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Tax Prep Dispatch: What's Going on With Form W-4?

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Question: What's harder than preparing an income tax return?

Answer: Preparing an income tax return for a tax year that hasn't even happened yet.

That's why determining the correct amount of withholding is so difficult. The IRS has made a valiant effort to help people get it right with the development of



[Certificate draft form](#). It is substantially different than any prior W-4 known to man: withholding allowances are gone and employees are asked to estimate figures from their future tax return. It's like preparing a tax return with a crystal ball. How the information will be used to determine actual withholding amounts remains a bit of a mystery.

Let's look it over and see what we can figure out.

Background

The draft W-4, posted May 30, 2019, was not the first attempt. IRS posted a previous draft in 2018. There was such a negative reaction from the tax professional community that IRS did a substantial revision, resulting in the recent 2019 draft.

The draft W-4 is designed for tax year 2020. Although it is quite different from prior W-4s, not everybody needs to use it come January 2020. Taxpayers who stay with the same employer and are satisfied with their withholding do not need to use the new form. However, anyone who gets a new job or finds a need to change withholding after December 31, 2019, will need to use the new form.

What's So Different?

We won't be hearing people say things like:



"I want to make sure I get a refund, so I always claim zero."

"I need a bigger paycheck, so I claim ten."

"The wife and I have three kids, so I claim five."

These phrases all refer to withholding allowances which no longer exist. People thought of withholding allowances as exemptions—which they really weren't, but sort of were. With the new W-4, there's nothing analogous to withholding allowances. It's a whole new way of thinking about withholding.

Basically, the employer gets the following information about each employee:

- Anticipated filing status
- Whether the employee (and spouse if MFJ) has more than one job
- Amount of anticipated tax credits
- Amount of additional income (in addition to the wages paid by that employer)
- Total anticipated adjustments and itemized deductions
- Dollar amount of any additional withholding requested

Note that the first item, predicted filing status, is the only tax information that is actually required. Employees can



mean less accurate withholding.

Comparing the current W-4 and the new one, there are three notable differences:

- There is no longer one piece of key summary information.
- The employee does not directly provide marital status.
- The employee can enter predicted dollar amounts expected on their next tax return.

Two things are the same:

- There is a line where the employee can enter a dollar amount to request additional withholding.
- The employee can claim exemption from withholding.

Basic Form Structure

The following *italicized* comments attempt to translate what each section is saying to the employee.

Step 1: Enter Personal Information

This is name, address, SSN and predicted filing status.

The employee can choose to complete just this section, sign at the bottom of the form and be done. I'm guessing that the withholding calculations would then be based on these assumptions:



exemptions if married filing MFJ).

- The current job is the employee's only income.
- The employee does not qualify for any adjustments or credits and will take the standard deduction.

This is perhaps analogous to the old Single with one withholding allowance.

Translation: Provide your basic information, plus the filing status you think you will use. If you don't want to get into the woods on this whole withholding issue, finish Step 1 and then go to the bottom and sign.

Step 2: Account for Multiple Jobs

This is for a taxpayer (or taxpayer and spouse filing MFJ) who has more than one job. The only entry is checking—or not checking—one little box. Nonetheless, to me this is the most confusing part of the form. It appears the employee can choose to do one of the following:

- Don't check the box and use the withholding calculator.
- Don't check the box and complete Worksheet 1 in the instructions. (It's a doozy.)
- Check the box on this and all other W-4s and (it appears) each W-4 will be considered independently. There's a warning that this may result in excess withholding.

Translation: Be warned that this form may not work well for somebody with more than one job.



Yes, it's called dependents, but it is really asking for an estimate of credits that the taxpayer will get on their 2020 return. Two indented lines ask the taxpayer to calculate the predicted child tax credit (\$2,000 each) and credit for other dependents (\$500 each). But read the instructions and one will discover that the line 3 entry should also include other tax credits, *"such as education tax credits, and the foreign tax credit."*

Translation: What is the total of all the credits you think that you'll get next year?

