

## New W-4 Starting January 1st



### Introduction

After more than two years of development, the IRS has a totally new version on the Federal W-4 Form proposed for use starting January 1, 2020. In this article we explain about the W-4, how it's changed for 2020, and what your team members need to do to ensure they're withholding the appropriate amount of tax from their paychecks.

### The Old (Current) Version of the W-4

Before we look at the proposed changes to the 2020 W-4, we should first brush up on what exactly the form is. The W-4 is an IRS form that your employees must fill out to inform you of how much money to withhold from their paychecks to pay federal taxes.

The W-4 is based on the idea of "allowances." The more allowances that your employees claim on their W-4, the less money you can withhold from their paychecks. For example, an employee can claim allowances if:

- If they're single and only have one job
- If they have a child or other dependents
- If no one else claims them as a dependent
- If they have a spouse

It's important that your employees properly calculate their withholding allowances to avoid owing a big tax bill come April. Properly calculating withholdings also keeps them from overpaying taxes, so they can have more money to spend throughout the year.

In May 2019, the Internal Revenue Service issued a draft of the 2020 Form W-4, Employee's Withholding Allowance Certificate. It has not been changed since then, so is likely to go into effect on 1/1/2020. It is recommended by the IRS that employees should update their W-4s annually, and with this new tax reform, employees should review their withholdings.

### **What's Changed**

So, what's changed in the draft 2020 Form W-4 (See Form W-4)? Well, everything about allowances we talked about above no longer applies to the new W-4 in 2020. The new 2020 Form W-4 has eliminated the page that had employees fill out their personal allowances and replaced it with a new five-step process to make it simpler.

The employee enters all their personal information (name, SSN, address and filing status)

(Optional) The employee fills out this part if they have more than one job at a time

(Optional) The employee claims any dependents

(Optional) The employee reports any other adjustments

The employee signs the form

If you noticed something about this new layout, it was probably the fact that three of those steps are optional now. Now an employee only needs to put their personal information and sign the form (unless they fall under the other three steps) and their withholdings are computed based on their filing status's standard deduction and tax rates.

Due to the changes in the tax law, employees cannot (currently) claim personal exemptions or dependency exemptions. Standard deductions like having children or other dependents still apply though.

### **Things the Employer Should Know**

All this is a little complex but is simpler for the employee. On the employer's side, you need to know a few things. Beginning in 2020, all new employees must use the redesigned form. Similarly, any employees hired before 2020 who wish to adjust their withholdings must use the new form. Pinnacle will process the proper tax deductions.

Contact Pinnacle's HR Department for questions at (210) 344-2088.