



What Do Employers Need to Know About the New W-4 for Tax Year 2020?

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The IRS Form W-4 is used to determine the income tax withholding an employer must make on wages paid to employees. These withholdings have been based on personal and dependency exemptions. As these exemptions are not currently available, the Form W-4 will change starting January 1, 2020. The revision is intended to increase ease of use and transparency, but it appears likely to be more confusing and burdensome for employees to fill out. Currently, the new W-4 is in draft form; expect a final form before 2020 (although revisions should be minor, at best).

Do all employees have to submit a new W-4? No, only employees newly hired in 2020 and beyond must use the new W-4. Employers can rely on the existing Form W-4 for current employees in calculating income tax withholding. Existing employees who want to adjust their withholding must use the new form in 2020, however.

What are the changes? The new W-4 is almost a mini tax return; it includes information regarding deductions, other income, second jobs, etc. It is likely that two-income families, high wage earners, employees claiming child tax credits, and employees who have lost deductions under the new rules will see higher withholding; this may shock some employees.

Will employers need new payroll systems? No, but the use of both the new W-4 and old W-4 forms for existing employees who want to change their withholding allowances will increase the complexity of your data entry. The deduction tables will be the same for the old and the new W-4. Your system vendor should be able to assist with issues. This is another reason to consider retaining a payroll vendor to reduce your administrative overhead.

Can employers require existing employees to fill out the new W-4 in 2020, even if no changes to withholding are made? Employers can ask, but employers cannot treat employees as having failed to fill out a W-4 if an existing W-4 is on file. Employers must continue to withhold using the old W-4 if an employee does not submit a 2020 W-4.

Do employees have to disclose second jobs or other income on the new W-4?

The new W-4 includes sections where employees can disclose second jobs in order to calculate withholding. This is not required, however; employees can use the IRS' online withholding calculator and enter the withholding number directly on the W-4, and not disclose other jobs they have. Higher wage employees are likely to start using accountants to fill out their W-4, without disclosing information. Attentive employers will notice a higher withholding rate than normal, however, and can be clued in to an employee's second job or other income. This forced disclosure may lead to friction with employees and in salary negotiations.

If you have any questions about how the new W-4 changes will impact you, reach out to us at (610) 825-8400. The business and employment attorneys at Wisler Pearlstine can assist you in navigating this new development.

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About the Author: Christopher E. Ezold focuses his practice on working with businesses and professionals from startup through growth and beyond in biotech/life sciences, health care, technology, commercial and consumer services, and more. Christopher acts as outside general counsel for his business clients, and advises on corporate matters, finance (startup through private equity), equity and asset purchases, mergers and acquisitions, taxation of transactions, corporate and investor rights, technology issues, contracts, operational matters, employment issues, intellectual property rights, and licensing and regulatory compliance.

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