

Eye On Washington

# Regulatory Update



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## Major Changes to IRS 2019 Form W-4 Deferred to 2020

On September 20, 2018, the Internal Revenue Service (IRS) [announced that the major revisions previously proposed to the 2019 Form W-4](#), Employee's Withholding Allowance Certificate, will be delayed to 2020. Many of the proposed changes would have required significant reprogramming of payroll systems and ongoing employer support of two distinct withholding systems. Instead, the 2019 Form W-4 will look very similar to the current form, with routine modifications to apply inflation adjustments and other minor changes. A discussion draft of the 2019 form is expected within a few weeks.

The [Treasury news release](#) said that "Launching the redesigned form in 2020 will allow the Treasury and the IRS to properly implement changes to the withholding system and ensure taxpayers have a positive and simplified experience." Treasury and IRS will continue working closely with the payroll community to consider additional changes to the 2020 Form W-4, to make withholding "more accurate and more transparent to employees." The IRS expects to release the 2020 form and related guidance and information early enough in 2019 so employers and payroll processors will have ample time to update their systems.

Employees will not be required to complete a new Form W-4 for 2019. Employers will still be able to use 2018 and prior Forms W-4 for employees that don't complete a 2019 W-4.

### Background

Employees use IRS Form W-4 to establish marital status and withholding allowances for federal income tax withholding calculations. Many states use the federal Form W-4 for state withholding purposes.

The Tax Cuts and Jobs Act (TCJA) made significant changes to tax rates, deductions, tax credits and withholding calculations, beginning in 2018. New IRS withholding tables were published in January, and the 2018 Form W-4 was released in February. The IRS made few changes for 2018, and determined that employees would not be required to complete a new Form W-4 for 2018. However, it was strongly recommended and for some people it may still be advisable.

### Major Changes to the 2019 Draft Form W-4 (Now Deferred to 2020) Included:

- **Number of Allowances Eliminated**

One prominent proposed change was that the total number of allowances was to be eliminated.

- **New Marital Status box - Head of Household**

- **Additions to Income**

A new line asked employees to enter estimated nonwage income not subject to withholding (such as interest and dividends). Currently, employees with nonwage income must convert such amounts to equivalent per-payroll additional amounts to withhold.

- **Itemized and Other Deductions**

Another new line asked for estimated subtractions to income based on expected deductions (such as state and local taxes, mortgage interest and charitable contributions). Currently, employees must convert deductions into equivalent withholding allowances. Amounts entered were to be full-year estimated deduction totals, so payroll systems in 2020 may need to include full-year amounts in withholding calculations.

- **Tax Credits**

This new line would have asked for the full-year value of any tax credits, such as the child tax credit. Currently, tax credits are translated by employees into additional withholding allowances. With the 2020 Form W-4, full-year tax credit amounts may be directly entered into payroll systems.



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- **Additional Household Income Due to Multiple Jobs**

If applicable, employees may be asked to enter the income associated with any second job, and/or the annual wage income of any spouse. Today, employees use a Form W-4 worksheet to calculate an additional amount to withhold per pay period to cover the potentially higher tax bracket and tax rates for the combined family income.

Employees will continue to be able to enter an additional per-pay period amount to withhold.

## Suggest a “Paycheck Checkup” for 2018 and 2019

Even though the 2018 withholding tables were designed to be as accurate as possible, changes to withholding may not correspond closely to changes in actual full-year income tax liability. In some circumstances, even employees that ordinarily receive an IRS tax refund may find that they owe additional tax to the IRS for 2018.

The TCJA eliminated personal exemptions, so if the number of withholding allowances on an employee’s

Form W-4 represents personal exemptions, the employee’s withholding allowances may be overstated, which could result in tax under-withholding. The new IRS tax tables adjusted for this and other factors to some extent, but because Form W-4 permits withholding allowances based on factors such as tax credits and itemized deductions, employers are not able to automatically adjust withholding allowances to eliminate personal exemptions.

The IRS published an online [W-4 Calculator](#) and recommended that employees access the calculator to check their payroll withholding in 2018, and adjust withholding allowances, if needed. The IRS calculator asks about income and marital status, as well as estimated deductions and tax credits, to determine the appropriate number of withholding allowances, or additional withholding, if necessary. Employers may want to draw employees’ attention to the online W-4 calculator now, and suggest that they check their withholding, to avoid surprises when they file their annual income tax return.

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## ADP Compliance Resources

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