Step 4: Other Adjustments

This step is marked "optional." Although Step 1 instructions already say that Steps 2 – 4 are optional, apparently Step 4 is even *more* optional.

There are four lines to this step:

- **4a: Other Income:** This is basically an offer to withhold tax to cover non-wage income.
- **4b: Deductions:** This is for folks who think they will itemize or who think they will have adjustments to income. The amount entered would be total adjustments plus the excess of itemized deductions over the standard deduction.
- **4c:** If the employee wants extra income tax withheld and somehow knows how much, the amount per pay period is entered here.



on this line and have no income tax withheld. The instructions advise that this is for taxpayers who had no balance due for 2019 and anticipate the same for 2020.

Translation: Here are some more questions.

4a: *Do you want this withholding to cover your other income?*

4b: *Will you have heaps of deductions when you file next year?*

4c: *Do you want lots of tax taken out and get an even smaller paycheck?*

4d: *You usually don't owe anything when you file so how about we don't take out any taxes. **Caution!** Be sure you won't owe before you choose this route. Sometimes a minor change in income or your family can cause a balance due.*

What's So Difficult?

In addition to the whole new perspective on W-4s, the form is really asking the employee to prepare next year's tax return, including itemized deductions, adjustments and credits.

The order of the steps does not seem clear. The whole bit about multiple jobs is confusing.

Income from self-employment, a huge bugaboo in the world of preparing taxes, isn't really addressed on the



moreover, the instructions just defer to the online calculator.

What About the IRS Withholding Calculator?

The [current calculator](#) has not yet been revised to reflect the new form. But some of the following challenges that currently exist, one assumes, will still be around.

It starts with two minefields:

- *What filing status will you use on your 2019 tax return?*
- *Can someone else claim you as a dependent on his or her tax return?*

It continuously links to IRS publications. The first two questions offer links to additional information, but will most employees read it? For example, head of household links to [Publication 501](#), Dependents, Standard Deduction, and Filing Information which was 27 pages long at last count.

There are some pretty straightforward questions about qualifying children for the child tax credit, child and dependent care credit and EITC. But then it asks for the total of all other credits that you expect to be eligible for:

- *Enter the total value of other tax credits for which you expect to be eligible.*



wage income, total withholding so far this year, amount of other income, total adjustments and itemized deductions.

Final Notes

A draft [Publication 15-T](#), Federal Income Tax Withholding Methods, was posted June 6, 2019. It addresses employers, providing information on how they are to use information on the new W-4 to calculate withholding. The summary on pages one and two explains the basics of how W-4 entries affect withholding.

- Checking the box in Step 2 will result in higher withholding.
- The credit amount entered in Step 3 will reduce the withholding by that amount, on an annualized basis.
- Additional income entered in Step 4a will increase that amount of wages subject to withholding, on an annualized basis.
- Adjustments and deductions entered in Step 4b will reduce that amount of wages subject to withholding, on an annualized basis.
- Additional withholding requested in Step 4c will increase that amount of withholding, on an annualized basis.

There's a whole lot more and trust me, it's complex. There are different withholding methods, such as the percentage method and the wage bracket method, that



called the Employer's withholding worksheet that sounds innocent enough but it's actually a 31-line lollapalooza. Good luck, software programmers.

Ultimately, the bottom line is: what works? It would seem that either method—using the W-4 and its worksheets or the online calculator—will work if used as designed. That is, it should work if the employee makes reasonable predictions, correctly follows the instructions and the same is done for all other W-4s for the taxpayer (and spouse if MFJ). But a novice making predictions to complete a W-4 (which is kind of like preparing a tax return without software) is dicey business at best. But, really, what's the alternative? This new method may be as good as it gets.

Speaking of the movie, "*As Good as it Gets*," here's another quotation:

*Carol Connelly: Why can't I have a normal boyfriend?
Just a regular boyfriend, one that doesn't go nuts on me!
Beverly: Everybody wants that, dear. It doesn't exist.*

We all want a simple, easy W-4 that will result in accurate withholding. But maybe that's impossible; it just doesn't exist. This new draft W-4 may be as good as it gets.

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