



Payroll Forms Update – W-4s and 1099s

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Finance Conference 2019

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Form W-4 – Purpose

- Form W-4 exists because the US income tax system is “pay as you go”
- Employers are required to collect income taxes as the income is earned
- Underpayments result in penalties for the taxpayer and potential criminal sanctions for the employer

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IRS Trivia

Did you
Know?

- IRS forms are labeled sequentially, e.g. Form 1040 followed Form 1039
- The “W” in W-4 stands for “Withholding”

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Form W-4 – History

- Form W-1, “Return of Income tax Withheld on Wages,” was the original form used by employers to report Federal Income Tax withholding to the IRS
- In 1950, Form W-1 and Form SS-1, previously used to report Social Security tax withholding to the SSA, were replaced by Form 941
- Use of Form W-2 was established by the Current Tax Payment Act of 1943 as part of an effort to withhold income at source. The first Form W-2s were issued to employees in 1944.

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Form W-4 – History

- Tax Cut & Jobs Act (TCJA), passed in 2017, made sweeping changes to tax system, effective for tax year 2018
- In 2019, many taxpayers owed lots of money to the IRS
- 2020 re-design of Form W-4 was intended to make withholding more accurate
- New form W-4 is more accurate, because it is more detailed
 - More detailed = more difficult to fill out
 - Plus, employees (and we!) were used to the old form

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Things to Know about the new Form W-4

1. No more withholding allowances!

- W-4 formerly entitled “Employee’s Withholding Allowance Certificate”
 - Now it’s the “Employee’s Withholding Certificate”
- Allowances were based on personal exemptions
 - TCJA eliminated personal exemptions
 - TCJA increased standard deduction in lieu of personal exemptions
- On old form, more allowances → more money withheld
 - Everybody understood this!
 - No withholding allowances means no personal allowances worksheet (page 3 of old form)

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Things to Know about the new Form W-4

2. New form is not required

- Existing employees are not required to complete a new form
- Must complete one if they want changes in their withholding
- New employees to the organization must use new form

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Things to Know about the new Form W-4

3. Simple form for simple situations

- Simple form for simple tax situations (single, one job, no dependents, no other income) – Complete Step 1 only (name, address, and filing status)

Form W-4
(Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate
OMB No. 1545-0074
2021

▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
▶ Give Form W-4 to your employer.
▶ Your withholding is subject to review by the IRS.

Step 1: Enter Personal Information

(a) First name and middle initial Last name (b) Social security number

Address

City or town, state, and ZIP code

(c) ☐ Single or Married filing separately
☐ Married filing jointly or Qualifying widow(er)
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, when to use the estimator at www.irs.gov/W4App, and privacy.

- However, on new form,
 - Single with no adjustments ≈ Single with 2 w/h on old form
 - Married with no adjustments ≈ Married with 3 w/h on old form
 - Choosing “Single-0” now may cause underwithholding!

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Things to Know about the new Form W-4

4. For more complex taxpayers, recommend IRS online “Tax Withholding Estimator”

- The more complex the situation, the more complex the form
- Alternatively, taxpayers can use the IRS’ online tool, “Tax Withholding Estimator”
 - Estimator not super simple, either – asks detailed questions:
 - How many jobs, over what dates?
 - How much is being withheld now?
 - Investment & self-employment income?
 - Children, childcare expenses, child credits?
 - Other adjustments?

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Case Study: Mary and John

- Mary Smith is married to John Jones. They file jointly.
- Mary makes \$72,000/year; John makes \$60,000/year. Both are paid monthly.
- Mary's first two paychecks of 2021 each showed \$6,000 gross earnings and \$600 federal tax withholding. She makes no pre-tax contributions.
- John's first two paychecks of 2021 each showed \$5,000 gross earnings and \$250 federal tax withholding. He makes no pre-tax contributions.
- John does house cleaning on the side and nets about \$2,000/year in 1099 income.
- They have a rental property that nets \$10,000/year, plus dividend income (from inherited stock) of \$1,000/year. They do not make estimated tax payments.
- They have two children, David & Jennifer, ages 6 and 10.
- Mary's mother watches the children when they are not in school, so they have no child care expenses.
- Mary and John are renters and take the standard deduction.

