

Eye on Washington Regulatory Update



IRS Releases Improved Tax Withholding Estimator

On August 6, 2019, the Internal Revenue Service (IRS) released a new online **Tax Withholding Estimator** (the “Estimator”), which has been redesigned to make it easier for employees to have the right amount of tax withheld during the year. Many taxpayers earlier this year faced surprise tax bills, or refunds that were lower than expected because their withholding wasn’t adjusted for tax law changes that took effect in 2018. Even after 2018, the first full year in which the 2017 Tax Cuts and Jobs Act was in effect, many people are still uncertain as to how the Act changed their income tax situation, and whether they are having enough withheld.

The Estimator offers an improved, user-friendly tool to determine whether it’s necessary to adjust income tax withholding. It features the ability to target a specific desired refund amount, which is helpful, as is the option to plan for a tax-due amount close to zero. The Estimator is also designed to help people learn about tax credits and deductions that they may qualify for, and to automatically calculate the taxable amount of any Social Security benefits. There’s a new progress tracker to help users see where they are in the process, and new support for self-employment tax for those with other income in addition to wages.

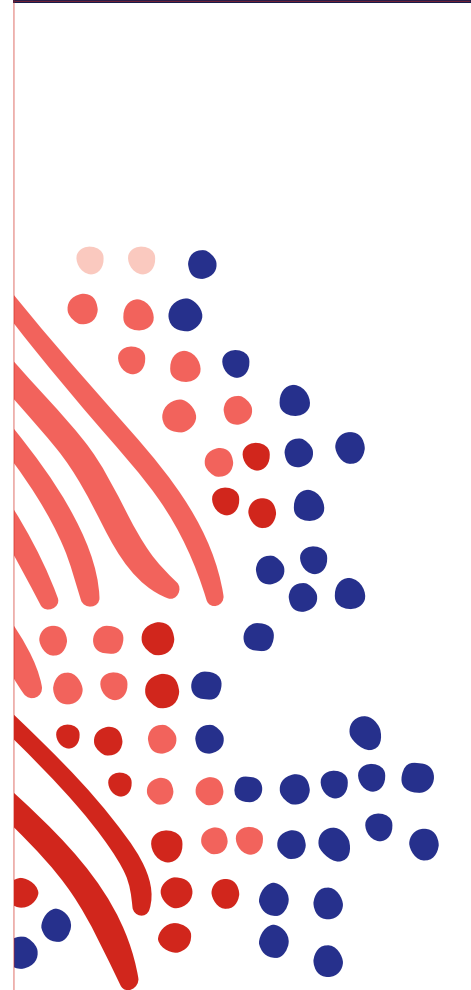
To begin, individuals enter basic information about themselves and their family, and enter wages and withholding to date, for each job held by the taxpayer and their spouse, as well as other income. At the end of the process, the tool provides a useful summary of inputs, and makes specific withholding recommendations for each job and each spouse, and explains what actions they may need to take.

Why Now?

Taxpayers can use the Estimator any time during the year to see whether their withholding is on track. However, it’s important to do this as early as possible in the year, so that any changes can apply over as many months as possible. This helps avoid very large increases that might otherwise be necessary if the check is performed late in the year, when there are few payroll periods left to make any adjustments.

Who Should Use the Withholding Estimator?

It’s especially important for anyone who faced an unexpected tax bill when they filed earlier this year, and for anyone that had a major life change — such as marriage or divorce, a new job, new home purchase, or birth of a child. People who itemized in the past but who now may take the standard deduction are also at higher risk of unexpected tax-due returns, as are households in which both spouses work, and employees with other sources of income or complex tax situations.



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To get started, taxpayers should first gather the last pay statements for themselves and their spouse, as well as last year's tax return. Then, visit the **Tax Withholding Estimator**, at www.irs.gov/withholding.

Form W-4 To Be Substantially Revised for 2020

Another reason to use the Estimator now is that this may be the last opportunity for many people to adjust their withholding allowances. The IRS just released a near-final Form W-4 for 2020 and, after 2019, employees will need to complete this substantially new form, which will not have withholding allowances.

The 2020 Form W-4 will generally be much more accurate than prior versions, but it will also require more input entries than taxpayers are accustomed to. In a nutshell, 2019 and earlier Forms W-4 asked for marital status, number of withholding allowances and, optionally, an additional per-payroll amount to withhold.

The 2020 Form W-4 will have several new entries:

- New marital status box for head of household,
- Checkbox for optional higher withholding,
- Full-year value of child, dependent, and other tax credits,

- Full-year amount of other (non-wage) income,
- Full-year amount of itemized deductions (over the standard deduction amount), and
- Per-payroll additional amount to withhold (unchanged).

With the exception of marital status, the other elements are optional, so employees could decide to only enter their marital status and sign the form, perhaps checking the "optional higher withholding" box if their spouse also works. Current employees will not be required to complete the 2020 Form W-4; however, if they want to adjust their withholding, the 2020 Form W-4 will be the only option after 2019.

Employers Should Prepare for the 2020 Form W-4

Because existing employees will not be required to complete the 2020 Form W-4, they can leave their 2019 or prior Forms W-4 and withholding allowances unchanged indefinitely. Consequently, employers may need to support the past withholding-allowances system for many years. The 2020 version of Form W-4 is mandatory only for new hires and for employees who want to adjust their withholding or change other information on their Form W-4 after 2019. There will also be a separate tax table for employees who check the box for optional higher withholding. This higher-withholding table is intended as a simplified way to adjust for two-earner households.

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