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W-4 & Payroll Setup Guide for Employers and Employees

The modern W-4 looks simple, but small boxes on that form control thousands of dollars of withholding over the year. Since the 2020 redesign, the IRS no longer uses allowances; the form now relies on filing status, dependent credits, other income, deductions, and optional extra withholding stated in dollars. That is better in theory, but only if employees complete the right lines and employers use current payroll tables. This guide shows employees how to avoid under-withholding surprises and shows employers how to turn a signed W-4 into compliant payroll deposits, quarterly filings, and accurate year-end reporting.

1. Foundation

The 2020-and-later Form W-4 is designed to match withholding more closely to actual tax liability, which is why the old “allowances” approach disappeared. The form now has five steps. Steps 1 and 5 are required: personal information, filing status, and signature. Steps 2 through 4 are technically optional, but leaving them blank is not neutral if you have multiple jobs, dependents, other income, or itemized deductions. It simply tells payroll to ignore those facts. That is why many households under-withhold after marriage, a second job, or a spouse returning to work. The penalty risk is real. You can owe an underpayment penalty if you owe more than \$1,000 at filing time and your withholding and estimated payments are less than 90 percent of the current year's tax or less than 100 percent of the prior year's tax, increasing to 110 percent of the prior year if adjusted gross income exceeded \$150,000. In a typical rate environment that penalty annualizes around 7 percent, so a W-4 mistake is effectively expensive interest paid to the IRS. For employers, the same theme applies: the employee's form is only the start. Payroll must use current IRS Publication 15-T tables, calculate federal income tax and FICA correctly, deposit taxes on the right schedule, and file Form 941 each quarter. One wrong assumption at setup can echo through every payroll run until year-end.

W-4 Step-by-Step Worksheet that mirrors all five lines of the modern form so an employee can decide filing status, multiple-job handling, dependent credits, other income, deduction adjustments, and extra withholding before touching payroll software or a paper form. The worksheet is most useful when completed with last year's return, current pay stub, and expected life changes sitting side by side.

Life Event Trigger checklist that tells you exactly when to revisit withholding so marriage, divorce, a new child, a second job, bonus income, or a large raise does not quietly turn into a four-figure balance due. Withholding is not a “set it once forever” task. It is a control you review whenever income or credits change materially.

Annual Withholding Check table that connects the employee side and employer side so you can compare year-to-date federal withholding against projected tax, confirm the payroll system is using current tables, and decide whether Step 4(c) extra withholding should be added for the rest of the year.

2. Step-by-Step System

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Step 1: choose the correct filing status because it drives the base withholding rate

Step 1 asks for name, address, Social Security number, and filing status, but the filing-status choice does more work than many employees realize. Single or Married Filing Separately generally withholds the most because it assumes only one income and uses the narrower tax brackets tied to those statuses. Married Filing Jointly or Qualifying Surviving Spouse generally withholds less per paycheck because the brackets are wider and the standard deduction is larger. Head of Household sits in the middle, but it is only valid if you are unmarried or considered unmarried for tax purposes and pay more than half the cost of keeping up a home for a qualifying person. Do not choose Head of Household because it “looks better” or produces a bigger paycheck; if you are not eligible, it can create a tax bill later. For employers, the operational rule is simple: use exactly the status on the signed W-4, keep the form in payroll records, and do not substitute older marital-status coding from a pre-2020 setup. If an employee is uncertain, send them to the IRS instructions or estimator rather than guessing inside the payroll system.

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Step 2: handle multiple jobs correctly or the entire withholding result can be wrong

Step 2 exists because withholding tables work best when they see the household's combined wage picture. If an employee has two jobs, or if both spouses work, leaving Step 2 blank often causes major under-withholding because each employer applies the full standard deduction and lower tax brackets as if that paycheck were the only income in the house. The checkbox in Step 2(c) is only the easy solution when there are just two jobs total and the pay is roughly similar. If one job pays much more than the other, the better choice is usually the IRS Tax Withholding Estimator or the Multiple Jobs Worksheet in the instructions. For employees, the safest practice is to run the estimator with year-to-date pay and withholding from every job. For employers, do not “help” by checking the box for the employee; simply enter what is on the signed form and use Publication 15-T correctly. Most ugly April surprises happen because someone assumed multiple-job withholding would “sort itself out.” It usually does not.

