



Parodi &
de Laveaga
Certified Public Accountants

3658 Mt. Diablo Boulevard, Suite 205, Lafayette, CA 94549
P 925-284-3590 | www.delaveaga.com | F 925-284-3593

IMPACTS TO PAYROLL WITHHOLDING (Tax Topic #3)

Is my Federal withholding right for 2018?

The Tax Cuts and Jobs Act reduced tax rates, eliminated the deduction for personal exemptions and eliminated or reduced several itemized deductions for tax years 2018 through 2025. Because of these changes, the IRS updated its withholding tax charts, resulting in less withholding for 2018. The reduced withholding may not be sufficient to cover your taxes for 2018.

To avoid assessment of underpayment of estimated tax penalties, your withholdings and estimated tax payments throughout the year needs to be the lesser of:

1. 110% of your prior year tax liability or
2. 90% of your current year tax liability

In a year when the impact of tax law changes to your situation may be uncertain, and reduced Federal withholding amounts are untried, it is possible that tax withholdings which have been sufficient in the past are no longer adequate. That said, underpayment of estimated tax penalties are calculated on the shortfall of the minimum needed. If your federal tax withholdings and estimated tax payments equaled 85% of your current year tax instead of 90%, your underpayment penalty would only be assessed on the shortfall of 5%. The current estimated tax penalty rate is about 6% - 7% (federal short-term rate plus 3 percentage points).

While the Withholding Calculator works for most taxpayers, people with more complex tax situations (owe self-employment tax, alternative minimum tax, tax on unearned income of dependents or certain other taxes, stock option income and people with long-term capital gains or qualified dividends) will find it inadequate.

It is good idea to review your withholdings for 2018. You can check to see if you will have enough federal tax withheld by using the IRS updated Withholding Calculator and Form W-4. The IRS calculator helps you review your withholding considering the new tax law.

Go to: <https://www.irs.gov/individuals/irs-withholding-calculator>. You will have to scroll down a bit until you see:

Plan ahead: tips for using this program

The Withholding Calculator asks taxpayers to estimate their 2018 income and other items that affect their taxes, including the number of children claimed for the Child Tax Credit, Earned Income Tax Credit and other items. Take a few minutes and plan ahead to make using the calculator as easy as possible. Here are some tips:

- Gather your most recent pay stub from work. Check to make sure it reflects the amount of Federal income tax that you have had withheld so far in 2018.
- Have a completed copy of your 2017 tax return handy. Information on that return can help you estimate income and other items for 2018. However, note that the new tax law made significant changes to itemized deductions.



- Keep in mind the Withholding Calculator results are only as accurate as the information entered. If your circumstances change during the year, come back to the calculator to make sure your withholding is still correct.
- The Withholding Calculator does not request personally-identifiable information such as name, Social Security number, address or bank account numbers. The IRS does not save or record the information entered on the calculator. As always, watch out for tax scams, especially via email or phone calls and be especially alert to cybercriminals impersonating the IRS. The IRS does not send emails related to the calculator or the information entered.

Use the results from the Withholding Calculator to determine if you should complete a new Form W-4 and, if so, what information to put on a new Form W-4. There is no need to complete the worksheets that accompany Form W-4 if the calculator is used.

As a general rule, the fewer withholding allowances you enter on the Form W-4 the higher your tax withholding will be. Entering "0" or "1" on line 5 of the W-4 means more tax will be withheld. Entering a bigger number means less tax withholding, resulting in a smaller tax refund or potentially a tax bill or penalty.

If you complete a new Form W-4, you should submit it to your employer as soon as possible. With withholding occurring throughout the year, it's better to take this step early on. Form W-4 for 2018 can be found at: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>

To change your withholding

Use your results from the Withholding Calculator to help you complete a new Form W-4, Employee's Withholding Allowance Certificate, and submit the completed Form to your employer as soon as possible. As mentioned above, withholding takes place throughout the year, so it's better to make corrections as soon as possible.

State withholding

Unless you tell your employer otherwise, they will automatically use your Form W-4 for both federal and state withholding. If you don't wish to change your state withholdings or would like to elect a different rate than your federal withholdings, let your employer know or complete the separate state withholding form, Form DE-4 in California, https://www.edd.ca.gov/pdf_pub_ctr/de4.pdf.

Special note for 2019

If you change your withholding for 2018, please remember to recheck your withholding at the start of 2019. This is especially important if you reduce your withholding sometime during 2018. A mid-year withholding change in 2018 may have a different full-year impact in 2019. So, if you do not file a new Form W-4 for 2019, your withholding might be higher or lower than you intend.

We are happy to help

If we can help with a projection of your 2018 taxes, updated for the new law, please do call our office.