



Understanding Form W-4 / W-4P Elections

Reference Point: <https://www.irs.gov/newsroom/faqs-on-the-2020-form-w-4>

The information outlined below aligns with R12 and provides information pertaining to your elections line by line.

Any changes to your filing status should occur by logging into ESS at <https://r12.oci.nashville.org/>.

The Tax Cuts and Jobs Act (**TCJA**) made significant changes to tax rates, deductions, tax credits and personal exemptions, beginning in 2018. The IRS released new withholding tables for 2018 and 2019, but Form W-4 remained largely unchanged, continuing to feature an entry for number of withholding allowances. Prior to the TCJA, most withholding allowances were based on personal exemptions (i.e., one each for the employee, any spouse, and dependents), yet the TCJA had changed the value of personal exemptions to zero.

Major Changes to the 2020 Final Form W-4 Include:

- ✚ Number of withholding allowances eliminated
- ✚ New Marital Status - Head of Household (with associated tax tables)
- ✚ Lines to claim exemption from withholding were removed

Steps 1 and 5 are mandatory for all employees who complete the form (i.e., name, Social Security Number, address, filing status, signature, and date). Steps 2 and 3 should be completed if applicable.

Step 2: Adjustment for Multiple Jobs in a Household

It is still necessary to adjust withholding for employees in families with multiple jobs (e.g., when a spouse also works, or the employee has a second job) to apply the appropriate tax bracket given the combined family income. There are three options to adjust for multiple jobs:

Use the new online IRS Withholding Estimator, at www.irs.gov/W4App

This option determines an additional amount to withhold each pay period. Only one wage earner in the family should elect this option and apply the additional amount to Line 4c.

Use the worksheet on page 3 to calculate any additional tax due and enter the additional per-payroll amount to withhold on Line 4c. (This is closest to the pre-2020 method.)

If there are only two jobs in a household, the employee can simply check the box in Step 2 to apply withholding at higher rates. Both wage earners in a household should check the box.

Line 3: Claim Dependents

For households with expected annual income under \$200,000 (\$400,000 if married filing jointly), the TCJA increased the Child Tax Credit to \$2,000 for qualifying children under age 17, and \$500 for other dependents. Employees will be able to directly enter these and other expected full-year tax credits on Line 3.

Step 4 is optional but may help ensure that withholding is accurate.

Line 4a: Other Income

Employees will be able to enter estimated full-year nonwage income not subject to withholding (such as rental income, interest, and dividends). Previously, employees with other income sources completed a worksheet to estimate an additional amount to withhold each pay period. The new form simplifies this process for the employee by asking the employee to enter anticipated full-year other income. Employers will add such income to the employee's wage income to calculate the income tax to withhold.

Line 4b: Deductions

Line 4b permits employees to enter estimated full-year deductions (such as state and local taxes up to \$10,000; mortgage interest and charitable contributions) above the standard deduction amount (e.g., \$12,400 for single filers; \$24,800 for married filing jointly (MFJ) in 2020). Employees will use a Worksheet on page 3 and enter the result on Line 4b.

Previously, employees were required to convert estimated deductions into an equivalent number of withholding allowances, so this approach simplifies the W-4 completion process for employees. Employers will need to convert reported amounts to a per-payroll adjustment to wages to calculate the income tax to withhold.

Line 4c: Additional Amount to Withhold Each Pay Period

Line 4c permits employees to enter an additional amount to withhold each pay period. This is one option by which employees can adjust for multiple wage earners in the family, or a second job, or other income. Line 4c is the only entry that asks for a per-payroll amount. All other entries are full-year amounts.

Claiming Exemption from Withholding

Qualifying employees may still claim exemption from withholding, i.e., if an employee both (1) owed no federal tax in 2021 and (2) expect to owe no federal income tax in 2022. The instructions note that "If you claim exemption, you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2021 tax return."

To claim exemption from withholding, the employee must certify that they meet both conditions above by writing "Exempt" on Form W-4 in the space below Step 4(c) and completing

Steps 1 and 5. Electronic Form W-4 systems will be modified to provide for claims of exemption. Claims of exemption from withholding must be established annually.