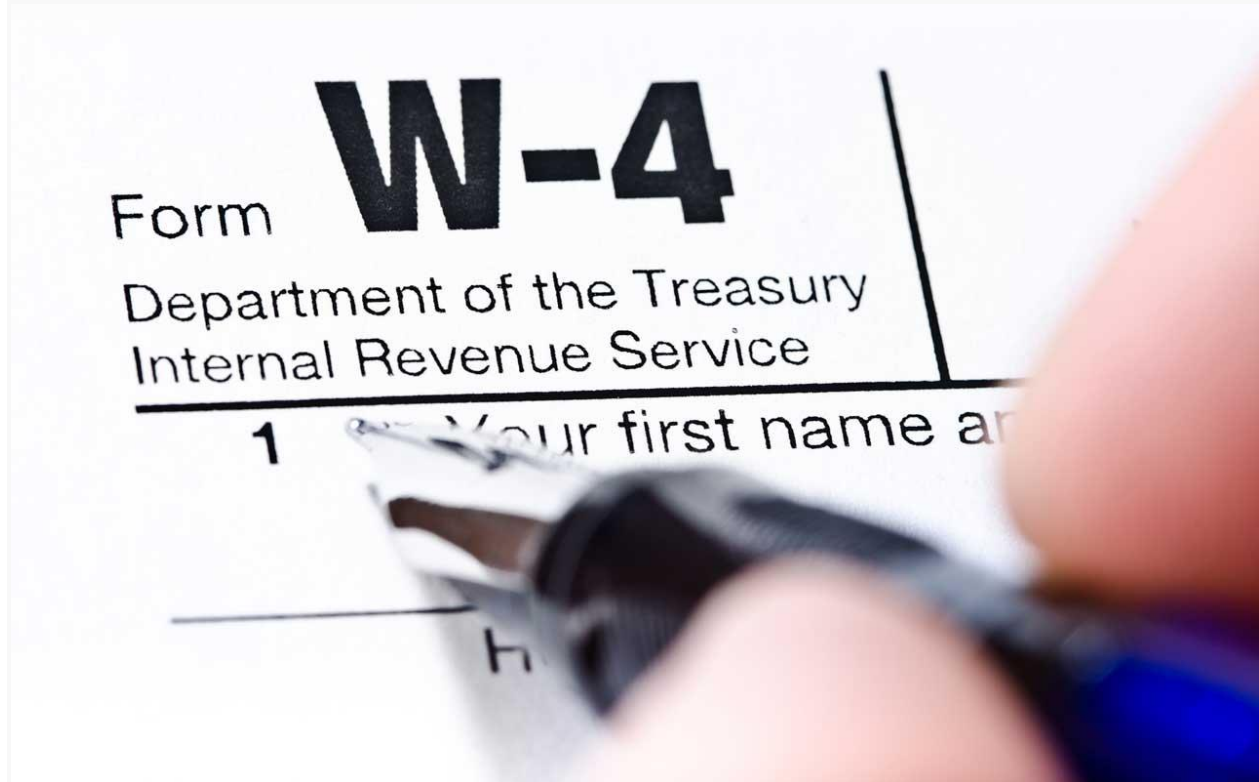


# 10 Things Every Worker Needs to Know About the New W-4 Form for 2020



The IRS has released a new W-4 form for 2020.

**MOST WORKERS WILL NOT NEED TO SUBMIT A NEW FORM.**

The District would like to remind staff that we are not allowed to advise you on filling out these forms. If your tax professional recommends you fill out a new form when you have your taxes done, please ask them what their recommendations are for completing your new form at that time.

If you would like more information on the new W-4 format, **following are 10 things you need to know about the new W-4 form.** Information taken from an article by Rocky Mengle, Tax Editor printed in Kiplinger's, January 3, 2020.

# Most Workers Don't Need to Submit a New Form

**Most workers aren't required to file a new W-4 form with their employer in 2020**—but you might want to anyway. "Existing employees don't have to complete a 2020 Form W-4," says Isberg. "If they're happy with their current withholding, they can just leave their 2019 or prior Form W-4 in effect with their employer *indefinitely*."

However, **if you start a new job after 2019, you'll have to complete a new W-4 form.** There's no way around that requirement.

