



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

WAGE AND INVESTMENT DIVISION

August 27, 2018

Dear Craig Honeycutt,

The Tax Cuts and Jobs Act nearly doubled standard deductions, took away the personal exemption and changed several itemized deductions among other changes. The IRS needs your assistance to ensure awareness of these tax law changes and to urge taxpayers to complete a “paycheck checkup” as early as possible so that if a withholding amount adjustment is necessary they can make the adjustments. Taxpayers can use the “IRS Withholding Calculator” available on the IRS website [WWW.IRS.GOV](http://WWW.IRS.GOV) (search for “Withholding Calculator”) to ensure their withholding are correct.

Having too little tax withheld could result in an unexpected tax bill or penalty at tax time in 2019 when they file their 2018 return. Adjusting withholding after a “paycheck checkup” can also prevent employees from having too much tax withheld. With the average refund topping \$2,800, some taxpayers might prefer to have less tax withheld up front and receive more in their paychecks, while others may need to adjust their withholdings to prevent a balance due if they are not able to take some itemized deductions they were able to claim in prior years.

Please share the enclosed information with employees and staff to ensure they are aware. Some agencies posted the articles in common areas, shared the information via email, tweets, in newsletters, on their webpage, added brief statement to paystubs, etc.

IRS also offers free tax assistance to low-moderate income taxpayers through their “Free File” Program and at various VITA/TCE Sites across the country. If you need more information feel free to contact me or visit the IRS website [WWW.IRS.GOV](http://WWW.IRS.GOV).

Thank you in advance for your assistance in this outreach effort. If you have any questions please contact me at 919-648-3872 or 919-850-1123 or by email, [Holly.A.Longley@IRS.GOV](mailto:Holly.A.Longley@IRS.GOV).

Sincerely,

A handwritten signature in black ink that reads "Holly Longley".

Holly Longley

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# Use the IRS Withholding Calculator to Determine the Right Amount of Withholding for You

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You may be getting a tax refund in early 2018, but it's important to start planning for 2019. The IRS encourages a "paycheck checkup" following recent changes to the tax law. You can use the IRS Withholding Calculator on IRS.gov.

The calculator can help prevent having too little tax withheld -- and an unexpected tax bill next year. With the average refund topping \$2,800, the calculator can also help you determine to have less tax withheld up front and receive more in your paychecks now.

Changes to the tax law affect the 2018 return you will file in 2019. The Tax Cuts and Jobs Act made changes, including increasing the standard deduction, removing personal exemptions, increasing the child tax credit, limiting or discontinuing certain deductions and changing the tax rates and brackets.

To use the IRS Withholding Calculator for your "paycheck checkup":

- 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 - or possibly 2016 - 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.

Use the results from the Withholding Calculator to determine if you should complete a new W-4 form and, if so, what information to put on it. If you complete a new W-4, you should submit it to your employer as soon as possible. Doing this early means there's more time for tax withholding to take place evenly during the rest of the year. Waiting until later in the year means there are fewer pay periods to make the tax changes -- which could have a bigger impact on each paycheck.

For people with more complicated financial, it's especially important for these people to use the Withholding Calculator on IRS.gov to make sure they have the right amount of withholding:

- Are a two-income family.
- Have two or more jobs at the same time or only work part of the year.
- Claim credits like the child tax credit.
- Have dependents age 17 or older.
- Itemized deductions in 2017.
- Have high income or a complex tax return.
- Have a large tax refund or tax bill for 2017.

See [IRS.gov/taxreform](https://www.irs.gov/taxreform) for more information.

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# Withholding Calculator Frequently Asked Questions

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Note: More information on the withholding tables is available in the IRS Withholding Tables Frequently Asked Questions.

