Understanding How and Why Employees Should Use the IRS Online Withholding Calculator

September 12, 2018
Why a Paycheck Checkup?

• Protect against having too little tax withheld and facing an unexpected tax bill or penalty at tax time next year.

• Avoid too much withholding; you can receive more in your paychecks.

• Some law changes in the Tax Cuts and Jobs Act may affect your withholding.
Key Changes in Tax Law Affecting Withholding

• Generally lower **tax rates**

• **Standard deductions** almost doubled
  • Single: $6,350 → $12,000
  • Head of Household: $9,350 → $18,000
  • Married-Joint: $12,700 → $24,000

• **Exemptions** eliminated

• **Child Tax Credit** increased from $1,000 to $2,000/child and eligibility expanded

• New **credit for other dependents** of $500/dependent

• Changes to allowable **itemized deductions**

www.IRS.gov/taxreform
Who Should Check Their Withholding?

- Two-income families
- People working two or more jobs 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 age 17 or older
- People who itemized deductions in 2017
- People with high incomes and more complex tax returns
Polling Question

Whose withholding is most in need of adjusting because of the tax law changes?

a) Those with dependent children
b) Those who itemized deductions for TY 2017
c) Those who have more than one concurrent job
d) All of the above
Polling Question – Correct Response

Whose withholding is most in need of adjusting because of the tax law changes?

a) Those with dependent children
b) Those who itemized deductions for TY 2017
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d) All of the above
Do a “Paycheck Checkup”

Use the Withholding Calculator to make sure you have the right amount of tax…

IRS.gov/withholding
The IRS encourages everyone to use the Withholding Calculator to perform a quick “paycheck checkup.” This is even more important this year because of recent changes to the tax law for 2018.

The Calculator helps you identify your tax withholding to make sure you have the right amount of tax withheld from your paycheck at work.

There are several reasons to check your withholding:

- Checking your withholding can help protect against having too little tax withheld and facing an unexpected tax bill or penalty at tax time next year.
What Do I Need?

• Most recent pay stubs

• Most recent income tax return
General Information

What filing status will you use on your 2018 Income Tax Return?
- Single
- Married filing joint return
- Married filing separate return
- Head of Household
- Qualifying widow(er)

Can someone else claim you as a dependent on his or her tax return?
- Yes
- No

[Continue] [Reset]
Select the total number of jobs in which you are currently or will be employed. (Enter military retirement pay or taxable pensions as additional separate jobs.): 1

Check box if you held a job this year but are no longer employed in that job. □
Check box if you contributed to a tax-deferred retirement plan such as a 401(k), this year. □
Check box if you contributed to a cafeteria or other pre-tax plan such as for health insurance, this year. □
Check box if you received a scholarship or fellowship grant this year that must be included in gross income. □

Select the number of dependents you will claim on your tax return: 0

Check if:
 □ You will be 65 or older on January 1, 2019  □ You are blind
Polling Question

What determines whether your 2018 tax benefit for dependents is larger or smaller than what it was for 2017?

a) The number of dependents
b) The age of the dependents
c) Your tax rate bracket
d) A and B
e) All of the above
Polling Question – Correct Response

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a) The number of dependents
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c) Your tax rate bracket
d) A and B
e) All of the above
In Income and Withholding:

- Enter zero for any amount that does not apply to you.

Enter the gross wages, salary, and tips you expect to receive in 2018. Use the amount of wages, salaries, and tips before any taxes, benefits or other items are subtracted. Do not include bonuses. (Enter military retirement or taxable pensions as separate jobs): 

- Enter any bonuses you expect to receive in 2018:

Enter the total Federal income tax withheld to date in 2018 (including amounts withheld from bonuses or which you expect to have withheld for bonuses):

Enter the Federal income tax withheld from your last salary payment:

Select how frequently you are paid:

Select the date closest to when you first held this job in 2018:

Select the date closest to when this job will end in 2018:
### Wage and Withholding

#### Wage Income and Withholding

* Enter zero for any amount that does not apply to you.

