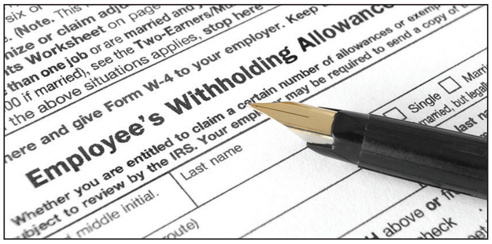


Withholding — Filling Out Form W-4

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 if the employee's situation changes. 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.

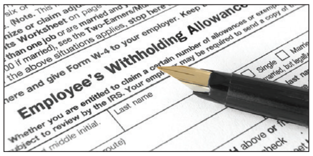
The amounts on the withholding chart are an attempt to withhold the proper amount so the employee will have paid the tax liability through withholding when he or she files Form 1040 for the tax year.

If tax liability on the return is more than the amount withheld, there will be a balance due on the tax return. 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." An employee may want a higher rate of withholding if he or she has a significant source of other taxable income, or if he or she works more than one job.



Withholding — Filling Out Form W-4

Personal Allowances

Personal allowances reported on Form W-4 take into consideration personal exemptions that will be reported on the employee's tax return. Personal allowances can also apply for other items that can reduce tax such as a non-working spouse, head of household filing status, expected credits on the tax return, itemized deductions, or other tax-reduction items.

The higher the number of personal exemptions on Form W-4, the lower the withholding will be. The worksheets that accompany Form W-4 will help the employee determine the proper number of personal exemptions to report.

Example #1: *Melissa earned $52,000 as an employee in 2016. 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 $6,184. Her federal withholding based on "Single – 1" is $7,196. Melissa is due a refund of $1,012 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 $7,196 withheld, at "Single – 3" she had only $5,176 withheld. Melissa has a balance due of $1,008 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.
- Dependents earning wages.

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.