

The calendar says 2020, the new W-4 is still fuzzy

If you thought all the questions about the new W-4 have been asked and answered, think again. More questions have been generated since the 2020 form went in effect on Jan. 1. Here's our roundup.

Q. An employee who's been working since before 2020 never filed a W-4. How do we withhold now?

A. Apparently, this employee doesn't seem to mind being withheld at the highest possible tax rate. Continue to withhold as if this employee is single and claiming zero withholding allowances. So, on Worksheet 1, enter \$0 on Lines 1j and 1k.

Q. Employees' wages vary from pay period to pay period. Does this mean we'll have to individually calculate their pay each pay period to account for deductions in Steps 3 and 4?

A. No, we don't think so. Entries in Steps 3 and 4 on a 2020 W-4 are flat amounts that adjust employees' incomes up or down, depending on the step. Employees who complete Steps 3 or 4(b) lower their annual income that's subject to withholding. Employees who complete Steps 4(a) or 4(c) will increase their annual income that's subject to withholding.

You account for entries in Steps 2, 3 and 4 on the appropriate lines of Worksheet 1.

While you need to calculate employees' taxable pay every pay period (which isn't any different from how you'd do it in the past), the variables—employees' marital status and amounts entered in Steps 2, 3 or 4—are constant. Withholding allowances were constant, also. It's just now there are more variables with which you must contend.

The only time you'd have to readjust employees' Step 2, 3 or 4 amount is if they provide you with updated W-4s, which could happen, say, if employees marry, divorce or have a child.

Q. We pay semimonthly. An employee wrote in \$500 for Step 3 and \$160 in Step 4(b) on his W-4. Do I add the two and put the sum in our system? What do I need to do in our system to accommodate this change?

A. There are two things at play, here. First, you take into account the amount he wrote in for Step 4(b) when adjusting his annual income that's subject to withholding. Amounts entered for Step 4(b) are income tax deductions (exceeding the standard deduction), so they lower employees' annual income that's subject to withholding. You enter this amount on Line 1(f) of Worksheet 1.

After you figure the employee's tentative pay period withholding (Line 2h of Worksheet 1), you have to account for the amount he wrote in for Step 3. Amounts in Step 3 reduce an employee's pay period withholding. You account for this amount by completing Step 3 of Worksheet 1.

These figures—\$500 and \$160—won't change during the year, unless the employee refiles his W-4, so you only

need to make these entries once. Your computer software will do the rest.

Q. How would the withholding amount for a 2019 W-4 (single/zero) compare to a 2020 W-4 (single/no adjustments)?

A. We love math challenges here at Payroll Today. So for the sake of this example, we're going to use the percentage method tables accompanying Worksheet 5 to compute the single/zero withholding, since these are the percentage method tables everyone is used to.

Let's say our employee, Stephanie, earns \$130,000 a year and she's paid biweekly. Using the traditional percentage method tables, \$937.26 is withheld from her pay. Using Worksheet 1 and those percentage method tables, \$937.21 is withheld from her pay.

Pretty close.