You'll also have to file a new W-4 form if you want to adjust the amount of tax your current employer withholds from your paycheck. Ideally, **you want your annual withholding and your tax liability for the year to be close**, so that you don't owe a lot or get back a lot when you file your return. (Remember, a large refund just means you gave the IRS an interest-free loan.) We recommend an annual check using the [IRS's Tax Withholding Estimator](#) to make sure you're on track as far as your withholding goes (the earlier in the year the better). If your tax withholding is off kilter, go ahead and submit a new W-4 as soon as possible. This is especially important if you have a major change in your life, such as getting married, having a child, or buying a home.

## The IRS Has an Online Tool to Help

To get the most accurate withholding, use the [IRS's Tax Withholding Estimator](#) to help you fill out the new W-4 form. (It's the same tool we recommended earlier for your annual withholding checkup.) You'll also want to use this tool if you expect to work only part of the year, have dividend income or capital gains, are subject to additional taxes (e.g., the additional Medicare tax), or have self-employment income.

**The IRS tool is also a good option if you have privacy concerns**—for example, if you don't want your boss to know you're working two jobs or have other sources of income. The tool will spit out an amount to report as "extra withholding" on Line 4(c) for these things, and your employer won't have a clue what it's for. The tool doesn't ask you to provide sensitive information such as your name, Social Security number, address or bank account numbers, either. And the IRS doesn't save or record the information you enter in the tool.

You'll want a few things by your side before you start using the tool—you'll need them as a source of information. For example, **have your most recent income tax return handy.** You'll also need your most recent pay stub (your spouse's, too, if you're married). Collect information for other sources of income as well, such as invoices, statements and 1099 forms.

## There Are No More Withholding "Allowances"



The biggest change is that **you don't use the W-4 form to claim withholding "allowances" anymore.** On the old W-4, if you claimed more allowances, less tax was withheld (so you got a bigger paycheck). If you claimed fewer allowances, more tax was withheld (so your paycheck shrank). The value of an allowance was based in part on the amount of your personal exemptions. So, when the 2017 tax reform law got rid of personal exemptions, something had to be done.

Instead of claiming allowances, workers now use the W-4 form to provide their employer with the information needed to determine the amount of income tax to withhold. You'll be asked to include things like your expected filing status, family income from other jobs, number of dependents, and tax deductions you plan to claim. Once your employer has the necessary information, the company will take it from there and do the necessary calculations.

Figuring out how many allowances to claim was a big headscratcher for a lot of employees, so they probably won't be missed. Nevertheless, as Pete Isberg, Vice President of Government Affairs for payroll processor ADP, notes, "withholding allowances have been the basis of payroll withholding forever," so the change is likely to "cause a little confusion."

## **The New Form is Really Easy if Your Taxes are Simple**



The new W-4 form is super simple if you only have one job and your taxes are easy. (By "easy," we mean you're not filing a joint return with a spouse who works, you don't have dependents, you're not itemizing or claiming deductions other than the standard deduction, you're not claiming tax credits, and you don't have non-employment income.) If that's you, **all you have to do is provide your name, address, Social Security number and filing status, and then sign and date the form.** That's it—you're done!

## The New Form Takes Longer if Your Taxes are Complex



**If your taxes are more complicated, it will probably take you more time to complete the new W-4 than it took to fill out the old one.** That's because you'll now have to dig up information about your spouse's income, your dependents, tax credits, and the deductions you expect to claim.

When new hires are handed a W-4 starting in 2020, "they may need to call their accountant to ask questions, or have their spouse look up information from their last tax return," Isberg points out. They'll need to know what their total deductions were last year, if they still qualify for the child tax credit, how much non-wage income they reported on their last return, and similar tax-related things. "Nobody remembers that off the top of their head," he notes, "so it could be time consuming" collecting the necessary information. You'll probably have to take the new form home and fill it out there, instead of turning it in right away on your first day of work.



## Multiple Jobs and Working Spouses are Handled Differently



Having multiple jobs or a spouse who works can affect the amount of tax withheld from your wages. Tax rates increase as income rises, and only one standard deduction can be claimed on each tax return, regardless of the number of jobs. As a result, if you have more than one job at a time or file a joint return with a working spouse, more money should usually be withheld from the combined pay for all the jobs than would be withheld if each job was considered by itself. Therefore, adjustments to your withholding must be made to avoid owing additional tax, and maybe penalties, when you file your tax return.

