **(a).**

Complete Steps 3 through 4(b) on Form W-4 for only one of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3 through 4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

If your income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 ▶ $

Multiply the number of other dependents by $500 . . . . ▶ $

Add the amounts above and enter the total here . . . . 3 $

Step 4 (optional): Other Adjustments

(a) Other income. If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . 4(a) $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . 4(b) $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . 4(c) $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

▶ **Employee's signature** (This form is not valid unless you sign it.) ▶ **Date**

Employers Only | Employer's name and address | First date of employment | Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2020)

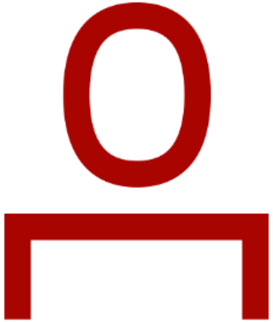
Highlights: 2020 Form W-4 & Pub 15-T

- No withholding allowances(!)
- New filing status - Head of Household
- Existing employees do NOT have to complete the 2020 version
- After 2019, **new hires** must use the 2020 Form W-4
- Must use the 2020 version to **adjust** withholding after 2019
- Default for new hires who do not complete a Form W-4 after 2019: **Single, No adjustments**.

Implications for new-hire onboarding

Some new employees may need **more time** to complete the W-4

- and a private room to call their accountant, family members…
- Previously: **Allowances** implied counting family members
- Now: “What deductions did we have last year? Tax credits? Other income?”



Do new hires complete Form W-4 in the office as part of on-boarding?

- Could the Form W-4 be something to take home to complete?

Only Steps 1 and 5 are required

- Name, address, Filing status and signature
- If Steps 2 - 4 are blank, withholding is based on the Filing status and rates

Quick comparison: 2019 vs. 2020 W-4

2019 W-4 Inputs	2020 W-4 Inputs
Number of withholding allowances	**Checkbox for two-earner families / optional higher withholding**
Per-payroll additional amount to withhold	Full-year child and dependent tax credits
	Full-year other (non-wage) income
	Full-year deductions (over the standard deduction amount)
	Per-payroll additional amount to withhold

A closer look at draft 2020 Form W-4

Step 2: Multiple Jobs or Spouse works

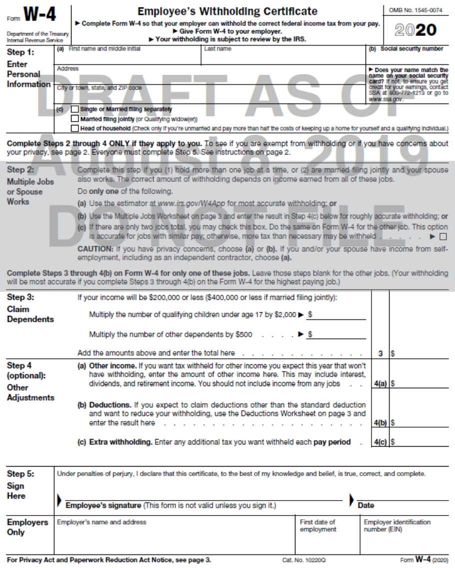
"Do **only one** of the following."

(a) IRS Withholding Estimator at ww.irs.gov/W4App

(b) Use the Multiple Jobs Worksheet 1 (page 3)

(c) For two job households . . . BOTH spouses should check the box

- But, ONLY ONE SPOUSE should complete steps 3 and 4(a) & (b)
- (Dependent tax credits, other income, deductions)
- *Additional withholding (box 4(c)) from both spouses is fine…*



Form **W-4** | **Employee's Withholding Certificate** | OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

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▶ Give Form W-4 to your employer.
▶ Your withholding is subject to review by the IRS.

2020

DRAFT AS OF August 8, 2019 DO NOT FILE

Step 1: Enter Personal Information

(a) First name and middle initial | Last name | (b) Social security number

Address

City or town, state, and ZIP code

▶ **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☐ **Single or Married filing separately**
☐ **Married filing jointly** (or Qualifying widow(er))
☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

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Add the amounts above and enter the total here . . . . 3 $

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(c) **Extra withholding.** Enter any additional tax you want withheld each **pay period** . 4(c) $

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Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

▶ **Employee's signature** (This form is not valid unless you sign it.) ▶ **Date**

Employers Only | Employer's name and address | First date of employment | Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2020)

How does the Step 2 checkbox work?

