

APA created the following scenarios to demonstrate how to calculate federal income tax withholding following the instructions in the second early release draft of the new Publication 15-T, *Federal Income Tax Withholding Methods*, which will be used with the redesigned Form W-4, *Employee's Withholding Certificate*.

*Scenario 1 (no new Form W-4 is submitted and the employer has an automated payroll system).*

On the Form W-4 Fred submitted before 2020, Fred claimed married with 5 allowances. On Worksheet 1: Employer's Withholding Worksheet for Percentage Method Tables for Automated Payroll Systems, the employer should complete Lines 1a-1c and skip Lines 1d-1i. The calculation results in a withholding amount of \$126.85. The worksheet would be completed as follows:

		<b>Adjust the employee's wage amount</b>
Line 1a	\$1,750.00	Wages per payroll period
Line 1b	52	Pay periods per year
Line 1c	\$91,000	1a x 1b
Line 1d		
Line 1e		
Line 1f		
Line 1g		
Line 1h		
Line 1i		
Line 1j	5	# of allowances from pre-2020 Form W-4
Line 1k	\$21,000.00	1j x \$4,200
Line 1l	<b>\$70,000 (this is the Adjusted Annual Wage Amount)</b>	1c - 1k
		<b>Figure the Tentative Withholding Amount</b>
Line 2a	\$70,000.00	1l (Adjusted Annual Wage Amount from above)

		In the Annual Percentage Method table, find the row in which the amount on Line 2a is at least the amount in column A but less than the amount in column B, then enter here the amount from column A of that row.
Line 2b	\$31,200.00	
Line 2c	\$1,940.00	Amount from column C in the row (identified in Step 2b) of the Annual Percentage Method table
Line 2d	12%	% from column D in the row (identified in Step 2b) of the Annual Percentage table
Line 2e	\$38,800.00	$2a - 2b$
Line 2f	\$4,656.00	$2e \times 2d$
Line 2g	\$6,596.00	$2c + 2f$
Line 2h	<b>\$126.85 (this is the Tentative Withholding Amount)</b>	$2g / 1b$
		<b>Account for Tax Credits</b>
Line 3a	\$0	0 (this is for Step 2 of 2020 Form W-4 or 0)
Line 3b	\$0	$3a / 1b$ (since 3a is 0, this line is 0)
Line 3c	<b>\$126.85 (this is the withholding amount after accounting for tax credits)</b>	$2h - 3b$
		<b>Figure the final amount to withhold</b>
Line 4a	\$0	Additional withholding amount from Line 6 of the pre-2020 Form W-4
Line 4b	<b>\$126.85 (this is the final withholding amount)</b>	$3c + 4a$

*Scenario 2 (new Form W-4 is submitted and the employer has an automated payroll system).*

For this scenario, Fred Smith is married and is paid a weekly salary of \$1,750.00. Fred completes a 2020 Form W-4, claims married, but does not mark the checkbox in Step 2, and he does not complete Steps 3 or 4. On Worksheet 1, the employer skips Lines 1j-1l. Because Fred did not mark the box in Step 2, the employer will use the Standard Withholding Rate Schedules. The calculation results in a withholding amount of \$146.23.

		<b>Adjust the employee's wage amount</b>
Line 1a	\$1,750	Wages per payroll period
Line 1b	52	Pay periods per year
Line 1c	\$91,000.00	1a x 1b
Line 1d	\$0	Amount on Step 4(a) of the 2020 Form W-4
Line 1e	\$91,000.00	1c + 1d
Line 1f	\$0	Amount on Step 4(b) of the 2020 Form W-4
Line 1g	\$12,600.00	If the box in Step 2 of the 2020 Form W-4 is checked, enter 0. If the box is not checked, enter \$12,600 if the taxpayer is married filing jointly or \$8,400 otherwise.
Line 1h	\$12,600.00	1f + 1g
Line 1i	<b>\$78,400.00 (this is the Adjusted Annual Wage Amount)</b>	1e - 1h
Line 1j		
Line 1k		
Line 1l		
		<b>Figure the Tentative Withholding Amount</b>
Line 2a	\$78,400.00	1i (Adjusted Annual Wage Amount from above)
Line 2b	\$31,200.00	In the Annual Percentage Method table, find the row in which the amount on Line 2a is at least the

