

Time to reprogram your payroll system for 2020 withholding

In a very Grinch-like fashion, the IRS has coughed up some of the withholding instructions you need to begin reprogramming your payroll systems for 2020 withholding. But only some. It's also released a draft of the 2020 [Circular E](#), the Employer's Tax Guide. But it's only a draft.

Catch: The withholding instructions aren't comprehensive, but they're better than nothing, considering we're already into December, and your payroll systems must be up and running for the first pay period of 2020, which is just a scant month away.

Draft Circular E

If you were hoping the IRS would have second thoughts about the redesigned W-4, forget it. The draft of the 2020 Circular E discusses the new W-4. It also makes these key points for 2020 withholding:

- A current employee who hasn't provided you with a valid W-4 should continue to be treated as single and claiming zero allowances on a 2019 W-4. You may withhold on the basis of an older W-4 you have on file that you know is valid.
- Employees who begin work in 2020, but who don't provide you with valid W-4s, should be treated as single and claiming no adjustments on a 2020 W-4. So you treat them as if they completed only Parts 1 and 5 of the form.
- If you receive a lock-in letter from the IRS about an employee's withholding, you must withhold according to the IRS' instructions. However, you must comply with a new W-4 on which the employee indicates that more will be withheld than required by the lock-in letter.

2020 Percentage method tables

The IRS has released the percentage method tables accompanying Worksheet 1. These tables may be used regardless of the W-4 employees have on file with you. As in the drafts, these percentage method tables aren't based on pay periods.

Key limitation: Because Worksheet 1 hasn't been released yet, you may use the tables **ONLY** for employees who have pre-2020 forms on file with you. And you can program only the standard withholding tables.

Reason: We're still not sure whether the IRS will stick to the value of withholding allowances it built into the draft of the worksheet for new employees. But it must stick to withholding allowance-based withholding for current employees.

As for the annual value of one withholding allowance, the IRS [announced](#) in November that the exemption amount for various other income tax provisions of the tax code is \$4,300 for 2020. The IRS has always used the same exemption amount for the value of one withholding allowance for an annual pay period. So \$4,300 should be entered on Line 1k of Worksheet 1 and programmed into your computer system.

Withholding using the new percentage method tables functions exactly like withholding under the current percentage method tables, except you must convert employees' annual withholding back into pay period withholding at the end. You need to program your payroll system to do that, too.