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PayDay

2018 Tax Tables and W-4 Changes

The Tax Cuts and Jobs Act new tax law was enacted in December 2017, with an effective date of January 1, 2018. Due to the last minute rush to implement provisions of the new federal tax law, IRS tables and W-4 Forms for 2018 are not consistent with changes in the tax law -- thus, it is more important than ever that employees closely monitor their 2018 federal income tax withholdings to avoid potentially large tax obligations due when their 2018 Form 1040 is filed by April 15, 2019.

2018 IRS TAX WITHHOLDING TABLES

The IRS released new withholding tax tables for year 2018, to be implemented by employers no later than February 15, 2018. The new tables include the new, reduced tax rates for 2018, which will generally result in increased "take-home pay" in employee paychecks. HOWEVER, the new tax law eliminated tax deductions for "exemptions/allowances", restricted certain itemized deductions, increased the "standard deduction" for non-itemizers, and also increased tax savings from the child tax credit for taxpayers with children below age 17.

FORM W-4

The IRS has advised employers to use the new tax tables in conjunction with employee 2017 W-4 Forms. The problem is that the new tax law eliminated deductions for personal and dependency exemptions, and therefore the "M-5", "S-0", etc W-4 Form's number of "exemptions/allowances" are not relevant for 2018 taxes.

NOTE -- The IRS has indicated they are working on revised 2018 W-4 Forms to be consistent with the new tax law (no tax savings for "exemptions", increased standard deductions and child tax credits, etc), but they have given no time line for their release of

new W-4 Forms beyond "later in the year".

IRS ONLINE WITHHOLDING CALCULATOR

The IRS is encouraging taxpayers to review their year-to-date 2018 federal tax withholdings by entering their tax information into the IRS online calculator -- once the IRS has adjusted their online tax calculator for changes in 2018 tax law. The IRS online calculator is expected to be on their website by the end of February.

The IRS is estimating that 90% of wage earners will see increased take-home pay in their 2018 net paychecks. **To avoid unexpected taxes due April of 2019 based on under withholding of federal income tax during 2018, we recommend that employees take the following action steps:**

- Check their withholdings with the IRS online calculator once it is posted on the IRS website by late February;
- Complete a 2018 W-4 Form once the IRS completes their revision of the current W-4 Form; and
- Determine the ratio of year 2018 federal income tax withholdings to taxable wages from your 2018 check stub. Compare that "ratio" of tax to gross wages (excluding pre-tax retirement plan and health insurance employee deductions) to the "rates" on your 2016 and 2017 Form 1040s (Form 1040, page 2, line 63, "total tax" divided by Form 1040, page 1, line 7, "wages"). Is your 2018 "ratio" similar to your 2016 and 2017 Form 1040 ratios?

FEDERAL INCOME TAX ON BONUSES, COMMISSIONS, ETC

We recommend that employers use the just released 2018 supplemental tax rate of 22%, which is lower than last year's rate of 25%.

IN CONCLUSION

It is more important this year than ever that taxpayers review their 2018 federal income tax withholdings to avoid possible tax under payments. This is especially true for those who itemize deductions, 2 wage earner couples, taxpayers with dependent children, and those with business or rental income.

Also, be advised that AccuPay has a question pending with Indiana as to continued use of "exemptions/allowances" on Indiana WH-4 employee forms. We anticipate that Indiana will continue to use "exemptions/allowances" in their 2018 tax tables, as opposed to following federal law and eliminating them -- stay tuned for

Indiana's clarification as to their 2018 state/county tax withholding tables!

If you or your employees have any questions about 2018 federal income tax withholding amounts, call or email your processor and our Tax Department will answer your questions.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.



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