## **Q: Should all employees check their withholding?**

A: Yes. Employees should check their withholding at the beginning of each year or when their personal circumstances change. It's even more important this year for people to do a "paycheck checkup" following changes from the Tax Cuts and Jobs Act. With the new tax law, it's especially important for certain people to check their withholding. These include people who are two-income families, have previously itemized their deductions, have two or more jobs, work part of the year, have dependents, high incomes, complex tax returns, or had a large tax refund or large tax bill in 2017. Using the Withholding Calculator is the best way for employees to check that they aren't having too much or too little tax withheld from their paychecks.

## **Q: Why should employees check their withholding?**

A: The IRS always recommends employees check their withholding each year to make sure they're having the right amount of tax withheld from their paychecks. This year, it's more important than ever to check following major changes from the new Tax Cuts and Jobs Act. Among other things, the new law increased the standard deduction, removed personal exemptions, increased the child tax credit, limited or discontinued certain deductions and changed the tax rates and brackets. These changes mean it's an especially good idea for taxpayers to do a "paycheck checkup" to review their tax withholding. Also, if a taxpayer experiences a change that affects the number of their withholding allowances – such as a divorce – then they should check their withholding and give their employer a new Form W-4, if needed.

## **Q: Are some employees more likely to need to change their withholding in 2018?**

A: Yes. For people with simpler tax situations, the 2018 withholding tables were designed to produce the correct amount of tax withholding—avoiding under- and over-withholding of tax. This means that people with simple situations do not need to make any changes, assuming their current Form W-4 on file with their employer was filled out following the form instructions. Simple situations include singles and married couples with only one job, who have no dependents, and who do not claim itemized deductions, adjustments to income or tax credits.

But many people have more complicated financial situations, and may need to revise the amount of tax withheld from their wages. With the new tax law changes, it's especially important for these people to use the Withholding Calculator on IRS.gov to check if they have the right amount of withholding.

Among the groups with more complicated financial situations who should check their withholding are:

- 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.
- People with large tax refunds or large tax bills for 2017.

Taxpayers with more complex situations might need to use Publication 505, Tax Withholding and Estimated Tax instead of the Withholding Calculator. For example, this includes people who owe self-employment tax, the alternative minimum tax, or tax on unearned income from dependents, and people with capital gains or dividends.

## **Q: For 2018, when should taxpayers check the Withholding Calculator?**

A: As soon as possible. Withholding takes place throughout the year. If an employee needs to adjust their withholding, doing so as quickly as possible means there's more time for tax withholding to take place evenly during the rest of the year. But waiting until later in the year means there are fewer pay periods to make the tax changes – which could have a bigger impact on each paycheck. However, it

is a good idea for taxpayers to use the Withholding Calculator when they have a copy of their completed 2017 tax return or 2016 return available.

Because taxpayers need to estimate certain amounts for their 2018 situation, having similar information from last year will make using the Withholding Calculator easier.

### **Q: How do employees change the amount of tax withheld from their paychecks?**

A: Taxpayers who need to change the amount of tax withheld from their paychecks need to complete Form W-4 and give it to their employer. Some employers provide a way for employees to submit a W-4 electronically. Employees need to take this step whenever they determine they need to have more — or less — tax withheld. This could be after using the Withholding Calculator, the worksheets on Form W-4, Publication 505 or if a taxpayer consults a tax advisor.

### **Q: Do the withholding changes affect 2017 tax returns that are due in 2018?**

A: No. The withholding changes don't affect 2017 tax returns. However, a completed 2017 tax return will help when using the Withholding Calculator to check the right amount of tax to withhold in 2018. The withholding changes will affect 2018 tax returns, which taxpayers will file in 2019.

### **Q: The tax rates were reduced by the new law. Why should people check their tax withholding?**

A: New withholding tables that were released in January reflect the lower tax rates, but there are other changes in the tax law that could affect the tax someone owes for 2018. Checking withholding now can help an employee see if they are having their employer withhold the right amount of tax.

### **Q: If someone always gets a refund, why should they check their withholding?**

A: Although it's anticipated that the number of taxpayers receiving a refund in 2019 will still be about the same as in prior years, the tax law changes mean it's more important to check withholding this year. On the one hand, taking this step can help protect against having too little tax withheld and facing an unexpected

tax bill or penalty at tax time. On the other hand, with the average refund topping \$2,800, some people might prefer having less tax withheld up front and receiving more in their paychecks.