		amount in column A but less than the amount in column B, then enter here the amount from column A of that row.
Line 2c	\$1,940.00	Amount from column C in the row (identified in Line 2b) of the Annual Percentage Method table
Line 2d	12%	% from column D in the row (identified in Line 2b) of the Annual Percentage table
Line 2e	\$47,200.00	2a - 2b
Line 2f	\$5,664.00	2e x 2d
Line 2g	\$7,604.00	2c + 2f
Line 2h	<b>\$146.23 (this is the Tentative Withholding Amount)</b>	2g / 1b
		<b>Account for tax credits</b>
Line 3a	\$0	\$0 because nothing was entered in Step 3 on the 2020 Form W-4
Line 3b	\$0	3a / 1b (since 3a is 0, this line is 0)
Line 3c	<b>\$146.23 (this is the withholding amount after accounting for tax credits)</b>	2h - 3b
		<b>Figure the final amount to withhold</b>
Line 4a	\$0	Additional withholding amount from Step 4(c) of the 2020 Form W-4
Line 4b	<b>\$146.23 (this is the final withholding amount)</b>	3c + 4a

*Scenario 3 (new form W-4 is submitted, optional steps are completed, and the employer has an automated payroll system)*

Fred completes a 2020 Form W-4, claims married, marks the box in step 2, and completes steps 3 and 4. The amounts from his W-4 are: step 3 = \$6,500.00 (dependents); step 4(a) = \$26,000.00 (other income); step 4(b) = \$2,600.00

(deductions); and step 4(c) = \$100.00 (extra withholding). The employer will use Worksheet 1 and the *Form W-4, Step 2, Checkbox Withholding Rate Schedules* because Fred marked the box in Step 2. The resulting withholding for Fred is \$334.66 per pay period.

		<b>Adjust the employee's wage amount</b>
Line 1a	\$1,750.00	Wages per payroll period
Line 1b	52	Pay periods per year
Line 1c	\$91,000.00	1a x 1b
Line 1d	\$26,000.00	Amount on Step 4(a) of the 2020 Form W-4
Line 1e	\$117,000.00	1c + 1d
Line 1f	\$2,600.00	Amount on Step 4(b) of the 2020 Form W-4
Line 1g	\$0	If the box in Step 2 of the 2020 Form W-4 is checked, enter 0. If the box is not checked, enter \$12,600 if the taxpayer is married filing jointly or \$8,400 otherwise.
Line 1h	\$2,600.00	1f + 1g
Line 1i	<b>\$114,400.00 (this is the Adjusted Annual Wage Amount)</b>	1e - 1h
Line 1j		
Line 1k		
Line 1l		
		<b>Figure the Tentative Withholding Amount</b>
Line 2a	\$114,400.00	1i (Adjusted Annual Wage Amount from above)
Line 2b	\$96,400.00	In the Annual Percentage Method table, find the row in which the amount on Line 2a is at least the amount in column A but less than the amount in column B, then enter

		here the amount from column A of that row.
Line 2c	\$14,382.50	Amount from column C in the row (identified in Line 2b) of the Annual Percentage Method table
Line 2d	24%	% from column D in the row (identified in Step 2b) of the Annual Percentage table
Line 2e	\$18,000.00	2a - 2b
Line 2f	\$4,320.00	2e x 2d
Line 2g	\$18,702.50	2c + 2f
Line 2h	<b>\$359.66 (this is the Tentative Withholding Amount)</b>	2g / 1b
		<b>Account for tax credits</b>
Line 3a	\$6,500.00	Amount on Step 3 of the 2020 Form W-4
Line 3b	\$125.00	3a / 1b
Line 3c	<b>\$234.66 (this is the withholding amount after accounting for tax credits)</b>	2h - 3b
		<b>Figure the final amount to withhold</b>
Line 4a	\$100.00	Additional withholding amount om Step 4(c) of the 2020 Form W-4
Line 4b	<b>\$334.66 (this is the final withholding amount)</b>	3c + 4a

*Scenario 4 (new Form W-4 is submitted and the employer has a manual payroll system)*

Fred completes a 2020 Form W-4, claims married, but does not mark the box in step 2, nor does he complete steps 3 or 4. The employer uses the Wage Bracket Method and will work through Worksheet 2, Employer's Withholding Worksheet for Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later, to calculate the withholding amount. The resulting withholding calculation for Fred is \$147.00 per pay period. The worksheet would be completed as follows:

