

Eye on Washington Regulatory Update



IRS Draft 2020 Form W-4 Released

On May 31, 2019, the Internal Revenue Service (IRS) released an "early draft" of the 2020 Form W-4, Employee's Withholding Allowance Certificate. The form includes major revisions, including new input elements for federal income tax withholding calculations, which may require significant reprogramming of payroll systems, and ongoing employer support of two distinct withholding systems (i.e., based on the new input elements discussed below, as well as ongoing support for the withholding allowances-based system).

Current employees will not be required to complete a new Form W-4 for 2020. Employers will still rely on existing Forms W-4, including withholding allowances claimed, for employees that don't complete a new form. However, for employees hired after 2019 — and for existing employees who want to adjust their withholding after 2019 — the 2020 version will be the only valid Form W-4.

Background

Employees have long used the IRS Form W-4 to establish marital status and a number of withholding allowances to adjust their federal income tax withholding to match their anticipated full-year income tax liability.

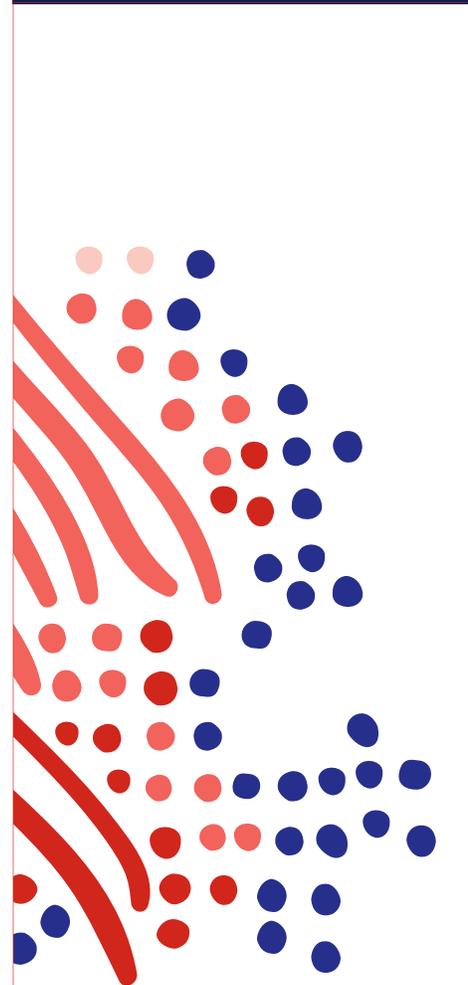
However, the Tax Cuts and Jobs Act (TCJA) made significant changes to tax rates, deductions, tax credits and withholding calculations, beginning in 2018. The IRS released new withholding tables for 2018 and 2019, but the Form W-4 remained largely unchanged, continuing to feature an entry for the number of withholding allowances. Prior to the TCJA, most withholding allowances were based on personal exemptions (i.e., one each for the employee, any spouse and dependents), yet the TCJA had changed the value of personal exemptions to zero.

Major Changes to the 2020 Draft Form W-4 Include:

All new input elements are optional. Employees who prefer not to modify their withholding will be able to enter only their name, Social Security Number, address, marital status, and sign and date the form.

Number of Withholding Allowances Eliminated

Because employees will not be required to complete a new Form W-4 for 2020, employers and payroll systems will still need to accommodate withholding allowances in calculating income tax withholding for the foreseeable future.



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New Marital Status Box — Head of Household

Line 2: Adjustment for Multiple Jobs in a Household

One of the proposals in the 2019 draft would have required employees to disclose their spouse's annual wage income to their employer, which raised privacy concerns. However, it remains necessary to adjust withholding for at least one member of a multiple-earner family to apply the appropriate tax bracket given the combined family income. The IRS addressed this in a way that protects employee privacy and does not require disclosure of other wage income.

There are three options:

1. Use the calculator at www.irs.gov/W4App for most accurate withholding.
 - a. This option determines an additional amount to withhold each pay period. Only one wage earner in the family should elect this option and apply the additional amount to Line 4c.
2. Use a worksheet on Page 3 to calculate any additional tax due, and enter the additional tax to withhold from each paycheck on Line 4c.
3. If there are only two jobs in a household, the employee can simply check a box to apply withholding at higher rates. With this option, both wage-earners in a household should check the box.
 - a. The instructions note that, "With this option, more tax than necessary may be withheld from your wages, but you generally won't have too little tax withheld."

Line 3: Claim Dependents

The TCJA increased the Child Tax Credit to \$2,000 for qualifying children under age 17, and \$500 for other dependents. Employees will be able to directly enter the expected full-year tax credits related to dependents on Line 3. The IRS refers taxpayers to the instructions if the household's expected annual income will be over \$200,000 (\$400,000 if married filing jointly).

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 additional amounts to withhold each pay period. The new form simplifies this calculation for the employee by asking for the full-year estimated other (non-wage) income. Employers will need to convert this entry to a per-payroll period amount and add such income to the employee's wage income to calculate the income tax to withhold.

The general instructions note that "Generally, you will owe both income and self-employment taxes on any self-employment income you receive separate from the wages you receive as an employee. If you want to pay these taxes through withholding from your wages, use the calculator at www.irs.gov/W4APP to figure the amount to have withheld."

Line 4b: Deductions

Line 4b permits employees with estimated full-year deductions (such as state and local taxes up to \$10,000; mortgage interest and charitable contributions) above the standard deduction amount (e.g., \$12,200 for single filers; \$24,400 for Married Filing Jointly in 2019) to use Worksheet 2 on Page 3 and enter the result on Line 4b.

Previously, employees were required to convert estimated deductions into an equivalent number of withholding allowances, so this approach significantly simplifies the W-4 completion process for employees. However, employers will need to convert full-year deduction amounts over the standard deduction to a per-payroll period adjustment to taxable wages in withholding calculations.

Line 4c: Additional Amount to Withhold Each Pay Period

Line 4c permits employees to enter an additional amount to withhold each pay period. This is generally how employees can modify tax withholding to account for multiple wage-earners in the family, or add additional withholding to cover other income, such as work as an independent contractor.

Note that Line 4c is the only entry that asks for a per-payroll entry. All other entries are full-year amounts. Although the form highlights "each pay period," it is possible that employees entering a succession of full-year amounts might enter a full-year amount on this line.

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What to Do Now to Prepare for the 2020 Form W-4

The draft Form W-4 was released to permit public comments and suggestions, and the IRS expects to release a second draft in July or August on which employers can rely to reprogram payroll systems and otherwise prepare for the new form. The IRS invites comments about the draft. Comments should be submitted by July 1, 2019, to WI.W4.Comments@IRS.gov.

To see the draft 2020 Form W-4, visit:

<https://www.irs.gov/pub/irs-dft/fw4--dft.pdf>.

Payroll departments may wish to inform Human Resources and others involved in the hiring process so that they are aware. For example, because the new form requires detailed knowledge of the prior year's tax return details, it may be helpful to permit new employees additional time and a private room to complete the form, or permit new employees to take the Form W-4 home for completion.

Suggest a "Paycheck Checkup" for 2020

The IRS recommends that taxpayers access the online W-4 Calculator to check their payroll withholding and adjust withholding allowances, if needed, as early as possible. The IRS calculator asks about income and marital status, as well as estimated deductions and tax credits, to determine whether any additional withholding is necessary. The calculator can be found at www.irs.gov/W4App.

For additional helpful questions and answers regarding the 2020 Form W-4, visit:

<https://www.irs.gov/newsroom/faqs-on-the-early-release-of-the-2020-form-w-4>

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