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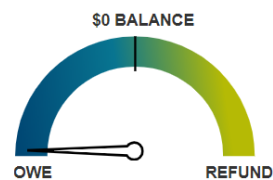
IRS Tax Withholding Estimator

Your Results

Based on the information you entered

If you do not change your withholding, **you may owe taxes at the end of the year.**

Expected tax withholding	\$10,200*
Anticipated tax obligation	\$14,045**
Estimated under payment	\$3,845



Important Note: The accuracy of this estimate depends on the accuracy of the information you provide. The IRS makes no guarantees about the accuracy of this estimate and accepts no liability resulting from your use of the estimation.

* This is your projected withholding for the year if you make no changes and do not submit a new Form W-4. This number includes Federal income tax withheld and any estimated tax paid.

** This is your expected tax liability for the 2021 tax year reported on the 2021 Form 1040 due to be filed by April 15, 2022. This number includes Federal income tax, additional Medicare tax, and self-employment tax, if applicable.

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IRS Tax Withholding Estimator

For a refund of approximately \$0

Your Job, Annual Pre-tax Wages: \$72,000

To get your desired refund amount, you will need \$741 withheld from each paycheck, \$141 more than your current tax withholding.

[+ How to Adjust Your Withholding](#)

Your Spouse's Job, Annual Pre-tax Wages: \$60,000

To get your desired refund amount, you will need \$537 withheld from each paycheck, \$287 more than your current tax withholding.

[+ How to Adjust Your Withholding](#)

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IRS Tax Withholding Estimator

Adjust Your Results to Avoid Owing a Balance

Use the slider below to select the approximate refund amount you'd like to get.



For a refund of approximately \$2,000

Your Job, Annual Pre-tax Wages: \$72,000

To get your desired refund amount, you will need \$869 withheld from each paycheck, \$269 more than your current tax withholding.

[+ How to Adjust Your Withholding](#)

Your Spouse's Job, Annual Pre-tax Wages: \$60,000

To get your desired refund amount, you will need \$630 withheld from each paycheck, \$380 more than your current tax withholding.

[+ How to Adjust Your Withholding](#)

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IRS Tax Withholding Estimator

⊖ How to Adjust Your Withholding

Step 1: Check if your employer does this via paper or online

Step 2: Complete a new Form W-4 online or via paper as follows:

- Check (online) or enter (paper) your personal information (line 1(a) and (b) on Form W-4)
- Select **Married filing jointly (or Qualifying widow(er))** filing status (line 1(c) on Form W-4)
- Enter **\$434** in additional withholding per pay period (Line 4(c) on [Form W-4](#) is already pre-filled). This is an amount of withholding over and above the standard withholding from each paycheck for this job if lines 3 through 4(c) of the Form W-4 were blank or zero.
- If using a paper form sign and date it

Step 3: Submit this new information to your employer as soon as possible

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IRS Tax Withholding Estimator

- Additional advantage of Tax Withholding Estimator:

It is private

- Employees do not have to submit forms to employers that include personal financial information
- IRS does not ask any personal information, e.g. name, social security number, employer
- IRS does not maintain records of Estimator results

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Things to
Know
about
the new
Form
W-4

5. New form is more accurate for taxpayers with multiple jobs or earners

- With the old form, some taxpayers either:
 - Always selected “Single with 0 withholding allowances”
 - Used an iterative process, changing W-4 every month
- 3 options for handling multiple jobs/earners:
 - Use the Tax Withholding Estimator
 - Use the Multiple Jobs Worksheet on page 3
 - If only two jobs, simply check a box
 - This option works best for families with two jobs with similar pay

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Things to
Know
about
the new
Form
W-4

6. New form does not calculate withholding for self-employment “side jobs”

- The old form didn’t, either
- Taxpayer can use line 4(c) to request enough “Extra withholding” to cover income and self-employment taxes from self-employment income
 - Taxpayer would need to calculate the liability on their own
- Alternatively, the Tax Withholding Estimator will calculate the liability and recommend how to meet it

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Things to Know about the new Form W-4

7. New form allows consideration for credits and other adjustments

- Form asks about child and dependent credits (Step 3).

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3:	If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):	
Claim	Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$	
Dependents	Multiply the number of other dependents by \$500 ▶ \$	
	Add the amounts above and enter the total here	3 \$

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Things to Know about the new Form W-4

8. New form adjusts also for deductions and adjustments, similar to old form, but more directly

Step 4(b)—Deductions Worksheet (Keep for your records.)



