

Eye on Washington Regulatory Update



Final IRS 2020 Form W-4 Released

On December 5, 2019, the Internal Revenue Service (IRS) released the final 2020 Form W-4, Employee's Withholding Certificate. The IRS had released an early draft in May and a second "near-final" draft in August to enable employers to make software and other changes. The form includes major revisions, including several new input elements for federal income tax withholding calculations, which will require significant reprogramming of payroll systems, and ongoing employer support of the new input elements discussed below, as well as the prior withholding allowances-based system.

As previously announced, existing employees will not be required to complete a new Form W-4 for 2020. Employers will continue to observe the withholding allowances and filing status elected by employees who completed a pre-2020 Form W-4. For newly hired employees after 2019, and for all existing employees who wish 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 withholding allowances to adjust their federal income tax withholding to match their anticipated full-year income tax liability.

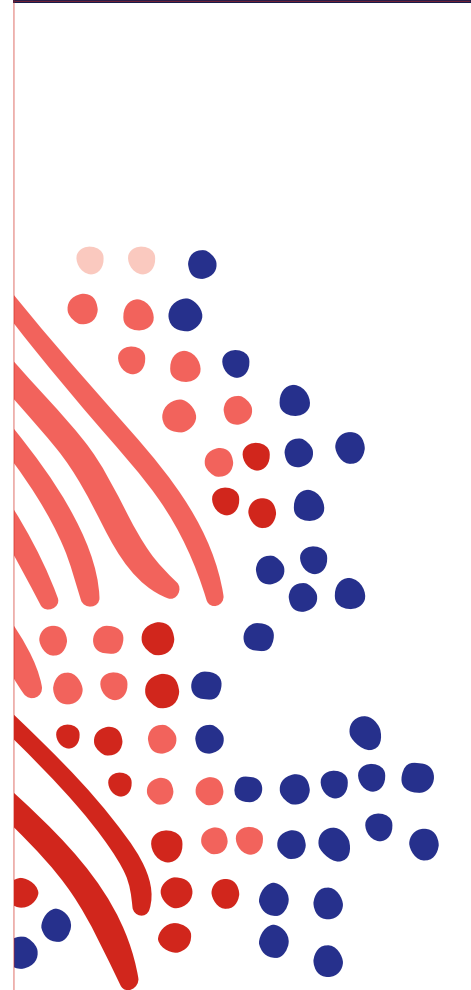
The Tax Cuts and Jobs Act (TCJA) made significant changes to tax rates, deductions, tax credits and personal exemptions, beginning in 2018. The IRS released new withholding tables for 2018 and 2019, but Form W-4 remained largely unchanged, continuing to feature an entry for number of withholding allowances. 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 Final Form W-4 Include:

- Number of withholding allowances eliminated
- New Marital Status - Head of Household (with associated tax tables)
- Lines to claim exemption from withholding were removed

Step 2: Adjustment for Multiple Jobs in a Household

It is still necessary to adjust withholding for employees in families with multiple jobs (e.g., when a spouse also works, or the employee has a second job) to apply the appropriate tax bracket given the combined family income. There are three options to adjust for multiple jobs:



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1. Use the new online IRS Withholding Estimator, at www.irs.gov/W4App.
 - 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 the worksheet on page 3 to calculate any additional tax due and enter the additional per-payroll amount to withhold on Line 4c. (This is closest to the pre-2020 method.)
3. If there are only two jobs in a household, the employee can simply check the box in Step 2 to apply withholding at higher rates. Both wage earners in a household should check the box.

Line 3: Claim Dependents

For households with expected annual income under \$200,000 (\$400,000 if married filing jointly), 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 these and other expected **full-year tax credits** on Line 3.

Line 4a: Other Income

Employees will be able to enter estimated **full-year nonwage income** not subject to withholding (such as rental income, interest and dividends). Previously, employees with other income sources completed a worksheet to estimate an additional amount to withhold each pay period. The new form simplifies this process for the employee by asking the employee to enter anticipated full-year other income. Employers will add such income to the employee's wage income to calculate the income tax to withhold.

Line 4b: Deductions

Line 4b permits employees to enter 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., \$12,400 for single filers; \$24,800 for married filing jointly (MFJ) in 2020). Employees will use a Worksheet 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 simplifies the W-4 completion process for employees. Employers will need to convert reported amounts to a per-payroll adjustment to wages to calculate the income tax to withhold.

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 one option by which employees can adjust for multiple wage earners in the family, or a second job, or other income. Line 4c is the only entry that asks for a per-payroll amount. All other entries are full-year amounts.

Steps 2, 3 and 4 are optional. Employees who prefer not to modify their withholding will be able to enter only their name, Social Security Number, address and filing status, and sign and date the form.

Claiming Exemption From Withholding

Qualifying employees may still claim exemption from withholding; i.e., if an employee both (1) owed no federal tax in 2019 and (2) expect to owe no federal income tax in 2020. The instructions note that "If you claim exemption, you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2020 tax return."

To claim exemption from withholding, the employee must certify that they meet both conditions above by writing "Exempt" on Form W-4 in the space below Step 4(c) and completing Steps 1 and 5. Electronic Form W-4 systems will be modified to provide for claims of exemption. Claims of exemption from withholding must be established annually.

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

Payroll departments may wish to inform Human Resources and others involved in the hiring process so that they are aware. 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, or permit new employees to take the Form W-4 home for completion.

For Additional Information on How to Prepare, See the [2020 Form W-4 Employer Toolkit](#)

The IRS 2020 Form W-4 Employer Guide explains the changes to withholding calculations and procedures, and includes a sample letter to send to employees to help them understand the changes. Also included in this toolkit/guide are FAQs for employers and employees, legislative updates regarding the IRS Form and withholding changes, and recorded webcasts about the changes and preparing for year-end. You should review and understand the changes to the forms and instructions for complying with new 2020 withholding calculations and be able to explain the changes to employees.

Refer to the toolkit/guide here:
[2020 Form W-4 Employer Toolkit](#)

Click here for the final form:
<https://www.irs.gov/pub/irs-pdf/fw4.pdf>

ADP Compliance Resources

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