

2020 W-4: 2nd draft and your questions answered

Well, we were getting worried. The IRS promised the second draft of the 2020 W-4 by the end of July. It released the form August 8. So not too bad, deadline wise.

BIG CHANGE: Since withholding allowances have been eliminated, the American Payroll Association questioned why the IRS continued to call the first draft Employee's Withholding *Allowance* Certificate. *Message received:* The second draft is simply called Employee's Withholding Certificate.

Whether you consider it good news or bad news, the IRS didn't make any substantive changes to the form. It aired out the form by putting in more blank space, put names on the worksheets accompanying the form and added a couple of warnings about privacy in Step 2.

Other changes: The second draft eliminates Line 4d, on which employees could claim an exemption from withholding. Instead, employees will write "Exempt" in the space below Step 4c and complete Steps 1 and 5.

Prediction: Removing the Exempt line will probably result in fewer employees claiming exempt.

Both drafts eliminate the checkbox for married, withhold at the single rate. Instead of completing Step 2, married couples can check the box in Step 1c for single, married filing separately (even if they're joint filers) if they want to increase their withholding.

And this is it. According to the IRS, the final form will not differ significantly from the second draft, which should be released later in the year.

Reminder: The IRS wants you to begin reprogramming your payroll systems based on this second draft. But you'll have to wait until it releases the second draft of Pub. 15-T, since that's where all the calculations are. The pub should be released any day now.

See for yourself.

W-4 Employee's Withholding Certificate

OMB No. 1545-0047

2020

Department of the Treasury Internal Revenue Service

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
Give Form W-4 to your employer.
Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information

(a) First name and middle initial Last name
 (b) Social security number

Address
 City or town, state, and ZIP code

(c) Single or married filing separately
 Married filing jointly or qualifying widow(er)
 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.)

Complete Steps 2 through 4 ONLY if they apply to you. To see if you're exempt from withholding or if you have concerns about your privacy, see page 2. Everyone must complete Step 5. See Instructions on page 2.

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, 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.
CAUTION: If you have privacy concerns, choose (a) or (b). If you and/or your spouse have income from self-employment, including as an independent contractor, choose (a).

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

Step 3: 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 \$1,000 ▶ \$ _____
 Add the amounts above and enter the total here \$ \$ _____

Step 4 (optional): Other Adjustments

(a) Other income. 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. You should not include income from any jobs 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) \$ _____

Step 5: Sign Here

Under penalty of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) Date

Employers Only

Employer's name and address First date of employment Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. OMB No. 1545-0047 Form W-4 (2020)

Ask us anything

So, while we're waiting for the second draft of Pub. 15-T, here are some questions we've encountered about the 2020 W-4.

When will the final 2020 W-4 be released?

According to the IRS, the final 2020 W-4 will be released on its regular schedule, which is sometime in November or December.

What do we do next year about an employee who claimed exempt on a 2019 W-4?

The same rules that apply now will apply in the future, with two tiny variations. The employee must provide you with a 2020 form and claim exempt by writing the word "Exempt" underneath Line 4c by February 15. If the employee doesn't provide you with a new form by that date, and you don't have an older form on file you know is valid, beginning on February 16, you withhold as if the employee was single and claimed no adjustments. Now you withhold using single/zero status. Either way, this employee will have the maximum withheld.

How would two-earner households complete the new W-4?

The process for two-earner households isn't much different from what it is now. The spouse with the higher income should take the adjustments to income. The spouse with the lower income need only complete Steps 1 and 5. To ensure that enough taxes are withheld, couples have three options:

- One (or both) can have taxes withheld as if they were single
- Both spouses can check the box in Step 2

- Both spouses can use the worksheets accompanying the form and indicate an additional amount to be withheld in Step 4c.

Is there any documentation stating you have to use the new W-4 for new hires after January 1, 2020?

Not directly. But each year the IRS adjusts lots of figures for inflation and the figures that go into the W-4 are no exception. You wouldn't, for example, use a 2018 1040 to figure your 2019 taxes. The W-4 works the same way. If you hire someone this year, you give them this year's form; if you hire someone in 2020, you're going to hand them the 2020 W-4. That's the rule and that rule isn't going to change.

And all the other rules regarding the W-4 won't change, either. So if employees have to change their W-4s next year because they got divorced and they were claiming married status, or a child can't be claimed as a tax dependent, they're going to give you a 2020 form.

How will the new W-4 apply to employees who work hourly, since their hours and earnings are unknown?

This isn't your concern. Employees must provide you with a form where, at a minimum, they complete Steps 1 and 5.

Employers are never supposed to give tax advice, including how to complete a W-4. You can point your employees to the withholding estimator (what used to be called the withholding calculator) or suggest they talk to their tax accountants.

Next year, if you believe a form is invalid, you must either withhold based on an old form you know is valid or withhold as if the employee were single with no adjustments. Single/no adjustments is basically the same as single/zero status, which is what you do now. In both cases, the employee will have the maximum tax withheld.

Is there any more guidance or documentation on how to implement the W-4 changes in the payroll system?

No, not at this time. The IRS should be releasing the second draft of Pub. 15-T shortly. That's probably all the documentation we're going to get for the foreseeable future.

Should employers have employees update their W4s annually?

Its up to employers, but we always say to make the forms available. Employees' taxes aren't static. But it's up to employees to figure out whether they want to update their W-4s; you can't require it.

What about people we rehire next year?

Usually, rehires complete new forms. As we've been saying, all the rules that apply to the current W-4 process will continue to apply next year. The only difference is the form.