For each job you now hold (and for each taxable pension you receive)... Enter the gross wages, salary, and tips you expect to receive in 2018. Use the amount of wages, salaries and tips before any taxes, benefits or other items are subtracted. Do not include bonuses. (Enter military retirement or taxable pensions as separate jobs):

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Enter any bonuses you expect to receive in 2018:

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Enter the total Federal income tax withheld to date in 2018 (including amounts withheld from bonuses or which you expect to have withheld for bonuses):

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Enter the Federal income tax withheld from your last salary payment:

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Select how frequently you are paid:

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly</td>
<td>Weekly</td>
</tr>
</tbody>
</table>

Select the date closest to when you first held this job in 2018:

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>January 1</td>
</tr>
</tbody>
</table>

Select the date closest to when this job will end in 2018:

<table>
<thead>
<tr>
<th>Job 1</th>
<th>Job 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31</td>
<td>December 31</td>
</tr>
</tbody>
</table>
Polling Question

Why are those with two or more concurrent jobs likely to have too little withheld?

a) The withholding tables give the benefit of the standard deduction to each job.
b) The withholding tables assume that there are no other concurrent jobs.
c) Both A and B
Polling Question – Correct Response

Why are those with two or more concurrent jobs likely to have too little withheld?

a) The withholding tables give the benefit of the standard deduction to each job.

b) The withholding tables assume that there are no other concurrent jobs.

c) Both A and B
Other Income and Adjustments

Nonwage Income

Enter the total of any other taxable earned income you received or expect to receive in 2018: $0

Enter any unemployment compensation you received or expect to receive in 2018: $0

Enter an estimate of any other nonwage income (such as dividends or interest received) you expect to receive in 2018. Do not include amounts you included in earned income above: $0

Adjustments

Enter an estimate of your 2018 adjustments to income including deductible IRA contributions and education loan interest: $0
Child and Dependent Care Credit

Select the number of qualifying persons for this credit: [0]

If you plan to claim this credit, enter an estimate of work-related child and dependent care expenses: $ [00]

Child Tax Credit

Select the number of qualifying children: [0]

Note: the calculator will also determine the non-child dependent credit for you, based on your total number of dependents and this number of qualifying children.

Earned Income Tax Credit

Select the number of qualifying children: [0]

Other Credits

Enter the total value of other tax credits for which you expect to be eligible: $ [00]

Tip: If you claim any of these credits and follow the recommendations at the end of this calculator, the amount of tax withheld from your paychecks will be reduced. This means that you will receive bigger paychecks throughout the year, and a smaller refund when you file your tax return. The summary page at the end of this calculator will show you your expected refund if you have had too much withheld, but it will not reflect any refundable portions of these credits.
# Itemized Deductions

**Deductions**

If your standard deduction, $12,000, is more than your total itemized deductions, your standard deduction will be used to calculate your withholding. Otherwise, your total itemized deduction amount will be used.

If you want to use your itemized deductions to calculate your withholding, even if they amount to less than your standard deduction, check this box: ☐

Enter an estimate of your 2018 itemized deductions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Dental Expenses</td>
<td>$ _______.00</td>
</tr>
<tr>
<td>Taxes You Paid</td>
<td>$ _______.00</td>
</tr>
<tr>
<td>Interest You Paid</td>
<td>$ _______.00</td>
</tr>
<tr>
<td>Gifts to Charity</td>
<td>$ _______.00</td>
</tr>
<tr>
<td>Casualty Losses</td>
<td>$ _______.00</td>
</tr>
<tr>
<td>Other Itemized Deductions</td>
<td>$ _______.00</td>
</tr>
</tbody>
</table>

[Buttons: Continue, Reset]
Polling Question

Should those who itemized in 2017 reduce their withholding allowances in 2018 when they will no longer itemize (due to the increased standard deduction)?

