Understanding the 2020 Form W-4 and How to Use it to Compute Withholding

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TOPICS

• Explain the reason for a new design of the W-4
• Explain Steps 1-5 of the 2020 Form W-4
• Explain who must use the 2020 Form W-4
• Illustrate how to complete two of the five worksheets from Publication 15-T
2020 Form W-4 – Background

- Tax Cuts and Jobs Act or TCJA or tax reform enacted in December of 2017.
- First task was to update forms, instructions, and publications related to withholding and estimated taxes.
- Issued the 2018 Form W-4 two months later.
- Include the most critical changes necessary to comply with new law.
2020 Form W-4 – New Design

- Primary goals – to provide simplicity, accuracy and privacy for employees while minimizing burden for employers and payroll processors.
- Designed to improve the accuracy of employee withholding amounts.
- No longer uses allowances, tied to the amount of the personal exemptions claimed.
- The Form is now divided into 5 Steps.
### Review of new Form W-4 – Step 1

**Basic Personal Information**

#### Employee’s Withholding Certificate

- Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
- Give Form W-4 to your employer.
- Your withholding is subject to review by the IRS.

#### Step 1: Enter Personal Information

<table>
<thead>
<tr>
<th>(a) First name and middle initial</th>
<th>Last name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Address</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City or town, state, and ZIP code</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

- Single or Married filing separately
- Married filing jointly (or Qualifying widow(er))
- Head of household (Check only if you’re unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)
Review of new Form W-4 – Step 2

Multiple Jobs

Complete Steps 2 through 4 ONLY if they apply to you. To see if you are exempt from withholding or if you have concerns about your privacy, see page 2. Everyone must complete Step 5. See instructions on page 2.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do only one of the following.

(a) Use the estimator at www.irs.gov/W4App for most accurate withholding; or

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld.

CAUTION: If you have privacy concerns, choose (a) or (b). If you and/or your spouse have income from self-employment, including as an independent contractor, choose (a).

Complete Steps 3 through 4(b) on Form W-4 for only one of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3 through 4(b) on the Form W-4 for the highest paying job.)
Review of new Form W-4 - Step 2 (cont’d)

3 different options – Employees should select only one of three options to ensure enough withholding.

Option 1: Use the Tax Withholding Estimator

Option 2: Use the worksheet on page 3

Option 3: Check the box
Option 1

- Use the **Tax Withholding Estimator** tool.
- The Estimator will compute all the relevant entries for the Form W-4 for that job.
- The employee/spouse will also have to complete new Forms W-4 for the other jobs.
Tax Withholding Estimator

Use your best estimates for the year ahead to determine how to complete Form W-4 so you don’t have too much or too little federal income tax withheld.

1 of 5: Filing Status

What filing status will you use for your tax return? *(Required)
Option 2

- Complete the Multiple Jobs Worksheet on page 3 to determine an amount to include in Step 4(c) of the Form W-4.

- The employee or spouse must complete new Forms W-4 for the other jobs as well.
Option 3

- If the employee (and spouse together, if applicable) has only two jobs, the employee/spouse may check the box on a Form W-4 for each job to have tax withheld at higher rates so there will be enough withholding.
Review of new Form W-4 – Step 3

**Dependents**

<table>
<thead>
<tr>
<th>Step 3:</th>
<th>If your income will be $200,000 or less ($400,000 or less if married filing jointly):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Multiply the number of qualifying children under age 17 by $2,000 ▶ $</td>
</tr>
<tr>
<td></td>
<td>Multiply the number of other dependents by $500 . . . ▶ $</td>
</tr>
<tr>
<td></td>
<td>Add the amounts above and enter the total here . . . . . . . . . . . . . . . . . . .</td>
</tr>
<tr>
<td></td>
<td>3 $</td>
</tr>
</tbody>
</table>
Dependents

- Allows employees to reduce withholding for child and dependent credits and other tax credits.
- Employees can calculate the child and dependent credits on the face of the form and add other credits to the total.
### Adjustments

#### Step 4 (optional):

<table>
<thead>
<tr>
<th>Other Adjustments</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Other income</td>
<td>If you want tax withheld for other income you expect this year that won’t have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs.</td>
<td>4(a) $</td>
</tr>
<tr>
<td>(b) Deductions</td>
<td>If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here.</td>
<td>4(b) $</td>
</tr>
<tr>
<td>(c) Extra withholding</td>
<td>Enter any additional tax you want withheld each pay period.</td>
<td>4(c) $</td>
</tr>
</tbody>
</table>

Allows employees to make other adjustments to their withholding.
Step 4(a)

- Allows employees to have income tax withheld for other income that normally doesn’t have withholding, such as certain investment income and retirement income.
Step 4(b)

- Allows employees to have their employers reduce withholding for itemized deductions (less the standard deduction) and/or adjustments to income (from Form 1040 Schedule 1).