The IRS encourages employees to use the Withholding Calculator to check their personal situation and help see if they are having the right amount of tax withheld. This is especially important for people who have previously itemized their taxes, have two or more jobs in their household, have dependents, work part of the year, have high income, or those who had a large tax refund or large tax bill in 2017.

### **Q: Are some taxpayers at risk of being under-withheld?**

A: Some people have more complicated tax situations and face the possibility of being under-withheld. For example, people who itemized their deductions in the past, have two or more jobs in their household, or have dependents age 17 or over are especially encouraged to review their tax situations for under-withholding. See Q&A 3. But the IRS is encouraging all employees to check their withholding. The IRS has updated the 2018 Form W-4 and the Withholding Calculator to help with this process.

### **Q: Are many people under-withheld on their taxes?**

A: Most employees are over-withheld on their taxes, meaning that more taxes than they owe are withheld from their paychecks. More than seven in 10 taxpayers were over-withheld for tax year 2016, meaning they got refunds when they filed their tax returns in 2017. In particular, taxpayers who have children under age 17 may see their refunds increase as a result of the new tax law. These taxpayers might want to use the Withholding Calculator to learn how they can reduce their withholding and get more money in their paychecks throughout the year instead of at tax time next year.

### **Q: What are the penalties for under-withholding?**

A: By law, an estimated tax penalty usually applies when a taxpayer pays too little of their total tax during the year. The penalty is calculated based on the interest rate charged by the IRS on unpaid tax. For most people, avoiding the penalty means ensuring that at least 90 percent of their total tax liability is paid during the year, either through income-tax withholding or by making quarterly estimated tax

payments. Exceptions to the penalty or special rules apply to some groups of taxpayers, such as farmers, fishers, casualty and disaster victims, those who recently became disabled, recent retirees, those who base their payments on last year's tax and those who receive income unevenly throughout the year. The penalty is discussed in detail in IRS Publication 505.

### **Q: Does the IRS prefer that people get refunds?**

A: Getting a refund is a personal choice for taxpayers. The IRS wants to help people understand their tax responsibilities and how withholding affects their paychecks. The IRS also wants to help ensure a smooth filing process, including getting refunds to taxpayers as quickly as possible. The IRS always encourages people to plan ahead so they're not hit with an unexpected tax bill or even penalties for not having enough withholding during the year.

### **Q: Will employees need to fill out a new Form W-4 in 2018?**

A: It depends. The new withholding tables are designed to minimize taxpayer burden as much as possible and will work with the Forms W-4 that workers have on file with their employers to claim withholding allowances. The IRS revised the Form W-4 worksheets and the Withholding Calculator to reflect the new law more fully and provide employees information to determine whether they need to adjust their withholding. Employees should use the Withholding Calculator to check if they need to adjust their withholding. If they need to fill out a new Form W-4, they should do so and give it to their employers as soon as possible.

### **Q: If someone's current withholding is fine as it currently is, do they need to submit a new Form W-4?**

A: No, not necessarily. Payroll changes involving withholding are made each year by employers and their payroll providers, so employees are not required to take any extra steps in 2018. However, because the tax laws have recently changed, everyone should review their withholding to make sure they are withholding the right amount of tax for their personal situation. Using the Withholding Calculator can help employees check if their withholding is the right amount or determine if they need to adjust their withholding by submitting a Form W-4 to their employer.



## **Q: How does someone determine how many allowances they should claim on their Form W-4?**

A: The Withholding Calculator will help employees determine that. Remember, the fewer allowances someone enters on the Form W-4, the more tax will be withheld from their paycheck. So, entering “0” or “1” on Line 5 of Form W-4 will mean more tax is withheld from their paycheck. Entering a larger number of allowances means less tax withholding—which means a smaller tax refund or potentially a tax bill when the employee files their tax return. Taxpayers should review their situation carefully. The Withholding Calculator can help.