a) No. They shouldn’t reduce their withholding allowances at all.

b) Possibly. Withholding allowances depend on the extent to which itemized deductions exceed the standard deduction.

c) Yes. They’ll have too much withheld if they don’t.
Polling Question – Correct Response

Why should those who itemized in 2017 reduce their withholding allowances in 2018 even if they will no longer itemize (due to the increased standard deduction)?

a) No. They shouldn’t reduce their withholding allowances at all.

b) Possibly. Withholding allowances depend on the extent to which itemized deductions exceed the standard deduction.

c) Yes. They’ll have too much withheld if they don’t.
Your Results

Based on the information you previously entered, your anticipated income tax for 2018 is $3,873. If you do not change your current withholding arrangement, you will have $9,000 withheld for 2018 resulting in an overpayment of $5,127 when you file your return. If you want your withholding to more closely match your anticipated tax, adjust your withholding on a new Form W-4 as follows:

- For the only job you entered (which has a projected salary of $50,000): 12 allowances.
- Check the "Single" box on your Form W-4.

Based on the information you entered, if you file a new Form W-4 for the rest of 2018 the expected refund to which you may be entitled, should be about $1,125. Following this recommendation to file a new W-4 will ensure that the amount withheld from your wages will cover all of your projected tax liability while minimizing your refund, as long as the information you entered in the calculator remains correct.

Caution! The recommended number of allowances will result in no income tax being withheld from your pay (because your year-to-date withholding is already sufficient to meet your anticipated tax). Therefore, you should analyze your withholding again at the beginning of 2019 (or at any time there is a change to your tax situation). If you do not check your withholding at the beginning of next year, you will likely be underwithheld for 2019.
Following is a recap of information entered on the preceding pages on which the above advice is based.
Prepared: March 15, 2018

<table>
<thead>
<tr>
<th>Filing Status: single</th>
<th>Someone else can claim you as a dependent: no</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of jobs: 1</td>
<td>Number of dependents: 1</td>
</tr>
<tr>
<td>Will you be 65 or older 1/1/2019: no</td>
<td>Are you blind: no</td>
</tr>
<tr>
<td>Child &amp; dependent care credit qualifying persons: 0</td>
<td>Child &amp; dependent care credit expenses: $0</td>
</tr>
<tr>
<td>Child credit qualifying children: 0</td>
<td>EITC qualifying children: 0</td>
</tr>
<tr>
<td>Other credits: $0</td>
<td></td>
</tr>
<tr>
<td>Total salary: $50,000</td>
<td>Total plans and cafeteria: $0</td>
</tr>
<tr>
<td>Total tax withheld to date: $5,000</td>
<td>Total tax withheld from last check: $100</td>
</tr>
<tr>
<td>Total earned income other than salary: $0</td>
<td>Nonwage income: $0</td>
</tr>
<tr>
<td>Adjustments to income: $0</td>
<td>Total itemized deductions: $0</td>
</tr>
<tr>
<td>Projected additional withholding if you do nothing: $4,000</td>
<td></td>
</tr>
</tbody>
</table>
What if I Don’t Have Enough Withheld?

- Submit a new Form W-4 to your employer
What If I Have Too Much Withheld?

- File a new Form W-4 to:
  - Avoid a large refund
  - Put more in your regular paycheck
Will I Need to Do Another Checkup?

• Recheck your withholding:
  — In early 2019
  — If your circumstances change
People with more complex tax situations should use the instructions in Publication 505. They are taxpayers who:

- Owe self-employment tax
- Owe alternative minimum tax
- Have tax on unearned income of dependents
- Have long-term capital gains or qualified dividends
- Owe certain other taxes
Resources

- www.irs.gov/withholding
- Publication 505, Tax Withholding and Estimated Tax
- Form W-4, Employee’s Withholding Allowance Certificate
- Form 1040-ES, Estimated Tax for Individuals
Questions
Thank You!

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