



# Is Your Employee's Tax Withholding Correct?

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# Today's Presenters



**Gordon Middleton**  
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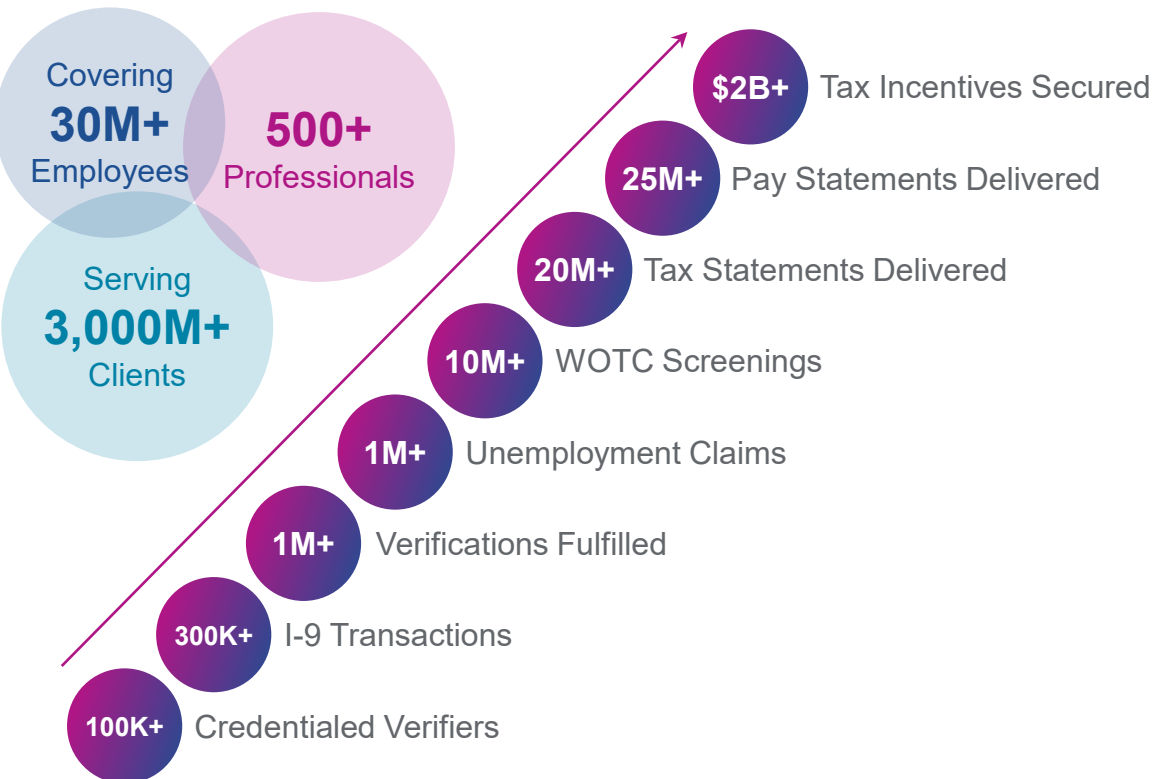
**Andy Warren**  
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# Industry Expertise

## At Every Stage of Employment



## Serve Employers, Serving Employees



# Webinar Agenda

- 1 Top Withholding Challenges
- 2 Federal Withholding Landscape
- 3 State and Local Withholding
- 4 Addressing Change via Best Practices
- 5 Key Takeaways



# Top Withholding Challenges



# Poll Question 1

Currently we are most focused on changes to:

- ☐ Federal Withholding—too much change
- ☐ State Withholding—reacting to federal change
- ☐ Local Withholding—we have a large footprint
- ☐ All of them...They are all troubling
- ☐ None cause problems, withholding is a breeze

