



Eye On Washington Regulatory Update



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IRS Releases 2018 Tax Tables

On January 11, 2018, the Internal Revenue Service (IRS) issued Notice 1036, the “Early Release Copies of the 2018 Percentage Method Tables for Income Tax Withholding” to implement provisions included in the recently enacted Tax Cuts and Jobs Act (the Act), which was signed into law on December 22, 2017. The Act includes several significant changes that are relevant to employers for payroll, employment tax and employee benefits purposes that are generally effective on January 1, 2018. For more information on the Act, please see ADP’s previous [Eye on Washington articles](#).

The 2018 withholding information shows the new rates for employers to use during 2018. According to Notice 1036, employers should begin using the 2018 withholding tables as soon as possible, but not later than February 15, 2018. Employers should continue to use the 2017 withholding tables until implementing the 2018 withholding tables.

In a statement accompanying Notice 1036, the IRS stated as follows:

Many employees will begin to see increases in their paychecks to reflect the new law in February. The time it will take for employees to see the changes in their paychecks will vary depending on how quickly the new tables are implemented by their employers and how often they are paid — generally weekly, biweekly or monthly. The new withholding tables are designed to work with the Forms W-4 that workers have already filed with their employers to claim withholding allowances. This will minimize the burden on taxpayers and employers. Employees do not have to do anything at this time.

The new law makes a number of changes for 2018 that affect individual taxpayers. The new tables reflect the increase in the standard deduction, repeal of personal exemptions and changes in tax rates and brackets.

For people with simpler tax situations, the new tables are designed to produce the correct amount of tax withholding. The revisions are also aimed at avoiding over- and under-withholding of tax as much as possible.

To help people determine their withholding, the IRS is revising the withholding tax calculator on IRS.gov. The IRS anticipates this calculator should be available by the end of February. Taxpayers are encouraged to use the calculator to adjust their withholding once it is released.

The IRS is also working on revising the Form W-4. Form W-4 and the revised calculator will reflect additional changes in the new law, such as changes in available itemized deductions, increases in the child tax credit, the new dependent credit and repeal of dependent exemptions.

The calculator and new Form W-4 can be used by employees who wish to update their withholding in response to the new law or changes in their personal circumstances in 2018, and by workers starting a new job. Until a new Form W-4 is issued, employees and employers should continue to use the 2017 Form W-4.

In addition, the IRS will help educate taxpayers about the new withholding guidelines and the calculator. The effort will be designed to help workers ensure that they are not having too much or too little withholding taken out of their pay.



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For 2019, the IRS anticipates making further changes involving withholding. The IRS will work with the business and payroll community to encourage workers to file new Forms W-4 next year and share information on changes in the new tax law that impact withholding.

Important Clarification on Withholding Regarding Supplemental Wages

It is important to note that Notice 1036 clarified that when an employee receives \$1 million or less of supplemental wages during the calendar year, and such wages are either paid separately from regular wages or identified separately from regular wages (if made in the same payment), the flat percentage method of withholding on such wages during the 2018 calendar year is 22%, decreased from 25% in 2017.

If an employee receives in excess of \$1 million of supplemental wages during the calendar year, and the supplemental wages are either paid separately from regular wages or identified separately from regular wages (if made in the same payment), the amount of supplemental wages the employee receives in excess of \$1 million is subject to withholding at a rate of 37%, decreased from 39.6% in 2017.

The IRS defines “supplemental wages” in part as follows:

Supplemental wages are wage payments to an employee that aren’t regular wages. They include, but aren’t limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay, retroactive pay increases, and payments for nondeductible moving expenses.

For a copy of Notice 1036 please click on the link provided below.

<https://www.irs.gov/pub/irs-pdf/n1036.pdf>

ADP is working diligently to implement the newly released tax tables and will advise when the 2018 tax tables are functional.

ADP Compliance Resources

ADP maintains a staff of dedicated professionals who carefully monitor federal and state legislative and regulatory measures affecting employment-related human resource, payroll, tax and benefits administration, and help ensure that ADP systems are updated as relevant laws evolve. For the latest on how federal and state tax law changes may impact your business, visit the ADP *Eye on Washington* Web page located at www.adp.com/regulatorynews.

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