

**From the desk of  
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# **The New IRS Form W-4**

**The IRS has issued a new Form W-4 (Employee's Withholding Certificate) to be used as of January 1, 2020.**

The new W4 form is not required for existing employees.

Employers will continue to observe the existing withholding allowances and filing status elected by employees.

For those hired after 2019, and anyone who wants to adjust their withholding, the 2020 version is the only valid Form W-4. Prior versions are no longer valid.

The new form is complicated, and in some cases new employees may feel that there is far too much information being requested.

What has changed:

First there are no withholding allowances. Allowances have always been the basis for adjustments and the only way to reduce withholding.

There is also no dedicated area to claim exemption from withholding.

There are many new inputs:

- New filing status - Head of Household
- Adjustment for multiple jobs and two-earner families
- Full-year child and dependent tax credits
- Full-year other (non-wage) income
- Full-year deductions (over the standard deduction amount)

The only entry that did not change is the per-payroll additional amount to withhold.

## **Adjustment for Multiple Jobs and Two-Earner Families**

There is now an adjustment for multiple jobs and families in which both spouses work.

In the past the W4 did not consider that families might have more than one job, and created the situation where many were under-withheld.

This new feature will assist in finding more accurate withholding rates for the families with combined incomes.

There's a new Checkbox which is very easy for spouses that earn about the same amount.

The previous 9-step worksheet and two table lookups has been eliminated to a single checkbox.

If checked the tax tables divide the standard deduction and tax brackets equally between two jobs.

Tax rates apply at roughly half of the income threshold (e.g., the 24 percent rate normally applies for wages over \$180K, but If the Step 2 box is checked, the 24 percent rate applies to wages over about \$96K).

If the Step 2 box is checked for families with two wage-earners, BOTH spouses should check the box, but ONLY ONE should complete Steps 3 through 4(b).

As an example, in a family with two young children, the household may have a child tax credit of \$4,000.

If both spouses claim the full child tax credit in step three of the Form W-4 both spouses would have their withholding reduced by \$4,000 (i.e., \$8,000 total) causing under-withholding as both the husband and wife would be claiming in effect double the anticipated child tax credit.

If there are significant differences in the spouses' income or more than two jobs, there is also the familiar worksheet attached to Form W-4, or an improved IRS online withholding estimator ([www.irs.gov/w4app](http://www.irs.gov/w4app)) which every employee should use in filling in their respective W4's, and should be highly suggested by every employer in advising their prospective employees to use.

## **Other Adjustments**

The new form has lined for the following adjustments:

- Child and dependent tax credits
- Other income
- Deductions
- Per-payroll additional amount to withhold

Previously all adjustments had to be converted into allowances (which reduce taxable wages) or additional amounts to withhold. Now employees can just enter the full-year

dollar value of any tax credits, other income and deductions over the standard deduction amount.

**On line 4a (Other Income)**, employees will be able to enter estimated full-year non-wage income not subject to withholding (such as rental income, interest and dividends).

Previously employees with other income sources completed a worksheet to estimate an additional amount to withhold each pay period.

Entering other income on Form W-4 can make it unnecessary to make quarterly estimated payments or face possible penalties.

**It is Important to note that** Line 4a does not address self-employment tax.

Taxpayers with a mix of W-2s and 1099s (i.e., work as an independent contractor) should use the IRS online withholding estimator ([www.irs.gov/w4app](http://www.irs.gov/w4app)) or see Publication 505, Tax Withholding and Estimated Tax.

### **Line 4(b): Deductions**

On the new Form, Line 4(b) permits employees to enter estimated full-year dollar amount of deductions over the standard deduction amount (e.g., state/local taxes up to \$10,000; mortgage interest, charitable contributions...).

**Caution:** Employees are referred to the worksheet on page 3. Do not skip this step!

Form W-4 asks for “deductions other than the standard deduction.” Be sure to enter expected deductions over the standard deduction amount. For example, a Married Filing Jointly family with expected total deductions of \$34,800 in 2020 should enter \$10,000 on line 4(b) - - [\$34,800 minus the standard deduction of \$24,800 in 2020] - - rather than total deductions.

**Line 4(c) Extra withholding.** “Enter any additional tax you want withheld each pay period.” This is another option by which employees can adjust for multiple wage-earners in the family, or a second job, or other income.

Line 4c is the only entry that asks for a per-payroll amount.

All other entries are full-year amounts.

**Steps 2, 3 and 4 are optional.**

Employees who prefer not to modify their withholding will be able to enter only their name, Social Security Number, address and filing status, and sign and date the form.

### **Claiming Exemption from Withholding**

Although the dedicated area to claim exemption from withholding has been removed, it can still be claimed if a taxpayer both

1. owed no federal tax in 2019
2. expects to owe no federal income tax in 2020

The instructions explain how, and note that “If you claim exemption you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2020 tax return.”

The tax tables automatically calculate zero income tax for lower-income situations, with the exception of those that only work for a short time each year (i.e., seasonal workers).

Tax tables assume that each person works year-round and the current wage amount is the same through the year.

Even for seasonal workers considering claiming exempt, consideration should be given to the household’s full-year income.

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