Tax tables assume spouses earn about the same

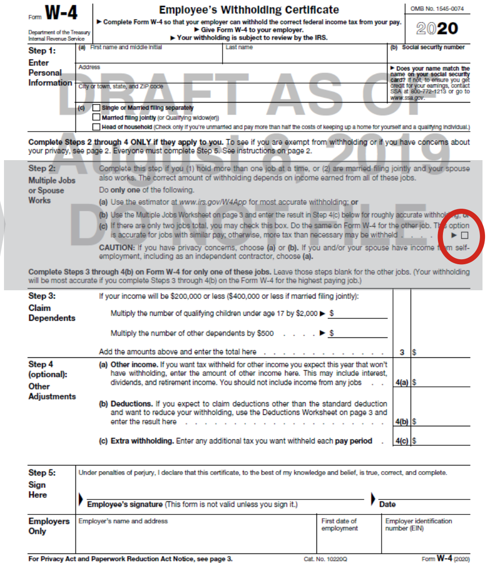
"The standard deduction and tax brackets will be divided equally between the two jobs."

Tax rates apply at roughly half of the income threshold that normally applies

- For example, for MFJ, the 24% rate normally applies for wages **over $180,200**
- If the Step 2 box is checked, the 24% rate applies **over $96,400**

Impact? The tax rate is correct for the presumed family income

- Withholding may be substantially higher than the normal schedule



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Add the amounts above and enter the total here . . . . . 3 $

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Step 2 checkbox: *What could possibly go wrong?*

- What if only one spouse checks the box?
- What if both spouses complete steps 3 and 4(a) & (b)?
  - What if both claim dependents? (3)
  - What if both enter other income? (4(a))
  - What if both enter deductions? (4(b))
- What if neither spouse completes steps 3 and 4(a) & (b)?

Impact: How the 2020 Form W-4 shifts workload

Adjustment factor	How handled pre-2020?	2020 and later
Adjustments for Two-earner families	9-Step Worksheet or Online Withholding Calculator; both calculate additional tax	New Checkbox, or Online Withholding Estimator, or 6-Step worksheet; Employee calculates additional tax
Dependent Tax Credits	Employee converted to allowances	Enter full-year tax credit amount
Other Income	10-step worksheet: Employee calculated additional tax or allowances (Combined income & deductions)	Enter full-year other income
Deductions	10-step worksheet: Employee converted to allowances	Enter full-year deductions OVER the standard deduction amount

Implications for employers/payroll systems

Pre-2020 inputs	2020 inputs
Withholding allowances **Employers should be prepared to support allowances for the foreseeable future**	**Two tax tables: Regular and higher withholding**
Additional tax to withhold	Enter full-year child/dependent tax credits; convert to per-payroll credits against withholding
	Enter full-year other income; add to wages to calculate FIT
	Enter full-year deductions; convert to per-payroll reduction of taxable wages to calculate FIT
	Add per-payroll additional amount to withhold (no change)

Worksheet 1. Employer's Withholding Worksheet for Percentage Method Tables for Automated Payroll Systems

Keep for Your Records

Note. This illustrates what the 2020 procedure could look like by using the 2019 tax parameters. There would be just one procedure for both the Form W-4 from before 2020 and new Form W-4. The formatting will change, and some of the details may need to be modified slightly to conform to the final Form W-4.

Table 3	Semiannually	Quarterly	Monthly	Semimonthly	Biweekly	Weekly	Daily
	2	4	12	24	26	52	260

Step 1. **Adjust the employee's wage amount**

1a Enter the employee's total taxable wages this payroll period . . . . . 1a $______

1b Enter the number of pay periods you have per year (see Table 3) . . . . . 1b ______

1c Multiply the amount on line 1a by the number on line 1b . . . . . 1c $______

If the employee **HAS** submitted a Form W-4 for 2020 or later, figure the Adjusted Annual Wage Amount as follows:

1d Enter the amount from Step 4(a) of the employee's Form W-4 . . . . . 1d $______

1e Add lines 1c and 1d . . . . . 1e $______

1f Enter the amount from Step 4(b) of the employee's Form W-4 . . . . . 1f $______

1g If the box in Step 2 of Form W-4 is checked, enter -0-. If the box is not checked, enter $12,600 if the taxpayer is married filing jointly or $8,400 otherwise . . . . . 1g $______

1h Add lines 1f and 1g . . . . . 1h $______

1i Subtract line 1h from line 1e. If zero or less, enter -0-. This is the **Adjusted Annual Wage Amount** . . . . . 1i $______

