Form W-4 Tip Sheet

The *Right* Way!

Fast Facts

Purpose of the Form W-4:

This form calculates how much federal income tax to withhold from your employees' wages.

Minimum Requirements:

All new employees must complete Form W-4 on their first day of work. If your employee does not fill out a Form W-4, you must withhold taxes as if the employee were single with no withholding allowances.

Effective Dates:

A Form W-4 remains in effect until an employee completes a new one. A new Form W-4 may be completed any time an employee's tax situation changes (marriage, divorce, birth of child, etc.) or if the employee chooses to have less or additional taxes withheld.

If an employee completes a new Form W-4 that replaces an existing Form W-4, you must begin the new withholding no later than the first payroll period ending on or after the 30th day from the date you received the revised form. Employees who claim exemption from income tax withholding must complete a new Form W-4 every year.

IRS Review:

You are required to keep a Form W-4 on file for each employee for at least four years after the date the employment tax becomes due or is paid (whichever is later). When requested, you must make original Forms W-4 available for inspection by an IRS employee. You may also be asked to send copies of certain Forms W-4 to the IRS.

After submitting a copy of Form W-4 to the IRS, you should continue to withhold federal income tax based on that Form W-4. However, if the IRS later notifies you in writing that the employee is not entitled to claim exemption from withholding or a claimed number of withholding allowances, then you should modify the withholding based on the effective date of the letter and maximum number of withholding allowances specified in the letter. This is commonly called a "lock-in" letter (see reverse for more information.)

Enforcement:

The Internal Revenue Service (IRS) enforces federal tax laws. The IRS can assess back taxes and penalties for not withholding payroll taxes.

Determining Invalid W-4s

- Under IRS regulations, a Form W-4 is invalid if any of the required information is missing and/or a signature is not provided. In addition, a Form W-4 is invalid if the official language on the form is deleted or altered.
- A Form W-4 is also invalid if an employee indicates in any way that it is false. You may treat a Form W-4 as invalid if the employee wrote "exempt" on line 7 and also entered a number on line 5 or amount on line 6.
- Never use an invalid Form W-4 to calculate withholding. Instead, request a new form from your employee. If the employee does not provide a valid form, you should withhold taxes as if the employee were single and claiming no withholding allowances. The only exception is if you have a previous Form W-4 in effect for the employee. If that's the case, you should continue to withhold in accordance with the previous form.

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(Continued)

Form W-4 Do's & Don'ts

DO have all new employees fill out a Form W-4 on the first day of work.

Don't ask applicants to fill out Forms W-4. They are only for hired employees.

DO keep blank, current Forms W-4 on hand. An employee may want to change the number of withholding allowances or his or her filing status.

Don't send all W-4s to the IRS. In the past, employers had to send the IRS any Form W-4 claiming complete exemption from withholding (if the employee was expecting $200 or more in weekly wages or claiming more than 10 allowances). However, you're no longer routinely required to submit these forms.

DO stress to your employees the importance of submitting an accurate Form W-4. Individuals may be subject to a $500 penalty for submitting a Form W-4 that results in less tax being withheld than is required.

Don't let employees base their withholding amounts on a fixed dollar amount or percentage. The amount of any federal income tax withholding must be based on marital status and withholding allowances. However, your employees may specify a dollar amount to be withheld *in addition* to the amount of withholding based on filing status and withholding allowances.

DO advise employees to use the Withholding Calculator on the IRS website — **www.irs.gov** — for help in determining how many withholding allowances to claim on their Forms W-4.

Don't accept copies. You must retain the original signed forms.

More on W-4 "Lock-in" Letters

If the IRS determines that an employee does not have enough withholding, it will notify you to increase the amount of withholding tax by issuing a "lock-in" letter that specifies the maximum number of withholding allowances permitted for the employee. You then must:

- Give a copy of the lock-in letter to the employee(s) immediately upon receipt.
- Implement the new withholding rate based on the effective date of the letter.
- Fax a signed note on company letterhead to the IRS stating the employee is no longer employed by the business, if that is the case.
- Ensure safeguards are in place to prevent employees from increasing their allowances electronically.
- Maintain the withholding amount specified in the lock-in letter. You may be penalized if you do not honor the lock-in requirement, and you could be liable for the amount of tax that should have been withheld.