# Withholding Challenges

## Navigating Compliance Waters

- Manage withholding for remote workforce—multiple locations add compliance responsibilities
- Pew Research 2024 poll found 75% of employees who have the ability, work from home at least a portion of the time
- Compliance pressures—constant tweaks to processes on state or local level
- Highly visible—not only compliance pressures, but timeliness, and accuracy



# Withholding Challenges

- 2020 Brought New Form W-4
  - No allowances
  - Existing employees not required to update
- More remote workers/less commuters lowered revenues—heavily in some areas
- Enforcement activities may heighten on state level in reaction to federal activity
- Modifications to independent contractor over past several years



# Federal Landscape



# Federal Landscape

- Current Form dates to 2020, passage of Tax Cuts and Jobs Act necessitated the change
- Congress Currently in the process of extending and expanding measures, Big Beautiful Bill is in the Senate
- Executive orders are adding complexity to compliance activities—157 as of 5/27
- President has proposed the idea of dropping income taxes for employees earning under x amount, which would potentially bring massive changes to withholding



# Federal Landscape

- Reduction in force at IRS may cause challenges for employers
- Clarity of regulations, or lack thereof, is problematic
- IRS still sends letters 2801C, often referred to as lock in letters
- Failure to withhold or properly remit can bring serious legal penalties
  - corporate process and individual



# State Landscape



## Poll Question 2

All States Have Their Own W-4 Forms.

- ☐ True
- ☐ False

# State Withholding

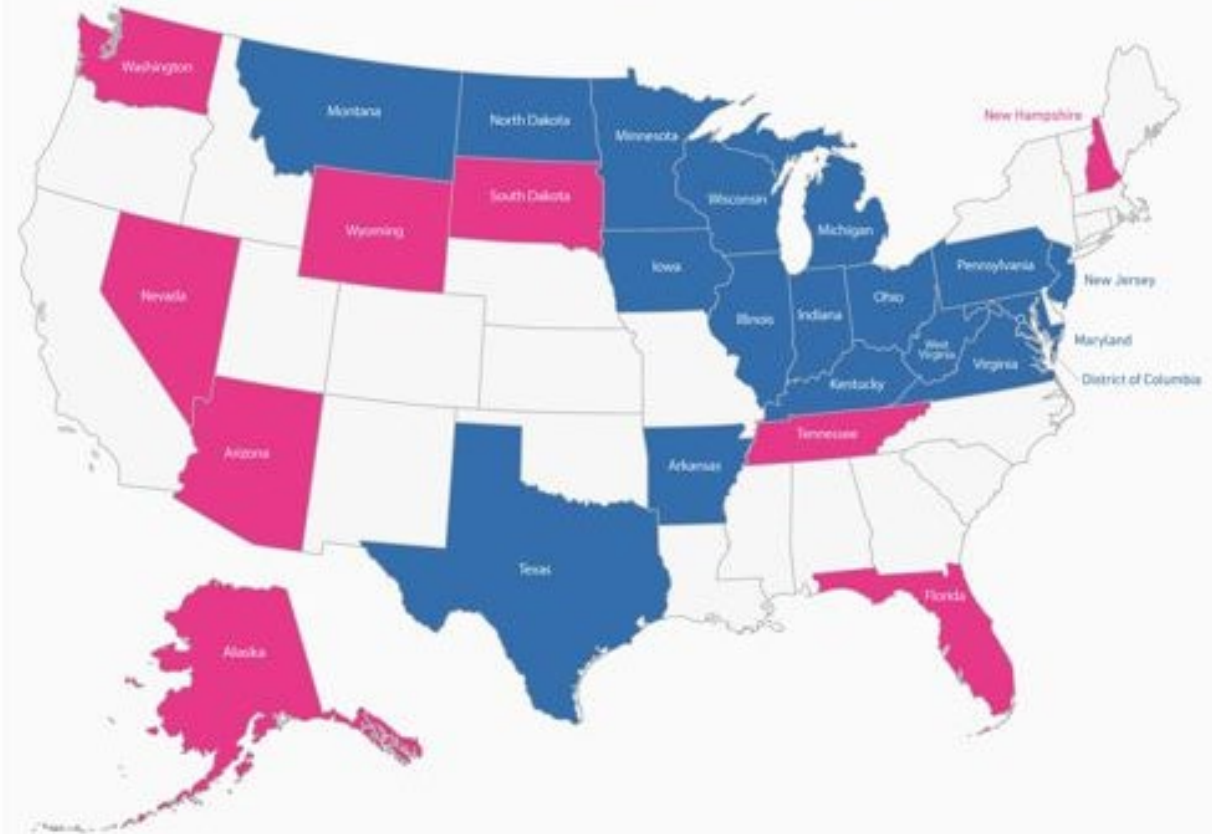
- Many states still making post-COVID adjustments
- Nine states have no income tax, thus no withholding
- The majority of states have their own version of the W-4, with a few still using the federal—New Mexico; North Dakota; Utah; CO still accept either
- Even occasional remote or hybrid work can trigger withholding obligations for employers
- States perform audits and share data with IRS



