

IRS previews changes to withholding in proposed regs

The Tax Cuts and Jobs Act may have suspended the personal exemption amount, and with that, withholding allowances, but to avoid confusion and nomenclature problems, a singular *withholding allowance* still exists, according to proposed regulations. Although the regs primarily conform existing withholding rules to the TCJA, the IRS made some substantive changes, as well. In general, you may put the regs into effect retroactive to Jan. 1, 2020. (85 F.R. 8344, 2-13-20)

Old W-4s are out. Under the regs, you must withhold as if employees are single and claim no withholding allowance (i.e., no adjustments) if they don't file new W-4s by Feb. 15 of the next year to continue their withholding exemption, or if they refile because they're the subject of lock-in letters and their refiled forms conflict with the letters. *Contrast:* In both situations, you used to be able to withhold on the basis of older W-4s you knew were valid.

LOCK-IN LETTERS IN 2020: A continuing question regarding lock-in letters is whether you must maintain separate withholding systems for lock-in letters referencing pre-2020 W-4s and the other for 2020 W-4s. According to the IRS, the answer is: Not necessarily. *IRS:* To use a single system based on the redesigned W-4, input 12,900 for married filing jointly or 8,600 for all other taxpayers in Step 4(a), or enter the number of allowances, as specified in the lock-in letter, multiplied by 4,300, in Step 4(b). If you choose, you can use the IRS' new withholding assistant to help: <https://tinyurl.com/whassist>.

Invalid forms. The regs clarify that you must consider W-4s invalid if employees claim an exemption from withholding and also make entries in Steps 2, 3 or 4 of their forms. The regs maintain the rule that you should withhold based on old W-4s you know are valid, if employees provide you with invalid W-4s.

Additional withholding. Employees can account for unearned income in Step 4(a) or for additional earned income by checking the box in Step 2(c) of their W-4s. The regs create an ordering rule under which you must comply with employees' request for additional withholding only after all regular withholding is deducted (i.e., federal, state and local taxes) and only to the extent they won't be left with \$0 net pay.