This is not new—but the way it's handled on the W-4 form is quite different. The old W-4 form accounted for multiple jobs and two-earner families using detailed instructions and worksheets that many workers may have missed. However, **the new form is much more open and straightforward about factoring in additional jobs and working spouses.** Step 2 of the redesigned Form W-4 lists three different options you can choose from to make the necessary withholding adjustments. Also note that the IRS recommends completing a 2020 W-4 for all your jobs to get the most accurate withholding. (By accurate, they mean having total withholding as close to your expected tax liability as possible.)

## It's Easier to Account for Tax Credits and Deductions



As with the changes for multiple jobs and working spouses, **the new W-4 form makes it easier to adjust your withholding to account for tax credits and deductions.** There are clear lines on the revised form to add these amounts—you can't miss them. Including credits and deductions on the form will decrease the amount of tax withheld—which in turn increases the amount of your paycheck and reduces any refund you may get when you file your tax return.

Workers can factor in the child tax credit and the credit for other dependents in Step 3 of the new form. You can also include estimates for other tax credits in Step 3, such as education tax credits or the foreign tax credit.

For deductions, it's important to note that you should only enter deductions *other than* the basic standard deduction on Line 4(b). So, you can include itemized deductions on this line. If you take the standard deduction, you can also include other deductions, such as those for student loan interest and IRAs. However, **do not include the standard deduction amount itself.** It could be "a source of error if folks just put in their full amount," warns Isberg.

If you have multiple jobs or a working spouse, complete Step 3 and Line 4(b) on only one W-4 form. To get the most accurate withholding, it should be the form for the highest paying job.

## You Can Set Up Withholding for a Side Job

The old W-4 form and instructions didn't mention income from self-employment. But if you have a side job as an independent contractor (i.e., not an "employee"), you can use the new W-4 form to have taxes taken out of your regular job's paycheck to cover your side job, too. (This would be instead of making estimated tax payments for your second job.) You'll definitely want to use the [IRS's Tax Withholding Estimator](#) tool for this. **You can also pay self-employment taxes through withholding from your regular-job wages.**

Don't include self-employment income as "other income" on Line 4(a), though. That line is for income that isn't from a job, such as interest, dividends and retirement income.

## You Can Still Claim a Withholding Exemption

As before, you can still claim an exemption from withholding. However, there isn't a special line for this on the new W-4 form like there was on the old form. Instead, **if you qualify for an exemption, you can claim it by writing "Exempt" in the space below Line 4(c).** You also have to provide your name, address, Social Security number and signature. You qualify for an exemption in 2020 if (1) you had no federal income tax liability in 2019, and (2) you expect to have no federal income tax liability in 2020. (If your total expected income for 2020 is less than the standard deduction amount for your filing status, then you satisfy the second requirement.)

Be warned, though, that if you claim an exemption, you'll have *no* income tax withheld from your paycheck and you may owe taxes when you file your return. You might be hit with an underpayment penalty, too.

An exemption is also good for only one year—so **you have to reclaim it each year.** If you were exempt in 2019 and want to reclaim your exemption for 2020, you need to submit a new Form W-4 by February 17, 2020. Likewise, if you claim an exemption for 2020, you'll need to submit another W-4 form by February 16, 2021, to keep it next year.



## You Can Still Get a Refund



Although the new withholding system is designed to produce the most accurate withholding possible (i.e., low tax payment or refund at when you file your return), **you can tweak your W-4 form to generate a refund (or larger refund)** if that's what you really want. Simply add an additional amount on Line 4(c) for "extra withholding." That will increase your income tax withholding, reduce the amount of your paycheck and either jack up your refund or reduce any amount of tax you owe when you file your tax return.

If you have a specific refund amount in mind, let the [IRS's Tax Withholding Estimator](#) tell you how much to put down on Line 4(c). On the results page, you can tell the tool that you'd "like to end up the year with a refund of at least \$1,000 or \$5,000 or whatever you want," says Isberg, and "it'll actually take you through the Q&A and give you a nice analysis and instructions on how to adjust your withholding to get to the result you want." You can even download a new W-4 form with the appropriate amount preloaded on Line 4(c).