

The 2020 W-4: Your FAQs, answered

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Few people think about income tax withholding, because, let's face it, there are tons of other things to think about.

So when people do start thinking about income tax withholding, they're confused. Perfectly understandable. It's crunch time for your 2020 payroll processes and lots of folks still have trouble digesting the monumental changes to the W-4 and the withholding processes.

We're here to help.

Old W-4 forms, new W-4 form, which one is valid?

Blame Congress—the Tax Cuts and Jobs Act didn't give the IRS authority to require everyone to refile their W-4s with their employers. That's mucking things up for employers everywhere. So, those pre-2020 W-4s will continue to be valid until employees refile, if they ever do.

We have heard that some HR departments insist that employees refile their W-4s every year. While this isn't illegal, it isn't required. It's also not necessary. All this does is create a ton more paperwork for you. Disabusing HR of this notion will save you a lot of grief.

What about employees who claim exempt status?

Employees who don't think they'll owe any income taxes to Uncle Sam can claim a complete exemption from income tax withholding. They do this now by completing Line 7 of the 2019 W-4. Assuming the IRS sticks to the second draft of the [2020 W-4](#), they'll write in the word "Exempt" underneath Line 4c.

While most W-4s stay in effect until employees change them, W-4s on which employees claim exempt expire at the end of every year. Employees must refile with you and again claim exempt, if, indeed, that's what they want to do. If employees don't refile with you by Feb. 15, 2020, and you don't have an older valid form on file, you withhold as if the employee was single and claimed no adjustments, beginning Feb. 19, 2020. In effect, you will withhold as if the employee had completed only Parts 1 and 5 of the 2020 form.

How does the payroll system know how much to withhold?

That's the million-dollar question and thankfully for us, this answer doesn't depend on whether an employee has filed the 2020 W-4 or has an earlier form on file.

Payroll systems are automated. The data points you need right now to determine withholding are:

- Employees' tax filing status (i.e., single, married filing jointly, etc.)
- The number of withholding allowances they've claimed
- Your pay period

- Whether employees have requested that an additional flat dollar amount be withheld.

The data points you need to determine withholding in 2020 are similar, but not identical. The content of [Worksheet 1](#) contains the data points for 2020 withholding and is what the IRS anticipates you inputting into your computer system. Pay periods are accounted for in Parts 1 and 2.

Key: Withholding allowances, while technically nonexistent, are nevertheless stealthily built into Worksheet 1. You'll find them on Line 1g, if an employee has filed the 2020 form or on Line 1k, if employees have an earlier W-4 on file.

The difference: The 2020 percentage method tables function the same way the 2019 tables do. However, instead of pay period withholding, these tables calculate an annual withholding amount, which you reduce to pay period withholding in Part 2 of the worksheet, on Line 2h.

If employees don't complete new forms must we change them to zero as a default, since there will be no withholding allowances?

Answer: No. Employees don't have to refile the 2020 form. In fact, most probably won't. So their pre-2020 W-4s with withholding allowances continue to be valid.

Withhold allowances aren't really going away. They show up in Worksheet 1, on Line 1g, if the employee has filed the 2020 W-4 or on Line 1k, if the employee has an earlier W-4 on file. They also show up in the traditional percentage method tables, which is the adjunct to Worksheet 5.

The IRS has inflation adjusted the amount that appears on Lines 1g and 1k. For 2020, this amount is \$4,300.

If our IT department can't reprogram the payroll system in time for the first or even second payroll of 2020, can we continue to withhold based on the 2019 tables without subjecting the company to penalties?

Answer: Probably not. Admittedly, programming for 2020 withholding will be more complicated than programming in past years. But the IRS issues new withholding tables every year, and it expects employers to be able to comply.

If your IT department can't comply with the more rigorous demands of programming Worksheet 1 and the accompanying percentage method tables by the first payroll of 2020, you can take the following steps:

- For employees who have pre-2020 W-4s on file, your IT department can program the traditional, withholding allowance-based percentage method tables (i.e., the tables used in conjunction with Worksheet 5). That should be easier to do, since it's familiar.
- Then, use the 2020 wage bracket tables for new hires who start in the beginning of January and for employees who have updated their W-4s. *Extra work for you:* Be sure to feed the amounts you withhold manually into the payroll system once it's up and running, since you must ensure that employees' year-to-date accumulations are correct, your tax deposits are correct, and your first quarter Form 941 is correct.

Where on the 2020 W-4 would employees take into account their cafeteria plan and pretax 401(k) amounts? In Step 4, Line 4c? Or would that in be in Step 3, since a credit would have the same effect as a pretax deduction?

Answer: In general, employees have never accounted for their pretax deductions on their W-4s. Pretax deductions lower W-2, Box 1 income. The benefit comes when employees file their 1040s, since their annual

income will be lower.

Employees account for tax credits in Step 3, not pretax deductions. A pretax deduction and a tax credit probably do have the same effect, but they're not the same thing. A pretax deduction reduces gross pay, while a tax credit reduces modified adjusted gross income.

Line 4c is for indicating to an employer that you want more taxes withheld, not less.