1	Enter an estimate of your 2021 itemized deductions (from Schedule A (Form 1040)). Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to \$10,000), and medical expenses in excess of 7.5% of your income	1 \$
2	Enter: $\left\{ \begin{array}{l} \bullet \$25,100 \text{ if you're married filing jointly or qualifying widow(er)} \\ \bullet \$18,800 \text{ if you're head of household} \\ \bullet \$12,550 \text{ if you're single or married filing separately} \end{array} \right\}$	2 \$
3	If line 1 is greater than line 2, subtract line 2 from line 1 and enter the result here. If line 2 is greater than line 1, enter "-0-"	3 \$
4	Enter an estimate of your student loan interest, deductible IRA contributions, and certain other adjustments (from Part II of Schedule 1 (Form 1040)). See Pub. 505 for more information	4 \$
5	Add lines 3 and 4. Enter the result here and in Step 4(b) of Form W-4	5 \$

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Things to Know about the new Form W-4

8. New form still allows taxpayer to claim exemption

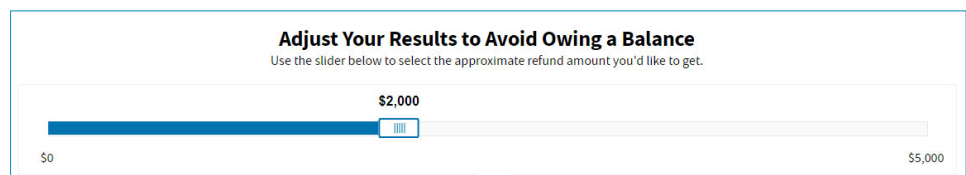
- Same requirements as previously:
 - No tax liability the prior year
 - Expectation of no liability in the current year
- To continue to claim exemption, employee must submit a new W-4 by February 15 of each year
 - Without a new W-4, employee must be treated as if filing Single with no adjustments

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Things to Know about the new Form W-4

9. Employees can still plan to get a refund

- Use “Extra Withholding” line (Line 4(c))
- Use IRS Tax Withholding Estimator to choose your refund



- Either way, planning for refund can be much more accurate

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How to Calculate Withholding

- Software does the calculations for most of us
- If manual calculation is required:
 - Use Publication 15-T
 - Fill out a worksheet for each employee to calculate “Adjusted Wage Amount” (page 7 of Pub 15-T)
 - Use the Adjusted Wage Amount and the tables in Pub 15-T to find withholding

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Pub
15-T

2. Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later

If you compute payroll manually, your employee has submitted a Form W-4 for 2020 or later, and you prefer to use

Worksheet 2. Employer's Withholding Worksheet for Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later

the Wage Bracket method, use the worksheet below and the Wage Bracket Method tables that follow to figure federal income tax withholding.

The Wage Bracket Method tables cover only up to approximately \$100,000 in annual wages. If you can't use the Wage Bracket Method tables because taxable wages exceed the amount from the last bracket of the table (based on filing status and pay period), use the Percentage Method tables in section 4.

Keep for Your Records



Table 4	Monthly	Semimonthly	Biweekly	Weekly	Daily
	12	24	26	52	260

Step 1. Adjust the employee's wage amount

1a	Enter the employee's total taxable wages this payroll period	1a	\$
1b	Enter the number of pay periods you have per year (see Table 4)	1b	
1c	Enter the amount from Step 4(a) of the employee's Form W-4	1c	\$
1d	Divide the amount on line 1c by the number of pay periods on line 1b	1d	\$
1e	Add lines 1a and 1d	1e	\$
1f	Enter the amount from Step 4(b) of the employee's Form W-4	1f	\$
1g	Divide the amount on line 1f by the number of pay periods on line 1b	1g	\$
1h	Subtract line 1g from line 1e. If zero or less, enter -0-. This is the Adjusted Wage Amount	1h	\$

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W-4 – Employer Responsibilities

- Provide form & instructions (in appropriate language)
- Get a W-4 from all new employees
 - Must be signed & have no hand-written changes to be valid
 - Without a valid one, withhold as single with no adjustments
 - (But do you really want to keep an employee who won't fill one in?)
- Can read form to employees or help them to fill in the form, but do not give advice
- Optional: Verify Social Security Number using Social Security Number Verification Service (SSNVS) offered by the Social Security Administration (SSA)
 - Alternatively, DSHS double checks SSNs when you submit new hires

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W-4 – Employer Responsibilities