- Employees complete the Deductions Worksheet on page 3 and enter the result in Step 4b.
Step 4(c)

- Allows employees to have their employers increase withholding per pay period.
- This is like line 6 on the 2019 Form W-4.
Step 4(c) – cont’d

- Employees can enter the amount the Tax Withholding Estimator directs them to enter in Step 4c.

- Employees can enter the amount from the Multiple Jobs Worksheet on page 3 in Step 4c.

- Employees can enter an amount of extra withholding to get a refund or cover other income.
Employees eligible to claim exemption from withholding enter “Exempt” in the space below Step 4(c).

Also, non-resident alien (NRA) employees subject to the special rules described in Notice 1392 enter “NRA” in the space below Step 4(c).
Review of new Form W-4 additional details on Steps 3 and 4

• Generally, employees may complete Steps 3 and 4 to further adjust their withholding but are NOT required to.

• If the employee (and spouse together, if applicable) has more than one job it’s best to put all adjustments for Steps 3 and 4 on the Form W-4 for the highest paying job to allow adjustments to be made at the highest tax rates.
**Review of new Form W-4 – Step 5**

**Signature**

<table>
<thead>
<tr>
<th>Step 5:</th>
<th>Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sign Here</td>
<td>Employee’s signature (This form is not valid unless you sign it.)</td>
</tr>
<tr>
<td>Date</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employers Only</th>
<th>Employer’s name and address</th>
<th>First date of employment</th>
<th>Employer identification number (EIN)</th>
</tr>
</thead>
</table>

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form W-4 (2020)
Review of new Form W-4 – Step 5

Signature

• The signature area includes the penalties of perjury statement.

• Everyone must complete Step 5 or the Form W-4 isn’t valid and the employer will apply the default withholding rule.
Must every employee submit a 2020 Form W-4?

• No.
  - Employees who have submitted Form W-4 in any year before 2020 are not required to submit a new form merely because of the redesign. Employers will continue to figure withholding based on the information from the employee's most recently submitted Form W-4.

• However, all newly hired employees in 2020 must use the redesigned form. Similarly, any employees hired prior to 2020 who wish to adjust their withholding in 2020 must use the redesigned form.
Can I require all of my employees to submit a 2020 Form W-4?

- No.

While you may ask your employees hired before 2020 to submit new Forms W-4 using the redesigned version of the form, you should explain to them that they aren't required to do this and if they don't submit a new Form W-4, withholding will continue based on a valid Form W-4 previously submitted.
What happens if a new employee doesn’t submit a 2020 Form W-4?

- New employees hired in 2020 who fail to submit a Form W-4 will be treated as a single filer with no other adjustments.

- This means that the employer will determine withholding based only on a single filer's standard deduction with no other entries.
How do I figure 2020 federal income tax withholding?

You will use the information provided on your employee’s Form W-4 and the federal income tax withholding worksheets and tables in Publication 15-T to figure federal income tax withholding.
Publication 15-T

Federal Income Tax Withholding Methods

For use in 2020

Contents

Introduction ........................................... 1
1. Percentage Method Tables for Automated Payroll Systems ........................................... 4
   Payroll Systems With Forms W-4 From Before 2020 ........................................... 11

Future Developments

For the latest information about developments related to Pub. 15-T, such as legislation enacted after it was published, go to IRS.gov/Pub15T.

Introduction

The way employers will figure federal income tax withholding for 2020 Form W-4, Employee’s Withholding Certificate, is changing to match the changes to the new form. This special draft release of new Pub. 15-T contains a look at the new employer steps to figure federal income tax withholding.

The 2020 Form W-4 has been redesigned to reduce the form’s complexity and to increase transparency and accuracy in the withholding system. Beginning with the 2020 Form W-4, employees will no longer be able to request adjustments to their withholding using withholding allowances. Instead, using the new Form W-4, employees will provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in this publication will allow employers to figure withholding regardless of whether the employee provided a Form W-4 in an earlier year or will provide a new Form W-4 in 2020. This publication also allows employers to figure withholding based on their payroll system (automated or manual) and withholding method of choice.

