# Withholding under the new W-4 regime

Last week we deviated from our strict payroll perspective to bring you a sneak peak of the 2018 Form 1040. And we're sure that we'll deviate again. After all, the Tax Cuts and Jobs Act is just chock full of good stuff that we haven't highlighted yet and it's a long summer.

But this week we're back to dissecting the 2019 W-4.

**Eight steps, lots of heartburn**

To a large extent, income tax withholding is fairly standard, based as it is on the number of withholding allowances *employees* write on their W-4s. There are a couple of exceptions, which require you to personalize withholding for individual employees—those who claim an exemption from income tax withholding (the amount to withhold is $0) and those who want an additional flat amount withheld. We would wager that's not a lot of people.

The draft W-4 instructions contain a withholding example for employers. Based on the example the IRS provides, it seems as if you will need to personalize withholding for each employee. Odds are, you'll have to revamp your entire payroll system to accommodate this new withholding "method."

For this example, the IRS assumes that employees made entries on new Lines 5 - 8, which is a huge assumption. It's also used the 2018 wage-bracket tables, which is odd, since you use the wage-bracket tables when you're manually calculating withholding, which, let's face it, no one does any more.

Helpfully, the IRS added that you should adapt this example to your own withholding methods. If you can.

OK, here we go.

**Step 1:** Divide each of the amounts on Lines 5, 6, 7 and 8 by the total number of pay periods in the year.

**Step 2:** Add the results from step 1 for Lines 5 and 8 to the employee's wages per pay period.

**Step 3:** Subtract the result from step 1 for line 6 from the result from step 2. Depending on your withholding method, you may need to adjust this amount by the value of the employee's withholding allowances.

**Step 4:** Figure the income tax withholding using the result from step 3 as taxable wages, with 2 (single or married filing separately) or 3 (married filing jointly or head of household) allowances for the filing status on Line 3 of the employee's W-4.

**Step 5:** Reduce the income tax withholding result from step 4 by the income tax credits per pay period figured in step 1 for Line 7. But don't reduce withholding below zero.

**Step 6:** Separately figure the income tax withholding on the amount, if any, from step 1 for Line 8. Use 2 (single or married filing separately) or 3 (married filing jointly or head of household) allowances for the filing status on Line 3 of the employee's W-4.

**Step 7:** Subtract the income tax withholding result from step 6 from the result in step 5, to figure the amount of income tax withholding per pay period.

**Step 8:** Add the amount, if any, from Line 9, to the income tax withholding per pay period figured in step 7. This is the amount of income tax to withhold per pay period for the employee.

**For example …**

Got it? No? Here's how the example plays out.

Harry is married and files jointly with his wife, June. Harry is paid monthly and earns $42,900 per year, or $3,575 per pay period. He makes the following entries on his 2019 W-4:

- $925 on Line 5
- $1,925 on Line 6
- $500 on Line 7
- $25,000 on Line 8
- $0 on Line 9.

**Step 1:** Xanimac, Harry's employer, divides the amounts on lines 5, 6, 7 and 8 by the total number of payroll periods in the year, 12, and rounds them to the nearest dollar:

- Line 5 per pay period = $77
- Line 6 per pay period = $160
- Line 7 per pay period = $42
- Line 8 per pay period = $2,083.

**Step 2:** Xanimac adds Harry's per pay period taxable wages to the results in step 1 for lines 5 and 8. This results in $5,735 ($3,575 + $77 + $2,083) for step 2.

**Step 3:** Xanimac subtracts the results from step 1 for line 6 from the result from step 2. The result for step 3 is $5,575 ($5,735 - $160).

**Step 4:** Xanimac applies the withholding table for Married Filing Jointly for a monthly pay period and three withholding allowances to compute the income tax withholding for the result from step 3 ($5,575). The withholding amount is $397 per pay period.

**Step 5:** Xanimac subtracts the result from step 1 for line 7 from the withholding result from step 4. The step 5 withholding result is $355 ($397 - $42).

**Step 6:** Xanimac applies the withholding table for Married Filing Jointly for a monthly pay period and 3 withholding allowances to compute the income tax withholding on the per pay period result from step 1 for line 8 ($2,083). The withholding amount is $9 per pay period.

**Step 7:** Xanimac subtracts the result from step 6 from the result from step 4. The result for step 7 is $346 ($355 - $9) per pay period.

**Step 8:** Since there's no entry on line 9, Xanimac won't need to increase the result from step 7 by an amount from line 9.

The final withholding from Harry's wages is $346 per pay period

Still confused? Well, so are we. But we have still some time to deal with this.

**Withholding calculator update**

The IRS has issued a snazzy new one-page publication, Pub. 5303, Paycheck Checkup Can Prevent a Tax-Time Surprise.

You might want to download this pub and make it available to employees. *Idea:* Stuff it into employees' pay envelopes or email it to them.