

An Employer's Guide to the Federal W-4

What is new about Form W-4?

Employees who have not changed jobs or had to fill out a new W-4 due to significant life changes (like getting married, divorced or having children) have probably not filled out a W-4 in years. That is why you should remind your employees about the importance of reviewing their withholding every year. In addition, any employees hired in 2020 must complete the redesigned W-4.

The passage of the Tax Cuts & Jobs Act (TCJA) in 2017 resulted in major changes to employee withholding. Those changes affected taxpayers in many ways.

Here is what changed in the new form:

1. The Name

Form W-4's title used to be "Employee's Withholding Allowance Certificate." The 2020 Form W-4 did away with allowances. The title is simply "Employee's Withholding Certificate."

2. Elimination of the Personal Allowances Worksheet

The Personal Allowance Worksheet you're used to seeing is gone. The reason is due to the elimination of personal exemptions. These exemptions allowed for deductions against personal income, lowering taxable income. Since exemptions are now gone, the need to determine the number of allowances is eliminated.

The steps in the new Form W-4 include:

Step 1: Enter Personal Information

This step is required for everyone. If an employee does not fill out the form, you must calculate their withholding as "Single" and withhold their taxes at the higher "Single" rate.

Form W-4 Department of the Treasury Internal Revenue Service	Employee's Withholding Certificate		OMB No. 1545-0074
	<p>▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.</p> <p>▶ Give Form W-4 to your employer.</p> <p>▶ Your withholding is subject to review by the IRS.</p>		2020
Step 1: Enter Personal Information	(a) First name and middle initial	Last name	(b) Social security number
	Address		<p>▶ 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.</p>
	City or town, state, and ZIP code		
	<p>(c) <input type="checkbox"/> Single or Married filing separately</p> <p><input type="checkbox"/> Married filing jointly (or Qualifying widow(er))</p> <p><input type="checkbox"/> 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.)</p>		

Step 2: Multiple Jobs or Spouse Works

The message above step two gives instructions on where to find guidance for any employees who may be exempt from withholding. This message also instructs any employees who do not need to fill out Steps 2 through 4 to Step 5, which everyone must complete.

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the online estimator, and privacy.

**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 for this step (and Steps 3–4); **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 ☐

TIP: To be accurate, submit a 2020 Form W-4 for all other jobs. If you (or your spouse) have self-employment income, including as an independent contractor, use the estimator.

Complete Steps 3–4(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 3–4(b) on the Form W-4 for the highest paying job.)

For Step 2, employees only need to complete one of three options. Options (a) and (b) will take employees somewhere else to make calculations, while option (c) can be done right on the form.

The IRS states that option (a) will give employees the most accuracy and privacy of the three since the new withholding estimator will compute all the relevant entries for the W-4. Option (b) also provides accuracy (and requires manual calculations), and (c) is the least accurate since it assumes the jobs have similar pay. However, it is the easiest method.

Step 3: Claim Dependents

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Claim
Dependents**

If your income will be \$200,000 or less (\$400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by \$2,000 ► \$

Multiply the number of other dependents by \$500 ► \$

Add the amounts above and enter the total here **3** \$

The tax law changes allow more people to qualify for the child tax credit. Single taxpayers with income of up to \$200,000 (\$400,000 if married filing jointly) are now eligible for the credit. Employees should consult IRS Publication 972 – Child Tax Credit, or talk to their accountant, if looking to claim the credit.

Step 4: Other Adjustments

**Step 4
(optional):
Other
Adjustments**

(a) **Other income (not from jobs).** 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 **4(a)** \$

(b) **Deductions.** 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 **4(b)** \$

(c) **Extra withholding.** Enter any additional tax you want withheld each pay period **4(c)** \$

This section is optional and is for things an employee may want to account for when considering their withholding. This includes:

- (a): Other income (not from jobs). Additional income that might not be subject to withholding, like rental income, retirement income or dividends.
- (b): Deductions. This line is for deductions other than the standard deduction. This includes all itemized deductions like mortgage interest and charitable contributions minus the standard deduction. Remember, in general, the standard deduction reduces a taxpayer's adjusted gross income to arrive at taxable income. The greater of the standard deduction or itemized deductions will help reduce the amount of tax due. The 2020 standard deduction is \$24,800 for married taxpayers filing jointly; \$12,400 for single and married filing separately taxpayers; \$18,650 for those filing as head of household.
- (c): Extra withholding. Any extra withholding the employee would like to withhold each pay period. (There was a similar field on the old W-4.)

Step 5: Sign the form

If your employee does not complete this final step, the form is invalid, in which case you must calculate their withholding as "Single" and withhold their taxes at the higher "Single" rate.