The Percentage Method tables, Wage Bracket Method tables, and amounts to add to the wages of a nonresident alien employee provided in this draft are based on the 2019 inflation-adjusted amounts for purposes of programming and testing. Once the 2020 inflation-adjusted amounts are available, they will be included in this Pub. 15-T.
Includes separate computations based on:

• The method of withholding (Percentage or Wage Bracket Method),

• Payroll system (automated or manual); and

• Whether the Form W-4 is a 2020 form or a prior year form.
IRS.gov Resources

• About Form W-4 Page
• Tax Withholding Estimator
• Pub 505, Tax Withholding and Estimated Tax
• Pub 15-T, Federal Income Tax Withholding Methods
• Pub 15 (Circular E), Employer's Tax Guide
Key Points

• No longer uses allowances which have been tied to the amount of the personal exemptions.
• The Form is now divided into 5 Steps.
• Steps 1 & 5 must be completed to be valid
• Only newly hired employees in 2020 or any employee hired prior to 2020 who wish to adjust their withholding in 2020 must use the redesigned form.
Draft 2020 Form W-4

- IRS.gov/draftforms
- IRS.gov/W4
Monthly payroll industry calls
— First Thursday of each month
— 1:00 p.m. Eastern

For an invitation to join the discussions, email: sbse.payroll@irs.gov
e-News for Payroll Professionals

• Information about:
  — Recent changes affecting payroll issues
  — IRS news releases and announcements pertaining to the payroll industry
  — Employment tax procedures
  — Other information of interest to payroll pros

• IRS.gov – Keyword: e-News
IRS social media

• Instagram – @IRSnews
• Twitter:
  – @IRSnews
  – @IRSenEspanol
  – @IRStaxsecurity
• YouTube: IRS Videos in English, Spanish and American Sign Language
• Facebook: IRS, IRS en Español, IRS Tax Pros
Webinars for Tax Practitioners

Upcoming Webinars

- Relief Procedures for Certain Former Citizens – October 10, 2019
- Understanding the 2020 Form W-4 and How to Use it to Compute Withholding – October 22, 2019

Related Resources

- Practitioner Local Liaison Meetings and Seminars
- Tax Practitioner Institute Classes
- Workshops and Other Events in Spanish for Small Businesses (SP)

Relief Procedures for Certain Former Citizens

This webinar will cover the following:
Resources

- IRS.gov/withholding
- IRS.gov – Keyword: payroll center
- Publication 505, Tax Withholding and Estimated Tax
- Form W-4, Employee’s Withholding Certificate
- Form 1040-ES, Estimated Tax for Individuals
Contact information

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philip.g.yamalis@irs.gov
Thank you!
Paycheck Checkup

Those most likely to owe tax because they’ve had too little tax withheld include:

- Those who itemized in the past but now take the increased standard deduction
- Two-wage-earner households
- Employees with nonwage sources of income
- Those with complex tax situations
Tax Withholding Estimator

Use your best estimates for the year ahead to determine how to complete Form W-4 so you don’t have too much or too little federal income tax withheld.

1 of 5: Filing Status

What filing status will you use for your tax return? *(Required)
Tax Withholding Estimator

- Plain language used within the tool
- Ability to effectively target tax due or refund
- Progress tracker
- Enhanced navigation within the tool
- Tips and links to more information
- Determines self-employment tax
- Automatically calculates taxable portion of Social Security benefits
- Mobile-friendly design
Tax Withholding Estimator

• Addresses self-employed individuals
• Alerts these users to several special tax benefits including:
  — Self-employed health insurance deduction
  — Deductions for contributions to:
    • Simplified Employee Pension (SEP)
    • Savings Incentive Match Plans for Employees (SIMPLE)
    • Other qualified retirement plans
Tax Withholding Estimator

- Automatically calculates self-employment tax and deduction
- Easy to enter wages and withholding for each job held by the taxpayer and spouse
- Ability to separately enter pensions and other sources of income
- Makes specific withholding recommendations for each job and spouse – explains next steps
- Automatically links to withholding forms
Tax Withholding Estimator and Retirees

- Features specially tailored to retirees receiving pension payments and Social Security benefits
- Uses a simple, six-step question & answer format to determine if correct withholdings from these income sources
- Automatically calculates the taxable portion of pensions and SS benefits – links to Form W-4P
Plan ahead – For using The Withholding Estimator

- Estimate values of income, number of children claimed for the Child Tax Credit and EITC
- Gather recent pay stubs
- Have a copy of most recent income tax return
- Results are only as accurate as info provided
- No PII required to use tool
- Taxpayers encouraged to check their withholding again in early 2020