Form W-4

IRS proposes significant changes for 2019
Draft 2019 Form W-4 reveals planned overhaul of federal income tax withholding calculation

The IRS has recently published a draft of the 2019 **Form W-4** and **instructions** containing information concerning the proposed changes in the federal income tax withholding calculation starting next year.

As it pertains to marital status, employees would have three marital status options:

1. Single or married filing separately
2. Married filing jointly
3. Head of household

More significantly, in lieu of claiming withholding allowances, the draft Form W-4 would give employees the option of providing annual dollar amounts for:

1. Additional nonwage income, such as interest and dividends
2. Deductions from income for the household, such as itemized or other deductions
3. Income tax credits expected for the tax year
4. For employees with multiple jobs, total annual taxable wages for all lower-paying jobs in the employee's household

Before implementing the income tax withholding calculation in Publication 15 or Publication 15-A, employers would be required to adjust the employee's pay period taxable wages according to the annual dollar amounts entered on lines 5 through 8 of the draft Form W-4. The IRS provides an example of this computation in the draft Form W-4 instructions (page 9).

If an employee leaves lines 5 through 8 of Form W-4 blank, federal income tax would be withheld according to the normal federal income tax withholding calculation, with a default of two withholding allowances for single or married filing separately and three withholding allowances for married filing jointly or head of household.

The revised Form W-4 and this updated method of computing federal income tax withholding would apply to all new employees hired on and after January 1, 2019, and to any existing employees who change their Form W-4 at any time next year.

Of interest, the draft Form W-4 instructions state that existing employees would not be required to complete the new Form W-4; rather, employers would be allowed to use the Form W-4 submitted in prior years. As with 2018, the IRS explains that the 2019 federal income tax withholding tables would be designed to work with a Form W-4 published prior to 2019, which features employees’ claimed allowances on line 5.
Background

Under the Tax Cuts and Jobs Act (TCJA) of 2017 and effective January 1, 2018, through December 31, 2025, the personal exemption deduction is suspended; however, the law allows the IRS to administer the federal income tax withholding rules under IRC §3402 without regard to this provision for tax years beginning before January 1, 2019. (TCJA §11041.)

The 2018 Form W-4 continues to contain line 5 on which employees can claim withholding allowances. The IRS explained that the 2018 federal income tax withholding is designed to work with Forms W-4 submitted prior to 2018, and there is currently no requirement that employees submit a revised Form W-4 merely because they claimed withholding allowances. (IR-2018-36.)

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Payroll software providers will need to begin immediately to consider how systems would be configured to accommodate the proposed federal income tax withholding calculation. Potential changes to electronic Form W-4 systems should also be considered.

The proposed Form W-4 would be far more complex, and employees could struggle to understand how to complete it correctly. Accordingly, employers should consider the extent they would provide Form W-4 training or other assistance to their employees.

Finally, the draft Form W-4 would likely not conform to state income tax withholding purposes. Accordingly, states that currently use the Form W-4 could require a unique state form to be used.

For more information on the Tax Cuts and Jobs Act and its impact on employers and the 2018 Form W-4, download our special report here.
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