

Withholding – Filling Out Form W-4



Your money, your values, your sanity.

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2018 Federal Income Tax Withholding

The newly revised 2018 withholding tables are designed to work with Form W-4, *Employee's Withholding Allowance Certificate*, which you previously gave your employer.

To help determine your withholding you can also use the withholding calculator at www.irs.gov/W4App. Consider using this calculator if you have a more complicated tax situation, such as if you have a working spouse, more than one job, or a large amount of nonwage income.

Form W-4, *Employee's Withholding Allowance Certificate*

Starting a new job can be exciting, but it can also be stressful. One of the documents you're likely to see on your first day of work is IRS Form W-4, which tells your employer how much income tax to withhold from your paycheck so you don't owe a bundle when you file your tax return. The form has complicated instructions in small print, several worksheets, and can be intimidating at first glance. This handout provides some basic information about what Form W-4 is, how to fill it out properly, and what is done with the information when the form is handed in to the employer.

Purpose of Form W-4

Law requires every new employee to fill out Form W-4 so the employer can withhold the proper amount of federal income tax from the employee's pay.

Form W-4 is not filed with the IRS, but is kept in the employee file. A new Form W-4 may be filed with the employer at any time during the year should the employee's situation change. It is recommended that employees complete a new W-4 once a year.

The employer may also use the information from IRS Form W-4 to determine how much to withhold for state income tax. Note that withholding for Social Security and Medicare tax (FICA) is a set percentage and is not affected by Form W-4.

How Withholding is Computed

When preparing payroll, the employer refers to an IRS chart that states an amount to withhold based on whether the employee is single or married, how many personal allowances are indicated, and how much the employee earned during the pay period.

The amounts on the withholding chart are an attempt to withhold the proper amount so the employee will have paid the tax liability through withholding when he or she files a tax return for the year.

If tax liability on the return is more than the amount withheld, there will be a balance due. If the underpayment is substantial, penalties may apply.

If tax liability on the return is less than the amount withheld, the difference is refunded to the taxpayer. There is no penalty for having too much tax withheld. Keep in mind that big refunds are generally viewed as a bad tax planning strategy since they amount to giving an interest-free loan to the government and getting your own money back next year.

Single or Married

The employee checks a box on Form W-4 stating whether he or she is single or married. An employee who is single will have tax withheld at a higher rate than an employee who is married. Note that there is also an option to check a box indicating, "Married, but withhold at higher Single rate."



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An employee may want a higher rate of withholding if he or she has a significant source of other taxable income (such as self-employment, interest, or dividend income), if he or she works more than one job, or is married and both spouses work.

Two earners or multiple jobs. If you have a working spouse or more than one job, the total number of allowances should be claimed on only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others.

Example: Julie and Harold are married and both work at wage jobs. Julie's income is \$90,000 and Harold's income is \$40,000. The total number of allowances they claim together is two. Therefore, in order to have the correct amount of withholding, they each should check the box "Married, but withhold at the higher Single rate" and two (2) allowances should be claimed on Julie's Form W-4 and zero (0) allowances claimed on Harold's Form W-4.

Personal Allowances

Personal allowances reported on Form W-4 take into consideration your filing status, amount of Child Tax Credit or Credit for Other Dependents you may be eligible for, deductions in excess of the standard deduction, adjustments to income, and additional income.

The higher the number of personal allowances claimed on Form W-4, the lower the amount of withholding will be. Complete the Personal Allowances Worksheet and Deductions, Adjustments, and Additional Income Worksheet in the instructions for Form W-4 to determine the proper number of personal allowances to claim.

Example #1: Melissa earned \$52,000 as an employee in 2018. She is single and uses the standard deduction on her tax return. Melissa's Form W-4 shows "Single - 1." Melissa's federal tax liability on Form 1040 is \$4,745. Her federal withholding based on "Single - 1" is \$5,653. Melissa is due a refund of \$908 when she files her tax return.

Example #2: Assume the same facts as Example #1, except Melissa claimed "Single - 3" on Form W-4 so her take-home pay would be higher. Instead of having \$5,653 withheld, at "Single - 3" she had only \$4,112 withheld. Melissa has a balance due of \$633 on her tax return.

Danger Zones

Filling out Form W-4 is fairly straight-forward for a single taxpayer with one job claiming the standard deduction on his or her tax return. "Single-1" will cover the taxes and generally result in a small refund. Likewise with a married couple where only one spouse works, "Married - 2" will generally cover the tax bill. However, the withholding tables do not account for every situation. Many but not all of the following items can be taken into consideration on the worksheets on Form W-4. If there are significant additional sources of income, or other factors that create a more complicated tax situation, it is best to consult your tax advisor for assistance in what to claim for withholding.

Be especially careful filling out Form W-4 with:

- Both spouses working.
- Working more than one job.
- Additional non-wage income, especially self-employment income.
- High-income earners subject to alternative minimum tax, net investment income tax, or additional Medicare tax.
- Married filing separately filing status.

See IRS Publication 505, *Exemptions, Standard Deduction, and Filing Information*, for more information about withholding and filling out Form W-4.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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