# State Withholding


- State tax laws and regulations are a complex patchwork—constant monitoring required.
- Nexus, reciprocity employees who work in multiple jurisdictions complicate compliance.
  - Massachusetts v New Hampshire case
- In addition, 17 states plus the District of Columbia have reciprocity agreements in place.
- Annual changes occur to forms often. Last TY alone brought over 75 changes to state and local forms and processes.

## States with Reciprocal Tax Agreements or No Income Tax Withholding



Reciprocity agreements allow employees who live and work in different states to avoid tax withholding in the work state as long as all states involved maintain reciprocity. In addition, several states do not require any income tax withholding.

 Reciprocity States

 No Tax Withholding

# Local Withholding

- Literally thousands of jurisdictions to cover
- Wide variance in laws and regulations at the local level
  - Pennsylvania
  - Ohio
  - Michigan
  - Kentucky
- Residency issues become harder to manage
- Less information publicly available



# Addressing Change Via Best Practices



## Poll Question 3

W-4 Forms Can Only Be Changed at Time of Hire or Annually.

- ☐ True
- ☐ False

# Addressing Change Through Best Practices

There are several key points for employers to consider in withholding compliance on the whole.

1. Ensure we know where employees are working for multi-state; an allocation estimation sheet is helpful.
2. States have differing retention requirements—be aware of those and pay heed.
3. Know reciprocity agreements and Nexus requirements.
4. Ensure employees know a change in life events may necessitate the need for change.

Incorrect or unwieldy processes can reflect on corporate culture/satisfaction.

# Addressing Change Through Best Practices

- Automate processes, where possible. Monitoring for changes in laws, regulations and forms is key
- Establish effective communication channels that foster collaboration and teamwork
- Good Faith is rewarded...fines can be mitigated, audits shortened, employee morale heightened
- Annual training to ensure payroll team is informed of annual changes and best practices



# Addressing Change Through Best Practices

- Regular self-audits can identify weak areas. Ensure discrepancies are addressed.
- Know points of escalation, both internal, and if necessary, external for complex issues.
- Compliance-minded employers who pay and withhold correctly enhance employee morale and overall culture. Complying is caring.



## Poll Question 4

Filing as "Exempt" on the W-4 is Illegal.

- ☐ True
- ☐ False

# Key Takeaways

- Ensure all employees, including remote workers, are equipped with proper resources and communication to maintain compliance.
- Closely monitor all withholding activity on the federal, state, and local level.  
(Executive orders and court decisions can have an effect)
- Examine change management processes to ensure systems are ready to go and can accommodate significant change quickly.
- Ensure practitioners receive regular training, document the training and attendance.
- Automate processes whenever possible.
- Seek a vendor for assistance but do your due diligence.
- Good Faith is popular with auditors and employees alike.

# Questions?



# Call To Action



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