



August 9, 2019

Lu Córdova  
Director  
Colorado Department of Revenue  
P.O. Box 17087  
Denver, CO 80217-0087

Re: State Use of the Internal Revenue Service's Form W-4 for Withholding Elections

Dear Director Córdova:

The American Payroll Association (APA) and National Payroll Reporting Consortium (NPRC) would like to discuss state plans for withholding allowance certificates because Colorado uses allowances as the basis for payroll withholding calculations, relies on the Internal Revenue Service (IRS) Form W-4, and does not have an equivalent state form.

The IRS is finalizing a 2020 Form W-4 based on the Tax Cuts and Jobs Act (TCJA) that eliminates withholding allowances and related calculations. A copy of the latest draft can be found on the internet at <https://www.irs.gov/pub/irs-dft/fw4--dft.pdf>. Without action by Colorado on the withholding certificate, employees will not be able to establish allowances for state income tax withholding.

In addition, sufficient time is needed for developers of payroll management systems to accommodate any related state changes and for payroll professionals to learn about the state requirements and use of the updated software.

APA and NPRC have been working with the IRS since enactment of the TCJA on a revised federal Form W-4. Please inform us about your state plans for the upcoming year and how we might be of assistance.

### **Explanation of Request**

The IRS recently released its "near-final" Form W-4 for 2020, which will no longer have an entry for the number of withholding allowances because of suspension of exemptions by

the TCJA. Consequently, over the next few months, the state tax authority may need to revise regulations, forms, and instructions to either adopt the new federal inputs within all income tax withholding calculations and systems or issue its own withholding allowance certificate if the state wishes to retain allowances as the basis for payroll withholding calculations.

### **About APA and NPRC**

APA is a nonprofit association serving the interests of about 21,000 payroll professionals nationwide. APA's primary mission is to educate its members and the payroll industry about the best practices associated with paying America's workers while complying with applicable federal, state, and local laws and regulations. APA members are directly responsible for calculating wages and tax withholding for their employers.

NPRC is a nonprofit trade association whose member organizations provide payroll processing and related services to nearly two million U.S. employers, representing over 36% of the private sector workforce.

APA and NPRC have long served an important role in our nation's tax collection system as a conduit between payroll departments, employers, payroll service providers, and government authorities. Collectively, APA and NPRC improve the efficiency of government tax collections and reporting through electronic payment and reporting programs and improved employer compliance.

### **Background**

The IRS will not require all employees to complete the new federal Form W-4, so employers will be calculating federal income tax withholding based on a mix of past Forms W-4 (which include withholding allowances) and new Forms W-4 (which do not include withholding allowances).

Employers will also need to accommodate three sets of inputs for withholding calculations: (1) the past system based on withholding allowances, (2) the new system with new data elements, and (3) the new system with the checkbox for optional higher withholding.

As a separate matter, the state may need to consider whether to support an additional withholding calculation and checkbox for "optional higher withholding," which is generally intended as an easy way to adjust for two-earner families in which the combined family income may qualify each employee for a higher tax rate.

Below is an at-a-glance comparison of the past and new IRS Form W-4 inputs. All income tax withholding calculations will be based on these inputs.

2019 (or earlier) IRS Form W-4:

- Marital status,
- Number of withholding allowances, and
- Per-payroll additional amount to withhold.

2020 Form W-4:

- New marital status box for head of household,
- Checkbox for optional higher withholding,
- Full-year value of child, dependent, and other tax credits,
- Full-year amount of other (non-wage) income,
- Full-year amount of itemized deductions (over the standard deduction amount), and
- Per-payroll additional amount to withhold (unchanged).

With the exception of marital status, the other elements are optional; thus, employees may decide to only enter their marital status and sign the form, perhaps checking the “optional higher withholding” box.

Employers will likely need to support the past withholding allowances system for many years. Because existing employees are not required to complete a new Form W-4 until they need to adjust their withholding, they can leave their 2019 or prior Forms W-4 and withholding allowances unchanged indefinitely. The 2020 version of Form W-4 is mandatory only for new hires and for employees who want to adjust their withholding or change other information on their Form W-4 after 2019.

Any changes to state income tax withholding tables and calculations, to the extent that the states may adopt input factors other than filing status and withholding allowances, will take time for employers, software providers, and third-party payroll providers to accommodate.

Significant changes to income tax withholding generally require at least six months and preferably nine months from the final publication of forms and specifications to be successfully implemented and tested.

APA and NPRC would like to discuss this issue with your office to provide meaningful feedback. Again, please inform us of your plans for the upcoming year and how we might be of assistance.

Sincerely,



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Cochair, APA State and Local Topics Subcommittee  
President, National Payroll Reporting Consortium



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