## **Q: What if a life change affects withholding allowances?**

Normally, an employee has 10 days to submit a new Form W-4 to their employer after a life change that reduces their withholding allowances. However, IRS Notice 2018-14 allows employees to use the 2018 Form W-4, which was released on Feb. 28, 2018. If someone experiences life change in early 2018 that reduced their withholding allowances and they use the 2018 Form W-4, they have until March 30 to submit the new Form W-4. Changes that reduce withholding allowances include divorce, starting a second job, or a child no longer being a dependent.

## **Q: Can a payroll office or human resources department help someone understand these tax law changes or use the Withholding Calculator?**

A: It's a taxpayer's responsibility to check their withholding and determine if it's accurate for their personal situation. Payroll offices and human resource departments are responsible only for processing the Form W-4. It's important to remember people working in these offices do not know the rest of someone's personal financial situation, and they are not responsible for giving you tax advice. Employees who have tax questions should consult with a trusted tax professional.

## **Q: Does it make any difference when someone checks on their withholding?**

A: Sooner is better. Withholding takes place throughout the year. If an employee needs to adjust their withholding, doing so as quickly as possible means there's more time for tax withholding to take place evenly during the rest of the year. But

waiting until later in the year means there are fewer pay periods to make the tax changes – which could have a bigger impact on each paycheck. In addition, employees who need to submit a new Form W-4 to adjust their withholding should keep in mind that it will take time for their employers to make the changes. Factors that can affect how quickly withholding changes are made include how often employees are paid (for example, weekly, biweekly or monthly) and at what point in the pay period an employee submits the W-4 to their employer.

## **Q: What is a withholding table?**

A: A withholding table shows payroll service providers and employers how much tax to withhold from employee paychecks, given each employee's wages, marital status and the number of withholding allowances they claim.

## **Q: What is a Form W-4?**

A: This is an IRS form that employees give to their employers that provides information used to determine the amount of federal income tax to withhold from each employee's paycheck. Employees should check their withholding any time their personal or financial information changes. The Form W-4 has worksheets to help employees adjust withholding based on their personal circumstances, such as whether they have children or a spouse who is also working. Employees who use the Withholding Calculator to check their withholding do not need to complete any of the worksheets on the Form W-4.

The Form W-4 relates to an employee's federal tax withholding. State withholding is separate.

## **Q: What is the Withholding Calculator?**

A: The Withholding Calculator is a tool on IRS.gov designed to help employees determine the right amount of tax to have their employer withhold from their paychecks. It is a more accurate alternative to the worksheets that accompany the Form W-4s. The IRS updated the Withholding Calculator to reflect the tax law changes in the Tax Cuts and Jobs Act signed into law December 2017. When taxpayers use the Withholding Calculator, it will help them determine if they need to adjust their withholding and submit a new Form W-4 to their employer.

## **Q: Why did the IRS update the Withholding Calculator and the Form W-4?**

A: The updates were needed to reflect the changes that are included in the Tax Cuts and Jobs Act signed into law in December 2017. In January 2018, the IRS issued updated withholding tables for employers to make changes to their payroll systems. The updated tables are designed to work with existing W-4s that employees have on file, but many taxpayers (such as those with children or multiple jobs, and those who itemized deductions under prior law) are affected by the new law in ways that couldn't be accounted for in the new withholding tables. Therefore, in February 2018, the IRS updated the Withholding Calculator and Form W-4 to help people determine if they are having their employer withhold the right amount of tax from their paychecks.

## **Q: Will the IRS be making further changes to Form W-4 in 2019?**

A: In 2019, the IRS anticipates making further changes involving withholding. The IRS will work with businesses and the tax and payroll communities to explain and implement these additional changes.

## **Disclaimer**

This FAQ is not included in the Internal Revenue Bulletin, and therefore may not be relied upon as legal authority. This means that the information cannot be used to support a legal argument in a court case.

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