Federal Tax Withholding Changes in 2020 You Asked, Viventium Answered

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The IRS is making sweeping changes to the way you will calculate your employees' federal withholding taxes starting in 2020, and Viventium is here to help. Below are the most asked questions from our clients about the upcoming changes. We have the resources you need to help prepare you for the new data you will need to collect and the new calculations you will need to perform. You can learn more by reading our thorough blog on the topic, or by attending our next webinar on the topic on December 19, 2019. When reviewing the below questions, it may be helpful to have a copy of the draft Form W-4 in front of you. **1. If employees do not change their old Form W-4, does the employer have to perform the calculations for all employees who want to continue with the old form?** The IRS has provided instructions for calculating taxes in 2020 for employees who only have pre-2020 Form W-4's on file. As a best practice, check with your payroll outsourcing partner or software provider to ensure that they can support these calculations if your employees do not submit new forms. **2. For employees that do not want to change to the 2020 form, does the employer need to make changes in Viventium? Or will the system automatically calculate?** If you're with Viventium, you can relax. Viventium provides you with an effortless transition into the new 2020 tax calculations. If your employees do not submit new forms, no action is necessary on your part, and Viventium will automatically calculate the correct 2020 withholding following IRS procedures for employees with pre-2020 forms. **3. If an employee fills out the new form and just completes Steps 1 and 5, will they be looking at higher withholding per pay period?** Well, the employer will **not** use the higher withholding (right side) table if only Steps 1 and 5 are filled out – since the "magic box" in Step 2 is not checked. (That's the box that triggers higher withholding rates.) However, by only completing Steps 1 and 5, the withholding may be too high or too low. It really depends on what other information the employee could be including in the other steps. For example, if an employee is eligible for the child tax credit (Step 3) but chooses to complete only the mandatory Steps 1 and 5, then the withholding will be higher than necessary, and they will probably end up with a refund. On the other hand, if the employee has additional non-wage income (Step 4(a)) and chooses only Steps 1 and 5, then their withholding will be too low, and they may end up owing interest and penalties on the underpayment at tax time (unless they independently pay estimated taxes on the non-wage income). **4. Do you check multiple jobs even if you are having taxes taken from each company?** Yes. You check the multiple jobs "magic box" (which instructs employers to use the higher withholding tables) for both jobs (meaning at each company). Note that you should check this box if there are only **two** jobs, not more. So, if you have one job and your spouse has one job, you can check the box for both jobs. However, if you have two jobs (at the same time) and your spouse

has one job, don't check the box. Instead, to have accurate withholding, you can choose option (a) in Step 2 – use the IRS estimator – or option (b) – use the Multiple Jobs Worksheet on page 3 of the form. **5. What are some examples of additional credits that can be added in Step 3?** Although the form provides itemization lines only for the child tax credit and the credit for other dependents, employees may also use this step to claim credits such as education tax credits and the foreign tax credit. Add those additional credits to the amounts on the child/other dependent credit lines and enter the total on line 3. **6. Are disabled children over age 18 considered dependents for the child tax credit?** A child of any age who is permanently and totally disabled is a qualifying child for the child tax credit. A child is permanently and totally disabled if both of the following apply: The child cannot engage in any substantial gainful activity because of a physical or mental condition, and a doctor determines the condition has lasted or can be expected to last at least a year or lead to death. **7. If you use the total family income (from both jobs), can the amount be split on the Form W-4?** No. Steps 3 through 4(b) are completed for one job only. Withholding will be most accurate if you complete the steps for the HIGHEST paying job. **8. I have employees who choose NOT to have standard withholding, and only have a percentage of wages withheld. Will that still be available?** Choosing a percentage of wages withheld was NEVER a compliant option and remains non-compliant in 2020. Employees must follow the procedures for the Form W-4, and there is no procedure for requesting withholding of a percentage of wages. **9. Is there a section that is equivalent to Step 7 on the 2019 Form W-4 for claiming exemption?** Not exactly. The IRS has not designated a special line on which employees can certify that they qualify for exemption from federal tax withholding, as there used to be on the pre-2020 form. Instead, if employees wish to certify that they meet the two conditions for exemptions from withholding, they should write or type the word "Exempt" in the space under Step 4(c) and **only** complete Steps 1 and 5, with no other data filled in for the other Steps. As before, to maintain exemption, a new Form W-4 must be submitted by February 16, 2021. **10. What if the form is electronic – how do employees claim exemption?** Electronic systems may provide a checkbox for exemption, but must contain language that informs employees that by checking the box they are certifying that they meet the two conditions for exemption from withholding. **11. We have employees who currently complete new Form W-4s to occasionally "exempt" themselves for two-three pay periods. Will they be able to do that going forward in 2020?** An employee can submit, and an employer must accept, a new Form W-4 whenever their withholding information changes, and as often as it changes. However, by claiming exemption on Form W-4, **the employee is certifying that they had no Federal tax liability in the previous year and do not expect to owe any tax this year.** It doesn't sound as though your employees who go "on and off" exempt status are intending to certify these conditions. Nevertheless, you as the employer should withhold according to the information the employee submits. At the same time, you should advise the employee that the IRS may review withholding to ensure it is adequate, and that the IRS may send you, as the employer, a "lock-in letter" directing you to withhold income tax for the employee at a certain rate. If this occurs, the employee will not be allowed to decrease their withholding unless approved by the IRS. **12. Will individuals be penalized if they have too much money withheld?** No. There is no penalty for over-withholding, only for under-withholding. **13. What about states that don't have a separate Form W-4?** There are seven states that use withholding

allowances and until now have relied on the Federal Form W-4: Colorado, Delaware, Nebraska, New Mexico, North Dakota, South Carolina, and Utah. Viventium compliance experts are members of the Government Affairs Task Force of the American Payroll Association, and the APA recently sent inquiries to these seven states to check on what they are planning to do in 2020. Will they revise their withholding systems to eliminate allowances and continue using the Federal form? Or will they develop their own state version of the W-4 that continues using allowances? The answers are not in yet but check the APA website frequently for updates. **14. Any idea when the 2020 Form W-4 will be finalized?** The IRS has stated that it expects to release the final Form W-4 and Publication 15-T (that's the withholding tables) in "late Fall" 2019. Industry insiders estimate that it will be the end of November. That's because the IRS needs to process certain data to adjust for inflation, and this data only becomes available in October. However, the final form will be substantially the same as the draft, just with updated monetary amounts. The IRS has instructed system developers to use the draft for programming purposes.

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