TAX YEAR
2021

Withholding — Filling Out Form W-4

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2021 Federal Income Tax Withholding

The tax withholding tables are designed to work with Form W-4, *Employee's Withholding Certificate,* which you give 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 Certificate

Starting a new job can be exciting, but it can also be stressful. One of the documents you will likely 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. 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

Every new employee is required by law 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 by the employer. 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 review their withholding 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 what you can enter on Form W-4.

How Withholding is Computed

When preparing payroll, the employer refers to an IRS chart that states an amount of tax to withhold based on whether the employee is single or married, how much the employee earned during the pay period, and other information submitted on Form W-4.

The amounts on the withholding chart are an attempt to withhold the proper amount so the employees will have paid their tax liability through withholding during the year.

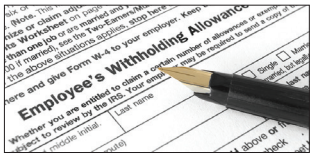
If tax liability on the return is more than the amount withheld, there will be a balance due. If the underpayment is substantial, penalties may apply.

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 you are giving an interest-free loan to the government and getting your own money back the following year.

Form W-4 Redesigned

The Form W-4 has been redesigned by the IRS, and you no longer adjust your tax withholding using allowances. Instead, you provide your employer with information to increase or decrease your tax withholding, and adjust the amount of wages subject to withholding. The form has five steps, along with worksheets and instructions, to help ensure accurate tax withholding.

Step 1: Enter Personal Information. Complete Step 1 with your personal information, and check the appropriate box for your marital status. Your marital status is used to determine your tax rates and compute your withholding.



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Step 2: Multiple Jobs or Spouse Works. Complete Step 2 if you have more than one job or if you are Married Filing Jointly and you and your spouse both work. Use the estimator at www.irs.gov/W4App or use the Multiple Jobs Worksheet in the Form W-4 Instructions. Alternatively, you may check the box in Step 2 to increase your withholding if you and your spouse each have only one job with similar pay, or you have more than one job. Checking the box is the least accurate method.

Step 3: Claim Dependents. Complete Step 3 only if you have children who qualify for the Child Tax Credit on your tax return, or other dependents that you claim who qualify for a dependent credit. A qualifying child must be under age 17 as of December 31, must be your dependent that lives with you for more than half the year, and must have a Social Security Number. Other dependents, such as an older child or relative, that do not qualify for the Child Tax Credit may qualify for the Credit for Other Dependents. Your tax withholding will be decreased if you complete this step.

Step 4: Other Adjustments. Complete Step 4 if you want to increase or decrease your withholding based on other factors.

Increase your withholding. If you want to increase your tax withholding, enter in Step 4 an estimated amount of other income earned outside of your job, like interest income, dividends, or retirement pay. Your employer will withhold additional tax to help cover the tax liability on other income.

Decrease your withholding. If you want to decrease your tax withholding, you can use the worksheet located in the Form W-4 instructions to determine the additional deduction amount to enter in Step 4. Your employer will decrease your tax withholding based on the deduction amount you provide.

Extra withholding. If you want additional withholding and are concerned about disclosing private information, you may enter an additional amount you want withheld per pay period in Step 4.

Step 5: Sign Here. You must sign and date the form before submitting it to your employer.

Step 1 and Step 5 of the form are required to be completed. Complete Steps 2 through 4 only if they apply to you.

Example #1: *Melissa earns wages working full-time as an engineer, and additional wages teaching yoga on nights and weekends. On her Form W-4 for both jobs, she checks the box in Step 2 to indicate more than one job. This will direct her employers to withhold tax at a higher rate.*

Example #2: *Mike works full-time as a computer analyst, and earns seasonal income as a basketball referee. Mike wants his full-time employer to withhold additional tax, but he does not want to disclose the amount of his referee income. Mike can request $100 of extra withholding per pay period in Step 4 of his Form W-4, without providing additional details to his full-time employer.*

Danger Zones

Filling out Form W-4 is fairly straightforward for a single or married taxpayer with one job claiming the standard deduction on his or her tax return. The status of Single or Married Filing Jointly on Form W-4 will generally cover the tax liability and result in a small refund or small balance due. However, the withholding tables do not account for every situation. If there are factors that create a more complicated tax scenario, consult your tax advisor for assistance on how to adjust your withholding.

Be especially careful filling out Form W-4 with:

- Both spouses working with a significant difference in rates of pay.
- Additional non-wage income, especially self-employment income.
- High-income earners subject to net investment income tax or additional Medicare tax.
- Married Filing Separately filing status.

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 72.
- 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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