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Step 3: claim dependents accurately and only on one W-4 when there are multiple jobs

Step 3 is where employees tell payroll about tax credits for qualifying dependents. The core numbers most households care about are \$2,000 for each qualifying child under age 17 and \$500 for each other dependent who qualifies for the credit. But there are two common errors. First, employees skip Step 3 entirely even though they qualify, which causes unnecessary over-withholding and a smaller paycheck all year. Second, households with multiple jobs put the full credit amount on more than one W-4, which can sharply reduce withholding and create a tax bill later. The clean rule is to complete Step 3 on only one W-4, usually the highest-paying job, unless the IRS estimator tells you to do something more precise. Keep in mind that credits phase out at higher income levels and shared-custody situations can make only one parent eligible in a given tax year. Employers should enter the dollar amount exactly as written and avoid any legacy “allowance conversion” logic. A 2020+ W-4 is already in dollars; the payroll system should not translate it into old allowances.

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Step 4: use adjustments for other income, deductions, and deliberate extra withholding

Step 4 is optional, but it is where many accurate W-4s are made. Step 4(a) is for other income not from jobs that is not subject to withholding, such as interest, dividends, freelance income, or retirement income if you do not want separate estimated payments to cover it. Step 4(b) is for deductions beyond the standard deduction. For 2024, the standard deduction is \$14,600 for Single and Married Filing Separately and \$29,200 for Married Filing Jointly, with Head of Household in between at \$21,900. If your itemized deductions exceed your standard deduction, the worksheet helps you convert that excess into a lower withholding amount. Step 4(c) is the blunt but powerful tool: extra withholding per paycheck. If the estimator says you are short by \$2,600 for the remaining 26 biweekly pay periods, adding \$100 per paycheck is often the clean fix. For employers, Step 4 values are not suggestions; they must be entered exactly and processed using current 15-T calculations. Step 4(c) is especially useful for employees with bonuses, RSUs, side income, or a spouse whose income is volatile.

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Check withholding accuracy every April and after major life changes

The best W-4 is the one you revisit before a small error becomes a year-end problem. The IRS Tax Withholding Estimator at irs.gov/W4App should be run at least once a year, ideally after the first few pay periods of the year when current withholding is visible, and again after any meaningful life change. The obvious triggers are marriage, divorce, a new child, the loss of a dependent, starting or ending a second job, a large raise, a bonus-heavy compensation change, or a spouse changing work status. Less obvious triggers include large interest income, stock sales, or itemized deductions changing because mortgage interest or charitable giving changed. Employees should compare projected total withholding with projected tax and then file a new W-4 if needed. Employers should date-stamp each new form, implement it promptly in payroll, and retain prior versions as part of the payroll record. Waiting until December to fix a January-through-November withholding problem usually means the per-paycheck catch-up has to be uncomfortably large.

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For employers: use Publication 15-T, follow deposit deadlines, and file Form 941 quarterly

Employer payroll compliance begins after the W-4 is signed. First obtain an EIN, then register for any state withholding and unemployment accounts. Use payroll software or a payroll service that applies current IRS Publication 15-T methods. Publication 15-T provides both Wage Bracket and Percentage methods for federal income-tax withholding, and the software must use the one appropriate to the employee's form and pay frequency. Then calculate and remit FICA correctly: Social Security tax is 6.2 percent of wages up to the annual wage base, Medicare is 1.45 percent on all wages, and an additional 0.9 percent Medicare withholding applies above the employee threshold. Federal deposit timing depends on the IRS lookback rules. Monthly depositors generally must deposit by the 15th of the following month; semiweekly depositors follow the Wednesday or Friday schedule based on pay date. Form 941 is due quarterly, generally April 30, July 31, October 31, and January 31. Missing deposits can trigger penalties that step up from 2 percent to 5 percent, 10 percent, and eventually 15 percent after notice. The practical control is reconciliation: every payroll run should tie gross wages, employee withholding, employer taxes, deposits, and quarter-end filings together.