		<b>Adjust the employee's wage amount</b>
Line 1a	\$1,750.00	Wages per payroll period
Line 1b	52	Pay periods per year
Line 1c	\$0	Amount from Step 4(a) of the 2020 Form W-4
Line 1d	\$0	1c / 1b
Line 1e	\$1,750.00	1a + 1d
Line 1f	\$0	Amount from Step 4(b) of the 2020 Form W-4
Line 1g	\$0	1f / 1b
Line 1h	<b>\$1,750.00 (this is the Adjusted Annual Wage Amount)</b>	1e - 1g
		<b>Figure the Tentative Withholding Amount</b>
Line 2a	<b>\$147.00 (this is the Tentative Withholding Amount)</b>	Using the appropriate Wage Bracket Table, find the withholding amount corresponding to the Adjusted Annual Wage Amount on line 1h
		<b>Account for tax credits</b>
Line 3a	\$0	Amount from Step 3 of Form W-4
Line 3b	0	3a / 1b
Line 3c	<b>\$147.00 (this is the withholding amount after accounting for tax credits)</b>	2a - 3b
		<b>Figure the final amount to withhold</b>
Line 4a	\$0	Additional withholding amount from Step 4(c) of the 2020 Form W-4
Line 4b	<b>\$147.00 (this is the final withholding amount)</b>	3c + 4a

*Scenario 5 (no new Form W-4 is submitted and the employer has a manual payroll system)*

On the Form W-4 that Fred submitted before 2020, Fred claimed married with 5 allowances. The employer uses the Wage Bracket Method and will use Worksheet 3,

Employer's Withholding Worksheet for Wage Bracket Method Tables for Manual Payroll Systems With Forms W-4 From Before 2020, to figure the withholding amount. The resulting withholding calculation for Fred is \$127.00 per pay period. The worksheet would be completed as follows:

		<b>Figure the Tentative Withholding Amount</b>
Line 1a	\$1,750.00	Wages per payroll period
Line 1b	<b>\$127.00 (this is the Tentative Withholding Amount t</b>	Using the appropriate Wage Bracket Table, find the withholding amount corresponding to the adjusted amount on line 1a
		<b>Figure the amount withhold this pay period</b>
Line 2a	\$0	Amount from Line 6 of the pre-2020 Form W-4
Line 2b	<b>\$127.00 (this is the amount withhold this pay period)</b>	1b + 2a

*Scenario 6 (new Form W-4 is submitted and the employer has a manual payroll system)*

Fred is paid a weekly salary of \$1,750. Fred completes a 2020 Form W-4, claims married, but does not mark the box in step 2, nor does he complete steps 3 or 4. The employer uses the Percentage Method and will work through Worksheet 4. Employer's Withholding Worksheet for Percentage Method Tables for Manual Payroll Systems With Forms W-4 From 2020 or Later, to calculate the withholding amount. The resulting withholding calculation for Fred is \$146.26 per pay period. The worksheet would be completed as follows:

		<b>Adjust the employee's wage amount</b>
Line 1a	\$1,750.00	Wages per payroll period
Line 1b	52	Pay periods per year



Line 1c	\$0	Amount from Step 4(a) of the 2020 Form W-4
Line 1d	\$0	1c / 1b
Line 1e	\$1,750.00	1a + 1d
Line 1f	\$0	Amount from Step 4(b) of the 2020 Form W-4
Line 1g	\$0	1f / 1b
Line 1h	<b>\$1,750.00 (this is the adjusted wage amount)</b>	1e - 1g
		<b>Figure the Tentative Withholding Amount</b>
Line 2a	\$842.00	In the appropriate Withholding Rate Schedule of the Annual Percentage Method table, find the row in which the amount on Line 1h is at least the amount in column A but less than the amount in column B, then enter here the amount from column A of that row.
Line 2b	\$37.30	Amount from column C in the row (identified in Line 2a) of the Annual Percentage Method table
Line 2c	12%	% from column D in the row (identified in Step 2a) of the Annual Percentage table
Line 2d	\$908.00	1h - 2a
Line 2e	\$108.96	2d x 2c
Line 2f	<b>\$146.26 (this is the Tentative Withholding Amount)</b>	2b + 2e
		<b>Account for tax credits</b>
Line 3a	\$0	Amount from Step 3 of the 2020 Form W-4
Line 3b	\$0	3a / 1b
Line 3c	<b>\$146.26 (this is the withholding amount after accounting for tax credits)</b>	2f - 3b
		<b>Figure the final amount to withhold</b>
Line 4a	\$0	Additional withholding amount from Step 4(c) of the 2020 Form W-4

Line 4b	<b>\$146.26 (this is the final withholding amount)</b>	$3c + 4a$
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