AGH CPAs & ADVISORS

ALERT: IRS Issues Updated 2018 Withholding Tables

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In the wake of passage of the Tax Cuts and Jobs Act (TCJA) late last year, the IRS has taken one of the first critical steps to institute the law's overhaul of the federal income tax regime. The IRS has released updated withholding tables that indicate how much employers should withhold from their employees' paychecks to satisfy workers' tax obligations. The new tables may provide the correct amount of tax withholding for individuals with simple tax situations, but they'll likely cause other taxpayers to not have enough withheld to pay their ultimate tax liabilities under the TCJA.

New withholding tables

The revised IRS withholding tables reflect the TCJA's increase in the standard deduction, suspension of personal exemptions and changes in tax rates and brackets.

The law roughly doubles the 2017 standard deduction amounts to $12,000 for single filers and $24,000 for joint filers. It also temporarily eliminates personal exemptions, which taxpayers previously could claim for themselves, their spouses and any dependents. (The personal exemption amount for each such individual was $4,050 in 2017.) And the TCJA adjusts the taxable income thresholds and tax rates for seven income tax brackets.

Employers and payroll services use the withholding tables to determine the amount to withhold from employees' paychecks in light of their wages, marital status and number of withholding allowances. Employees provide this information on their Forms W-4.

The new withholding tables are designed to work with the Forms W-4 that employers already have on file for their employees. In other words, employees don't need to complete any new forms or take any other action at this time.

Employers, on the other hand, must move to incorporate the new tables into their payroll systems as soon as possible — and no later than February 15, 2018. They should continue to use the 2017 withholding tables until they adopt the new figures.

Impact to Individuals

The IRS expects that many employees will see increases in their paychecks after the new tables are instituted in February, but it's possible that some taxpayers could find themselves unexpectedly faced with bigger income tax bills when it comes time to file their 2018 tax returns. That's because, in addition to cutting tax rates, the TCJA eliminates or restricts many of the popular tax deductions taxpayers have claimed on their returns in past years.

For example, beginning in 2018, taxpayers who itemize can claim a deduction of no more than $10,000 for the aggregate of state and local property taxes and income or sales taxes. These taxpayers also can deduct mortgage interest on debt of only $750,000 ($1 million for mortgage debt incurred before December 15, 2017) and can't deduct any interest on home equity debt, even if the debt existed before the TCJA was enacted. The higher standard deduction and expansion of family tax credits may offset the loss of these and other deductions — as well as personal exemptions — but taxpayers won't know for certain until they actually prepare their 2018 returns in 2019.

The IRS itself cautions that people with "more complicated tax situations" face the possibility of having their income taxes underwithheld. If you itemize your deductions, are married and you and your spouse have multiple jobs or if you have more than one job per year, you should review your tax situation and adjust your withholding allowances as appropriate. Note that it will be up to taxpayers to alert their employers of the need to make adjustments to avoid the under- or overwithholding of taxes from their paychecks. Alternatively you may want to consider making or adjusting your quarterly estimate income tax payments.

Please contact your AGH tax professional or AGH tax senior vice president Shawn Sullivan at 316.291.4110 or Shawn.Sullivan@aghlc.com.

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