



## US tax reform

### Update on payroll implications for businesses: 2018 Form W-4 issued



#### Overview

The Internal Revenue Service (IRS) has issued a new 2018 Form W-4, following the earlier release of new income tax withholding tables, to employers as a result of tax reform legislation (“An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”) (the “Act”).

Although not all employees will need to complete the new form for 2018, the IRS is encouraging all employees to perform a “paycheck checkup” to

review their withholding position. Those employees with more complicated personal circumstances likely will need to file a new Form W-4. Those with more straightforward personal circumstances (e.g., single filing status and no dependents) likely will not need to take any action.

This document provides a consolidated summary of the most recent Form W-4 changes announced by the IRS and how employers should respond.



## What's changing?

In addition to the reduction of income tax rates, individual income tax withholding may be impacted by other changes in the Act, including:

- Elimination of personal exemptions and increased standard deduction.
- Limitations on the itemized deductions available for state and local taxes, mortgage interest, and medical expenses.
- A new child tax credit calculation, with increased credit phase-out amounts.

To address these changes and their potential impact on withholding, a new Form W-4 has been issued for 2018, enabling employees to calculate the number of withholding allowances they will now be entitled. To support individuals with completing the new form, the IRS has made available a [withholding calculator](#) that helps determine tax withholdings and provides guidance on how to complete Form W-4, along with FAQs.

Individuals with more complex situations are advised to consult Publication 505 once the IRS publishes an updated version. Complex situations may include individuals who owe self-employment tax, are subject to Alternative Minimum Tax (AMT) or are entitled to claim an AMT credit, and individuals with capital gains and dividends.



## What does this mean for employees and employers?

Employers will need to ensure they make the new form available to their employees and direct them to the available IRS guidance on completing the form. These forms are typically made available through internal company websites.

All employees are advised by the IRS to check their position, and can use the IRS tools to do so, but not all will need to change the last Form W-4 they previously submitted. High-risk groups cited by the IRS who will likely need to make a change are:

- Families with more than one earner;
- People with two or more jobs at the same time or who only work for part of the year;
- People with children who claim credits such as the Child Tax Credit;
- People with older dependents, including children 17 or older;
- People who itemized deductions in 2017; and
- People with high income and more complex tax returns.

Employers with employees in states with high income tax rates (and therefore a higher proportion of employees that have historically itemized income tax deductions) are likely to have more new Forms W-4 to process than others. There will likely be an additional second wave of Forms W-4 submitted by employees once the 2017 tax returns are completed and Publication 505 becomes available.



## Deloitte's view

While the IRS [previously stated](#) that employees would not be required to file a new Form W-4 for 2018, it now seems quite clear, as expected, that many employees with more complex personal circumstances should review the IRS guidance and file a new form. This review will help ensure that employees are not underwithheld and can mitigate underpayment penalties.

Employers will need to make the new form available as soon as possible, and should be prepared to answer questions posed by employees regarding the new forms. The extent to which employers will want to respond to those questions versus suggesting employees consult an outside source (e.g., a tax adviser or the IRS website) will depend on the organization's historical approach to answering employee tax questions and the likely expected volume of employee queries.



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