3. Key Worksheets & Checklists

Use the worksheet first, then the trigger checklist, then the annual review table. That order matters. The worksheet helps you complete the current form correctly. The trigger list tells you when the form has become stale. The annual review table lets you compare what payroll has actually withheld to what your return is likely to show. For employers, these same tools double as a quality-control loop: verify the employee's form, verify the system setup, then verify the year-to-date result before quarter-end and year-end filings lock in the error.

W-4 Step-by-Step Worksheet

Step 1 status	Write the filing status that matches your actual tax position: Single or MFS, Married Filing Jointly or qualifying surviving spouse, or Head of Household only if you meet the qualifying-person rules.
Step 2 job data	List every household job, expected annual wages, and whether the Step 2 box is appropriate or the IRS estimator should be used instead.
Step 3 credits	Count qualifying children under 17 at \$2,000 each, other dependents at \$500 each, and note which one W-4 will claim the total credit amount.
Step 4 adjustments	Record other income, excess itemized deductions over the standard deduction, and any extra withholding per paycheck needed to stay on target.
Step 5 sign-off	Note the signature date, first pay period the change should affect, and the next review date if income, family status, or deductions are likely to change.

Life Event Trigger Checklist

- Marriage, divorce, or legal separation changes filing status and can change whether Step 2 and Step 3 should be completed.
- Birth, adoption, or custody change may create or remove a \$2,000 child credit or \$500 other-dependent credit.
- Starting a second job, spouse returning to work, or a major raise usually requires a fresh Step 2 analysis with the IRS estimator.
- Bonus-heavy compensation, commissions, stock vesting, or freelance income may require Step 4(a) or extra withholding under Step 4(c).
- Buying a home, large charitable giving, or other deduction changes can justify Step 4(b) if itemized deductions exceed the standard deduction.
- Claiming exempt, then later becoming taxable, requires an immediate correction; exempt is only valid if you had no tax liability last year and expect none this year.
- Any IRS notice, large refund, or large balance due is a signal to rerun the estimator instead of repeating last year's form blindly.

Annual Withholding Check

Checkpoint	Review action	Evidence complete
April review	Compare year-to-date federal withholding on the pay stub with the IRS estimator's projection for the full year.	Current pay stubs from every job and the estimator result saved together.
Midyear change	After any marriage, child, second job, or major raise, rerun the calculation and decide whether a new W-4 is needed.	New W-4 dated, submitted, and confirmed in payroll before the next practical pay period.
Quarter-end employer check	Verify payroll software is using current Publication 15-T logic and that deposits made match withheld taxes and Form 941 totals.	Quarterly reconciliation retained with payroll reports and deposit confirmations.
Year-end projection	Estimate whether any extra Step 4(c) withholding is needed for the remaining pay periods to avoid owing more than expected.	Written calculation showing projected tax, projected withholding, and per-paycheck adjustment if needed.

4. Common Mistakes

Claiming “exempt” when the rules are not met

Exempt is not a shortcut to a bigger paycheck. It generally applies only if you had no federal income-tax liability last year and expect none this year. Using it incorrectly can produce a large bill and possible underpayment penalties.

Not updating the W-4 after marriage or another household income change

A marriage, divorce, second job, or spouse returning to work can make a formerly accurate W-4 wrong overnight. The most common failure is forgetting Step 2 when two incomes must now fit into one tax return.

Leaving Step 3 at \$0 even though qualifying children exist

That mistake causes over-withholding all year and shrinks cash flow unnecessarily. The opposite mistake—claiming the full credit on multiple W-4s—can cause under-withholding. Step 3 must be deliberate, not accidental.

Using pre-2020 withholding logic with a modern W-4

The new form is built on dollar amounts and updated Publication 15-T methods. Employers or payroll clerks who still think in “allowances” can calculate withholding wrong even when the employee completed the form correctly.

5. Next Steps

Run the [IRS Tax Withholding Estimator](#) with your latest pay stub and last filed return, then keep [IRS Publication 505](#) handy for withholding and estimated-tax rules that go beyond a basic W-4. If you are an employer, confirm your payroll system is using current Publication 15-T tables and calendar the next Form 941 due date now. If you are an employee, submit an updated W-4 by the end of the pay period whenever a major life or income change happens instead of waiting for tax season to expose the problem.

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