

Withholding & Form W-4 *(New W-4 for 2020)*

The IRS has reinvented form W-4 for 2020 (and beyond). As a quick refresher, the W-4 is the form that determines how much tax is withheld from your paychecks. You fill out the W-4 whenever you start new employment or request a change in withholding for an existing job.



Are you required to do anything? If you are starting new employment in 2020 then you will be asked to fill-out the new W-4. If you are staying at your current job then no action is required (unless you want to make a change).

What if you choose to ignore it? New employees that don't fill out the form will be treated as "single" with no other adjustments. Existing employees that don't complete the form will stay at or close to current withholding levels.

Can you use the old form? No. Starting in 2020 the new W-4 is required.

Why are they making changes? The IRS claims that the new form reduces complexity while increasing transparency and accuracy (compared to the old withholding system). In reality, taxes are complex and the new W-4 isn't simple. Let's take a look at the form and get down to basics.

The new form has 5 steps:

Step 1: This step is mandatory. Complete the personal information in sections (a) & (b). In section (c) select your filing status.

Steps 2-4 are optional. Do not complete them if they aren't pertinent or if you have concerns about privacy.

Step 2: Complete this step if you have multiple jobs or your spouse works. Choose between the following:

- Option (a) is difficult and requires the IRS' withholding estimator (IRS.gov/W4app). The estimator is accurate but complex.
- Option (b) is easier and works OK for households with two jobs.
- Option (c) is a simple box to check if your household has two jobs with similar pay.

Step 3: Complete this section if you have dependents. For households with multiple jobs it is wise to avoid the trap of claiming the same kid on more than one W-4. That will likely result in not having enough withholding.

Step 4: Complete this step to make adjustments.

- Section (a) is for taxpayers with other sources of taxable income. Adding income will increase your withholding.
- Section (b) is for taxpayers with deductions/adjustments above the standard deduction. Adding deductions will decrease your withholding.
- Section (c) is for taxpayers that want to specify an additional amount of withholding each pay period. In theory, you don't need this line if your W-4 form(s) are filed correctly. However, given the complexities of the tax system, many taxpayers will need this for fine tuning.

Step 5: Sign the form.

Use trial & error to simplify: Many taxpayers will not get it right on the first try. These folks may need a little trial and error. For example, say you owed \$2,000 on your tax return and you wanted to break even. Simply divide the \$2,000 by the number of pay periods in a year and enter the amount on line 4(c).

Double check! If you DO choose to change your W-4 remember that you are going from the known to the unknown. Never forget to look at your paystub to see if the desired effect actually happened. The new W-4 is more complex, so watch-out for unintended consequences... double check to see if you got it right.