

COMPLIANCE ADVISORY 19-03

W-4 Form for 2020

On December 5th, the IRS released the final version of a new W-4 form for 2020. The new form is intended to make withholding more accurate in conjunction with the *Tax Cut and Jobs Act of 2017* that first affected taxpayers this last tax year. The Act lowered tax rates, increased the standard deduction, eliminated the personal deduction, curbed certain itemized deductions, and applied a cap on state and local tax deductions.

The ultimate goal of proper withholding is that the taxpayer has neither a refund nor an amount due when they file their income tax return. It is hard to understand why people get so excited about a tax “refund” when it really isn’t one. It is nothing more than the government returning the taxpayer’s own money to them after they made an interest-free loan to Uncle Sam for the past year. Worse, many taxpayers, treating the “refund” like free money, spend it on non-essential items instead of having used it throughout the year on essential living expenses.

Among the big changes to the form are the elimination of the confusing “allowances” and the provision of boxes for workers to check indicating they have multiple jobs or have a working spouse.

Generally, the lower the person’s income the lower their tax rate. If a person has two jobs, their withholding rate may be low for each job because their income for each appears to be low. But at tax time, they may be taxed at a higher rate based on their total income. Same goes for two income households filing a joint return. The form now has a multiple jobs worksheet to help the employee more accurately estimate their tax liability. The redesigned form lists three different options to choose from to make the necessary withholding adjustments. There are also provisions for privacy, allowing the employee to limit the amount of information provided on the form that the employer sees. For taxpayers with complex tax situations, an on-line Tax Withholding Estimator is available at www.irs.gov/W4app.

The good news for employers is that they do not have to require all employees to complete the new form. They should discard any old W-4 forms they may have stockpiled. Employers may continue to calculate withholding based on the information provided on the latest form submitted by the employee. However, if an employee needs to make any changes such as address, marital status, etc. or if they want to change their withholding, the new form must be used. The new form is also required for all new hires in 2020.

Feel free to contact Foresight’s Director of Compliance, Curtis Rostad, if we can be of any assistance.

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