

Eye on Washington Regulatory Update

2020 State Tax Withholding Changes May Warrant Attention

The Internal Revenue Service (IRS) recently released the final version of the 2020 Form W-4, Employee's Withholding Certificate. The form includes major changes, including several new input elements for federal income tax withholding calculations.

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

In most states, employers are also required to withhold state taxes as well as federal income taxes from employees' wages. Many states require employees to complete a state withholding certificate or the IRS Form W-4 for state purposes. With the major changes to the IRS Form W-4, most states have updated their requirements along with withholding certificates. Since federal allowances were removed from the redesigned federal Form W-4, the form cannot be used for certain states.

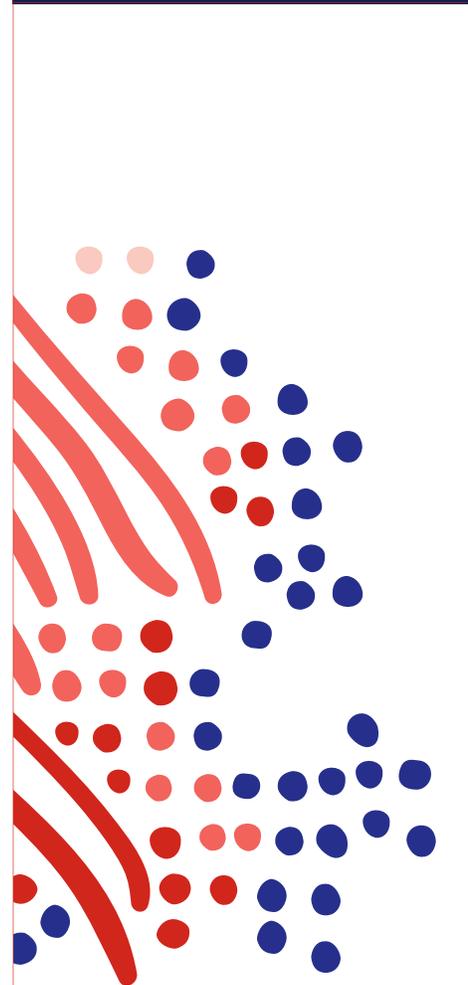
Prior to 2020, Arkansas, California, Georgia, Idaho, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont, West Virginia, and Wisconsin accepted the federal Form W-4 as an alternative to the state withholding certificate.

Pennsylvania does not use a withholding certificate. Pennsylvania requires employers to calculate the state tax to be withheld from an employee's wages using a flat percentage rate, currently 3.07 percent.

With all these changes, employers will need to carefully review each of the state requirements. Certain states, such as Wisconsin, revised their state withholding certificate for wages paid after 2019. Like the IRS, states will generally not require existing employees to complete new withholding certificates. Rather, the new withholding certificates will apply to newly hired employees and existing employees who wish to adjust their withholding.

Additionally, states may have specific requirements for employers to follow when an employee does not complete a state withholding certificate. Oregon, for example requires that employers withhold Oregon state income tax at a flat 8 percent if an employee does not complete Form OR-W-4.

Make sure that you're using the correct state withholding certificate and following the applicable state requirements. You can locate state tax information via the IRS website, at <https://www.irs.gov/tax-professionals/government-sites>



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The chart below provides an overview of the state withholding certificate rules. While every effort has been made to offer the most current information, the laws, rules and regulations are constantly changing. In addition, employers should review individual state guidelines, generally found in the states' Employer's Tax Guides.

The states of Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming do not impose a state income tax on wages.

Effective January 1, 2020 (as of 01/08/2020)

State Will Use the Federal Form W-4	State Uses a Flat Percentage Rate for Withholding (No Withholding Certificate)	State Has Their Own Withholding Certificate (States Listed in Bold Accepted the Federal Form W-4 Prior to January 1, 2020)
Colorado	Pennsylvania	Alabama
New Mexico		Arizona
North Dakota		Arkansas
Utah		California
		Connecticut
		Delaware
		District of Columbia
		Georgia
		Hawaii
		Idaho
		Illinois
		Indiana
		Iowa
		Kansas
		Kentucky
		Louisiana
		Maine
		Maryland
		Massachusetts
		Michigan
		Minnesota

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State Will Use the Federal Form W-4	State Uses a Flat Percentage Rate for Withholding (No Withholding Certificate)	State Has Their Own Withholding Certificate (States Listed in Bold Accepted the Federal Form W-4 Prior to January 1, 2020)
		Mississippi
		Missouri
		Montana
		Nebraska
		New Jersey
		New York
		North Carolina
		Ohio
		Oklahoma
		Oregon
		Rhode Island
		South Carolina
		Vermont
		Virginia
		West Virginia
		Wisconsin

Employers Should Already Be Prepared for 2020 Changes

Payroll departments, Human Resources and others involved in the hiring process will need to be aware and monitor ongoing changes in light of the significant IRS and related state income tax withholding requirements. It may be necessary to adjust certain hiring and/or onboarding procedures. For example, it may be helpful to offer new employees additional time and a private room to complete the Form W-4 and/or state withholding certificate or permit new employees to take the forms home for completion.

Resources

- Employer Toolkit and FAQs: <https://explore.adp.com/w4-client-em>
- 2020 Form W-4: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>
- Internal Revenue Service (IRS) State Government Sites: <https://www.irs.gov/tax-professionals/government-sites>
- ADP Fast Wage and Tax Facts: <https://www.adp.com/resources/tools/tax-guides-and-forms/state-and-local-tax-guides/state-tax-guide.aspx>

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ADP Compliance Resources

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