

Tax

Form

The New W-4:  
What you need to know



The IRS plans to release a new W-4 Form for tax years 2020 and going forward. Here's what you need to know about these upcoming changes.

## What is a W-4 Form?

When you start a new job, you're usually handed a new employee packet, which contains a variety of documents. One of these documents is a W-4 form titled "Employee's Withholding Certificate". It tells your employer's payroll department how much tax they should withhold from each paycheck. Once you fill out this form, your employer will start withholding taxes from your paycheck and sends those funds to the IRS.

At the end of the year, your employer will send a W-2 to both you and the IRS. This form includes the actual dollar amounts remitted throughout the year for your various taxes, as well as information about the portion of your salary which may be tax-exempt.

When you file your tax return, your W-2s are combined with other tax documents and information you provide to determine whether you met your tax obligation for the year. If you overpaid, you will receive a refund. If you underpaid, you will owe a bill.

It's worth noting that contract workers won't receive a W-4 or W-2. If you're a contracted worker or freelancer, you are responsible for remitting your own taxes.

## What is changing with the new W-4 Form?

The prior W-4 form relied heavily on personal exemptions to determine your withholdings. However, the 2017 Tax Cuts and Jobs Act all but eliminated personal exemptions as applicable criteria for determining tax obligations. As a result, many employees were a bit surprised when they filed their 2018 taxes. You may have noticed a larger than average refund, meaning you overpaid taxes throughout the year. Worse, you may have experienced a tax bill when you submitted your return. The new W-4 aims to resolve these issues. Ideally, your paycheck withholdings should closely match your actual tax obligations, resulting in a much smaller refund or payment when you file your tax return.



## Personal Allowances

If you're familiar with the old W-4 form, you might first notice the lack of space for personal allowances on the W-4. While the old W-4 had space to report allowances as well as a "Personal Allowances Worksheet", the new form doesn't mention personal allowances at all.

## Worksheets

The "Deductions, Adjustments and Additional Income Worksheet" and "Two-Earners/Multiple Jobs Worksheet" are also excluded from the new form. These are replaced with a combination "Multiple Jobs Worksheet" and "Deductions Worksheet."

## Length

Between the extra information and the extra calculations suggested in the instructions and other IRS guidance, many experts have described the new W-4 as a "mini-1040." If this sounds confusing, you're not alone. Many tax experts argue that the new form is too difficult for the average taxpayer. However, the IRS states that they have streamlined the W-4 process as much as possible, and the accuracy of withholdings will be worth any additional effort.

If you would like to compare the two forms yourself, you'll find them here: [2019 W-4](#) and [2020 W-4](#).

## How will the new W-4 form affect your paycheck? How will it affect your tax refund?

Unfortunately, no one can definitively say how the new W-4 will affect your paycheck because there are so many different factors at play. Your net paycheck may be more, less, or roughly the same as it was with the old W-4.

We can say, however, that certain people are more likely to see a difference than others. If you live in a two-income household, have a high income, pay substantial property taxes (higher than average), lost deductions with the latest tax reform, or claim the child tax credit, you may have been underpaying taxes under the old W-4 withholding system. Once you fill out the new form, your paycheck may decrease due to additional taxes withheld from your gross pay. The good news is that your withholdings should be more accurate, resulting in a lower tax bill or even a refund the following spring. Likewise, if you received a sizable tax refund for 2018, you may have been overpaying taxes throughout the year with the old W-4. In this case, you may find that your paycheck is higher but the refund is reduced or eliminated entirely.







## When should you update your W-4?

The new W-4 should take effect for the 2020 tax year. If you're dreading filling out the new form, however, there is good news: The IRS doesn't require a new Form W-4 due to the redesign. If you've already filled out a Form W-4 at your current employer, you won't be required to submit a new one unless you choose to do so.

However, if you change jobs, you will likely see the 2020 form in your new employee packet. The IRS also urges employees to revisit the [Paycheck Checkup Calculator](#) each year, especially if you owed tax with your most recent return or received a sizable refund. You should also fill out a new W-4 if you experience a major life change, such as marriage, divorce, the birth or adoption of a child, etc.

## Tips for filling out the new W-4

There are a few different ways to fill out the new W-4.


If you care more about simplicity than accuracy, you can simply fill out your personal information then sign and date the form. In this case, your withholdings will be based on your standard deduction and tax rate. This is also a good option if you wish to keep additional financial information private from your employer.



If you value accuracy over simplicity, however, you may wish to fill out additional sections regarding information about your other income sources and dependents.

<b>Step 2: Multiple Jobs or Spouse Works</b>	<p>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.</p> <p>Do <b>only one</b> of the following.</p> <p>(a) Use the estimator at <a href="http://www.irs.gov/W4App">www.irs.gov/W4App</a> for most accurate withholding for this step (and Steps 3–4); or</p> <p>(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or</p> <p>(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 . . . . . <input type="checkbox"/></p> <p><b>TIP:</b> 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.</p>
<p><b>Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs.</b> 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.)</p>	
<b>Step 3: Claim Dependents</b>	<p>If your income will be \$200,000 or less (\$400,000 or less if married filing jointly):</p> <p>Multiply the number of qualifying children under age 17 by \$2,000 ► \$ _____</p> <p>Multiply the number of other dependents by \$500 . . . . . ► \$ _____</p> <p>Add the amounts above and enter the total here . . . . . <b>3</b> \$ _____</p>
<b>Step 4 (optional): Other Adjustments</b>	<p>(a) <b>Other income (not from jobs).</b> 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 . . . . . <b>4(a)</b> \$ _____</p> <p>(b) <b>Deductions.</b> 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 . . . . . <b>4(b)</b> \$ _____</p> <p>(c) <b>Extra withholding.</b> Enter any additional tax you want withheld each pay period . . . . . <b>4(c)</b> \$ _____</p>

Finally, there is an optional Deductions Worksheet regarding other adjustments. You can fill out this section if you plan to itemize your taxes.

<b>Step 4(b)—Deductions Worksheet</b> (Keep for your records.)		
<b>1</b>	Enter an estimate of your 2020 itemized deductions (from Schedule A (Form 1040 or 1040-SR)). Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to \$10,000), and medical expenses in excess of 7.5% of your income . . . . .	<b>1</b> \$ _____
<b>2</b>	Enter: $\left\{ \begin{array}{l} \bullet \$24,800 \text{ if you're married filing jointly or qualifying widow(er)} \\ \bullet \$18,650 \text{ if you're head of household} \\ \bullet \$12,400 \text{ if you're single or married filing separately} \end{array} \right\}$ . . . . .	<b>2</b> \$ _____
<b>3</b>	If line 1 is greater than line 2, subtract line 2 from line 1. If line 2 is greater than line 1, enter "-0-" . . . . .	<b>3</b> \$ _____
<b>4</b>	Enter an estimate of your student loan interest, deductible IRA contributions, and certain other adjustments (from Part III of Schedule 1 (Form 1040 or 1040-SR)). See Pub. 505 for more information . . . . .	<b>4</b> \$ _____
<b>5</b>	<b>Add</b> lines 3 and 4. Enter the result here and in <b>Step 4(b)</b> of Form W-4 . . . . .	<b>5</b> \$ _____

Also, note that you may need to fill out a new state withholding form. Many states plan to release their own revised withholding forms due to the federal W-4 revisions. You will need to check your state tax laws or ask your payroll department for this information.



# Final Thoughts

The new W-4 is fairly complex, and many employees may find they need additional assistance filling out the form. If you're in this situation or simply want to ensure your tax return accurately reflects your financial situation, please contact our office. Our tax experts are always here to help.



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