If the employee **HAS NOT** submitted a Form W-4 for 2020 or later, figure the Adjusted Annual Wage Amount as follows:

1j Enter the number of allowances claimed on the employee's most recent Form W-4 . . . . . 1j ______

1k Multiply line 1j by $4,200 . . . . . 1k $______

1l Subtract line 1k from line 1c. If zero or less, enter -0-. This is the **Adjusted Annual Wage Amount** . . . . . 1l $______

Step 2. **Figure the Tentative Withholding Amount**

based on the employee's Adjusted Annual Wage Amount; filing status (Step 1(c) of the 2020 Form W-4) or marital status (line 3 of Form W-4 from before 2020); and whether the box in Step 2 of 2020 Form W-4 is checked.

Note. Don't use the Head of Household table if the Form W-4 is from before 2020.

2a Enter the employee's **Adjusted Annual Wage Amount** from line 1i or 1l above . . . . . 2a $______

2b Find the row in the appropriate **Annual** Percentage Method table in which the amount on line 2a is at least the amount in column A but less than the amount in column B, then enter here the amount from column A of that row . . . . . 2b $______

2c Enter the amount from column C of that row . . . . . 2c $______

2d Enter the percentage from column D of that row . . . . . 2d ______%

2e Subtract line 2b from line 2a . . . . . 2e $______

2f Multiply the amount on line 2e by the percentage on line 2d . . . . . 2f $______

2g Add line 2c and line 2f . . . . . 2g $______

2h Divide the amount on line 2g by the number of pay periods on line 1b. This is the **Tentative Withholding Amount** . . . . . 2h $______

Step 3. **Account for tax credits**

3a If the employee's Form W-4 is from 2020, enter the amount from Step 3 of that form; otherwise enter -0- . . . . . 3a $______

3b Divide the amount on line 3a by the number of pay periods on line 1b . . . . . 3b $______

3c Subtract line 3b from line 2h. If zero or less, enter -0- . . . . . 3c $______

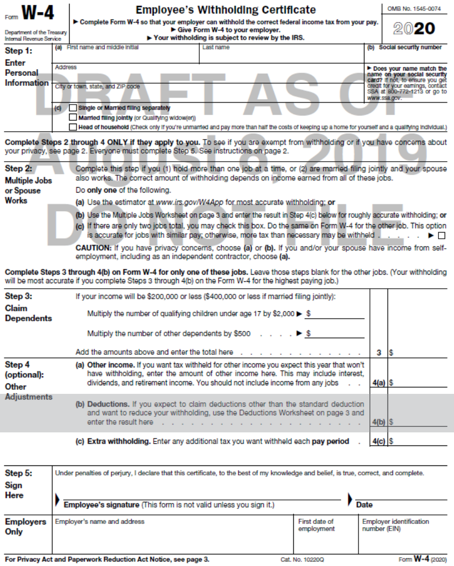
Step 4. **Figure the final amount to withhold**

4a Enter the additional amount to withhold from the employee's Form W-4 (Step 4(c) of the 2020 form or line 6 on earlier forms) . . . . . 4a $______

4b Add lines 3c and 4a. **This is the amount to withhold from the employee's wages this pay period** . . . . . 4b $______

Deductions (4(b)): *What could possibly go wrong?*

- ***"Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . ."*
- Key element: "***use the Deductions Worksheet**…*"
- What if someone simply enters total deductions?



Form **W-4** — **Employee's Withholding Certificate** — OMB No. 1545-0074 — **2020**

Department of the Treasury, Internal Revenue Service

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Add the amounts above and enter the total here . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income. If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . **4(b)** $

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Employee's signature (This form is not valid unless you sign it.) | **Date**

Employers Only — Employer's name and address | First date of employment | Employer identification number (EIN)

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Extra withholding (4(c)): *What could possibly go wrong?*

	Add the amounts above and enter the total here	3	$	Full year $
Step 4 (optional): Other Adjustments	(a) **Other income.** If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . .	4(a)	$	Full year $
	(b) **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here	4(b)	$	Full year $
	(c) **Extra withholding.** Enter any additional tax you want withheld each **pay period** .	4(c)	$	***Per-pay $***

What if? A full-year additional withholding entry applied to a single paycheck might make a big difference…

How to claim exemption from withholding

2020 Draft W-4 – Version 1:

Step 4: Other Adjustments (optional)

4a **Other income.** If you want tax withheld for other income you expect this year that will not have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . . **4a** $

b **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use Worksheet 2 on page 3 and enter the result here **4b** $

c Enter any additional amount you want withheld each **pay period** . . . . **4c** $

d **Exemption.** You can claim exemption from withholding for 2020 if:

- For 2019, you had **no** federal income tax liability; **and**
- For 2020, you expect to have **no** federal income tax liability.