- Calculate (or let your software calculate) withholding amounts
- Encourage periodic review
- Advise employees with significant life changes to fill out new form and/or use online estimator
- Advise employees who are unhappy with withholding amount to fill out new form and/or use online estimator
- Keep copies, even replaced ones, at least 4 years (per both IRS and State Archives)

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Form 1099-NEC – Purpose

- Form 1099-NEC is used to report Nonemployee Compensation to the IRS, to ensure that earnings not subject to withholding are taxed

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Form 1099-NEC – History

- Form 1099 first used for the 1917 tax year
 - Employers were required to report salaries paid in excess of \$800, because “Under the War Revenue Act of 2917 employers are no longer required to withhold the 2 per cent income tax from salaries, except in the case of non-resident aliens, but must advise the internal revenue collectors of all salaries paid which amount to \$800 or more.”

The Washington Post. January 20, 1918. p. RE4.

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Form 1099-NEC – History

- Form 1099 evolved into multiple versions
- Old Form 1099-NEC was last used in 1982, after which it was rolled into the “catch-all” 1099-MISC

Old Form
1099-NEC

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Form 1099a-NEC – History

- Filing Due Date for Form 1099-MISC, from 1983 through 2015, was January 31 to recipients and February 28 (March 31, if filing electronically) to IRS.
- The Protecting Americans from Tax Hikes (PATH) Act of 2015 changed the due dates to:
- January 31 (or next business day) to all recipients
 - January 31 to the IRS (paper or electronic filing) if there is an amount in Box 7, non-employee compensation reported on the form
 - February 28 to the IRS, for paper filing, if there's no Box 7 data to report
 - April 1 to the IRS, for electronic filing, if there's no Box 7 data to report
- Multiple due dates for the same form - Yikes!

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Form 1099-NEC – History

- IRS was unable to apply multiple due dates to a batch of Forms 1099-MISC submitted at the same time
 - As a result, late penalty fees were being assessed on entire batches when only a few had entries in Box 7
- Some employers started creating multiple 1099-MISCs for the same contractor, to reflect different types of income
- The solution was to separate the nonemployee compensation back into its own form

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New Form 1099-NEC

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0116	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		2021 Form 1099-NEC	
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$	
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	
Street address (including apt. no.)		3	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$	
Account number (see instructions)		5 State tax withheld \$	6 State/Payer's state no. \$
		7 State income \$	

Form **1099-NEC** www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Nonemployee Compensation
Copy 1 For State Tax Department

- Filing threshold remains \$600
- Due date to recipient and to IRS is January 31 (or next business day)

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New Form 1099-NEC

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0116	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		2021 Form 1099-NEC	
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$	
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	
Street address (including apt. no.)		3	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$	
Account number (see instructions)		5 State tax withheld \$	6 State/Payer's state no. \$
		7 State income \$	

Form **1099-NEC** www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Nonemployee Compensation
Copy 1 For State Tax Department

- New Form 1099-NEC also includes box for direct sale of \$5,000 or more of consumer products
- This box may be reported on 1099-NEC or 1099-MISC. Probably does not apply to many governments

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New Form 1099-MISC

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0115	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	2020
		2 Royalties	Form 1099-MISC
		3 Other income	4 Federal income tax withheld
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds	6 Medical and health care payments
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	8 Substitute payments in lieu of dividends or interest
		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney
		11	12 Section 409A deferrals
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments	14 Nonqualified deferred compensation
		15 State tax withheld	16 State/Payer's state no.
		17 State income	

Form 1099-MISC www.irs.gov/Form1099MISC Department of the Treasury - Internal Revenue Service

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New Form 1099-MISC

- Boxes re-arranged without Nonemployee Compensation
- Box 1 remains Rent
- Box 6 remains "Medical and Health Care Payments"
- Box 7 is now "direct sales of \$5,000 or more of consumer products," which can be reported on Form 1099-MISC or 1099-NEC
- Former Box 14, "Gross Proceeds to an Attorney," is now Box 10
- Due date for most Forms 1099-MISC is January 31 (or next business day) to recipient and February 28 (or next business day) to IRS (March 31 if filing electronically)

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1099-NEC – Employer Responsibilities

- Get a W-9 from all vendors/contractors
 - Most W-9s do not require signatures (W-9s for real estate transactions do)
 - W-9 itself is not required, if information is provided another way
 - Periodic update is recommended, because business entities change
 - W-9 management is key component of fraud protection
- Optional: Verify TIN using Tin Matching service offered by the IRS

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Form W-9

Form W-9
(Rev. October 2018)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

► Go to www.irs.gov/FormW9 for instructions and the latest information.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.

