

## **IRS WILL ISSUE WITHHOLDING GUIDANCE IN JANUARY REFLECTING TAX CUTS AND JOBS ACT**

On December 26, 2017, the IRS issued a statement saying that it is developing withholding guidance to implement the Tax Cuts and Jobs Act, and it anticipates issuing the initial guidance in January 2018.

The Act makes major changes to the income tax rates, increases the standard deduction, and does away with personal exemptions, effective for tax years beginning after December 31, 2017. As a result, the withholding tables for 2018 will have to be revised. The IRS says that employers and payroll service providers will be encouraged to implement this in February 2018. The IRS also emphasized that the information will be designed to work with the existing Forms W-4, Employee's Withholding Allowance Certificate, that employees have already filed.

No further action by taxpayers will be needed at this time. The IRS added that the use of the new 2018 withholding guidelines will allow taxpayers to begin seeing the changes in their paychecks as early as February 2018. Until then, the IRS has advised that employers and payroll service providers should continue to use the existing 2017 withholding tables and systems.

### **BACKUP WITHHOLDING RATE DROPS IN 2018**

Payroll departments should be aware that the backup withholding rate will decrease from 28% to 24%, effective January 1, 2018.

Under Code Section 3406, payors must deduct backup withholding on certain non-wage payments made to payees for whom an information return was filed which had either a missing or an incorrect taxpayer identification number. The backup withholding rate under Code Section 3406(a)(1) is the fourth lowest rate of tax under Code Section 1(c) (tax rates for single individuals). That rate through December 31, 2017 is 28% but under the Tax Cuts and Jobs Act, it is reduced to 24%, effective January 1, 2018.

Payments that may be subject to backup withholding include commissions, fees, or other payments for work performed as an independent contractor (Form 1099-MISC), along with interest and dividends.