

Best Tax Practices – W-2 Withholding On W-4

101 NOVICE:

When you work for someone who reports your wages on a W-2, you are an **EMPLOYEE** and your income is called Wages. The Employer is required to have you fill out a **Form W-4 – Employee’s Withholding Allowance Certificate** indicating how to withhold *income* taxes from your income based on various criteria - Single, Married, Head of Household, etc., in addition to the number of dependents you declare.

The Employer uses the completed W-4, ***along with other factors*** (including but may not be limited to, total pay expected and frequency of pay, Child or Dependent Care Expenses, Child Tax Credits, etc.) to determine the amount of *income* taxes that will be withheld from your paychecks.

Generally speaking, a single person would claim Single 0 or Single 1. The married person would claim Married 0, Married 1 or, if their spouse were **NOT** employed, could claim Married 2.

Higher numbers might be allowable if you have dependents.

The W-4 form has no bearing and does not change the withholding for Social Security taxes withheld (FICA & Medicare) which is always a fix percentage of approximately 7.65% combined total.

201 INTERMEDIATE:

You may be entitled to claim EXEMPT (from *income* taxes being withheld) but the qualifying criteria to claim EXEMPT is very specific. **Generally speaking, most working adults do NOT meet the criteria and should seek the advice of a tax professional before considering claiming EXEMPT.** If you claim EXEMPT, you will still have Social Security taxes withheld (FICA & Medicare) withheld from your pay.

301 ADVANCED:

Having multiple employers during the course of the same year changes the dynamics of your withholding. Seek tax professional advice if you (and or your spouse) have more than a couple employers during the same calendar year.

BEST PRACTICE: Claim your status (Single or Married) and either 0 or 1 plus any dependents you are entitled to claim.

Postscript: In the case of the W-4, you are allowed to claim less (lower number), but never more than what you are legally entitled. There are a lot of stories of people claiming excessive withholding numbers on their W-4; numbers that are not based in any truth. There are consequences for the Employee as well as the Employer if the IRS wants to pursue the matter further.