If you meet both of these conditions, certify by writing "Exempt" here . . . . . ▶ **4d**

2020 Draft W-4 – Version 2:

Step 4 (optional): Other Adjustments

(a) **Other income.** If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . **4(a)** $

(b) **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . **4(b)** $

(c) **Extra withholding.** Enter any additional tax you want withheld each **pay period** . **4(c)** $

Exempt

Non-Resident Aliens

2019 or Prior Form W-4 (Add amounts from Pub 15-T Table 1 to Wages)

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OMB No. 1545-0074
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Home address (number and street or rural route)	3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note:** If married filing separately, check "Married, but withhold at higher Single rate."	
City or town, state, and ZIP code	4 **If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card.** ▶ ☐	

5 Total number of allowances you're claiming (from the applicable worksheet on the following pages) . . . . | 5 |

6 Additional amount, if any, you want withheld from each paycheck . NRA/Non Resident Alien . . | 6 | $

2020 Draft W-4 (Add amounts from Pub 15-T Table 2 to Wages):

Step 4 (optional): Other Adjustments

(a) Other income. If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . | **4(a)** | $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . | **4(b)** | $

NRA/Non Resident Alien

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . | **4(c)** | $

IRS Withholding Estimator

Pros:

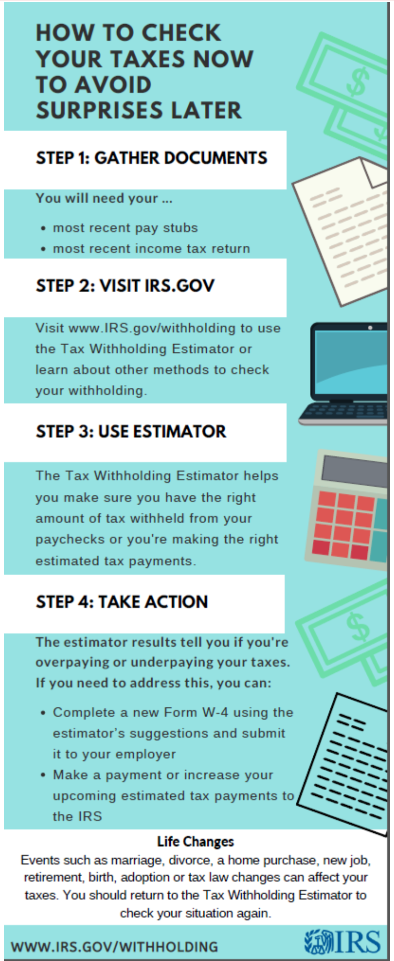
- Easy Q&A format to gather relevant information
- Able to target a specific refund amount (including $0)
- Provides specific instructions on what to do

Cons(?):

- Time to gather records and go through process

Most helpful for those with:

- Life changes (marriage, new child, new job…)
- Other income (e.g., side job or business)
- Two-earner families
- Great for those who enjoy preparing taxes

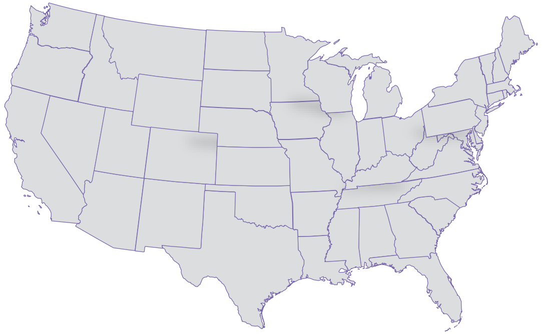


Useful for mid-year check/adjustments; but, be sure to re-set Form W-4 in January

State Forms W-4 (equivalents) and Withholding

- Some states *still have allowances* in their withholding tax tables, AND
- Still rely on the IRS Form W-4
- The 2020 Form W-4 has no space for allowances

  …how will that work?
- States may issue a W-4 equivalent, or adopt IRS inputs and change tax calculations
  - For example, CO, DE, NE, NM, ND, SC, UT
  - When will we know?



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