2 Business name/disregarded entity name, if different from above

3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only **one** of the following seven boxes.

☐ Individual/sole proprietor or single-member LLC

☐ C Corporation

☐ S Corporation

☐ Partnership

☐ Trust/estate

☐ Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ►

Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is **not** disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner.

☐ Other (see instructions) ►

Print or type.
Specific instructions on page 3.

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Form W-9

4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):

Exempt payee code (if any)

Exemption from FATCA reporting code (if any)

(Applies to accounts maintained outside the U.S.)

- Governments may be asked for W-9s, even though they are exempt from receiving 1099s.
- Governments are exempt from backup withholding, under Exempt payee code 3:
 - A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions, agencies, or instrumentalities.

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Entities exempt from backup with- holding

1. An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2);
2. The United States or any of its agencies or instrumentalities;
3. A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions, agencies, or instrumentalities;
4. A foreign government or any of its political subdivisions, agencies, or instrumentalities;
5. A corporation;
6. A dealer in securities or commodities required to register in the United States, the District of Columbia, or a U.S. commonwealth or possession;
7. A futures commission merchant registered with the Commodity Futures Trading Commission;
8. A real estate investment trust;
9. An entity registered at all times during the tax year under the Investment Company Act of 1940;
10. A common trust fund operated by a bank under section 584(a);
11. A financial institution;
12. A middleman known in the investment community as a nominee or custodian; or
13. A trust exempt from tax under section 664 or described in section 4947.

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TIN Matching

- Two avenues for verifying Taxpayer Identification Number (TIN):
 - Social Security Number Verification Service (SSVNS) from the Social Security Administration (SSA) – for employees
 - TIN Matching from the IRS – for contractors/vendors
- Neither is required
- Vendor TINs will be matched by IRS when 1099s are submitted, whether payer has verified them or not
 - Failure to match will result in IRS CP2100 notices to payer
 - Penalties up to \$260/match may also be assessed
 - Better to find any errors before submitting

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TIN Matching

- TIN Matching is not easy to set up
- Uses IRS e-Services
- Takes time, so plan ahead
 - Set up a “Principal” for your entity
 - Individual “Authorized Agents” must apply, receive a mailed letter from the IRS, and then be approved by the “Principal”
- E-Services includes an online tutorial for using the system
- If you search for the same TIN unsuccessfully more than twice, system will lock you out for 24 hours

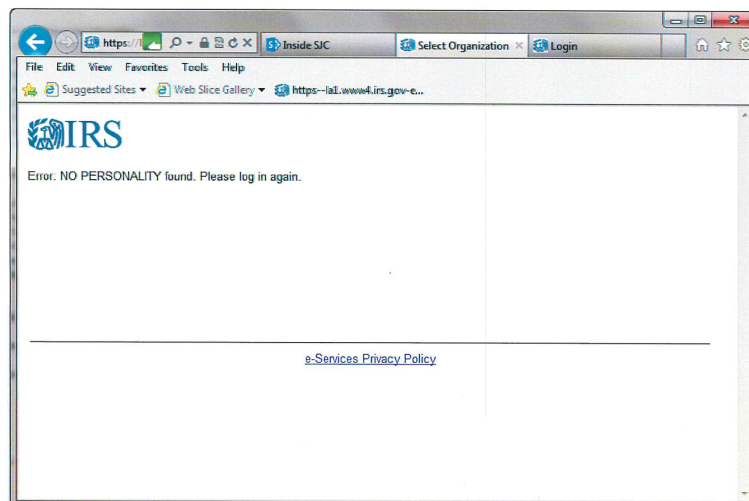
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TIN Matching – possible responses

- 0 TIN and Name match**
- 1** TIN was missing or was entered incorrectly
- 2** TIN entered is not currently issued
- 3 TIN and Name do not match**
- 4** Invalid TIN matching request
- 5** Duplicate TIN matching request
- 6** TIN Match found only on SSN, when the TIN type is (3 - Unknown)
- 7** TIN Match found only on EIN, when the TIN type is (3 - Unknown)
- 8** TIN Match found on both the SSN and EIN format, when the TIN type is (3 - Unknown)

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