All You Need To Know About The New Payroll Tax Rates

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Phew! Your income taxes are filed and you can finally rest easy with that huge chore now over and done. But that doesn't mean you don't have to think about taxes again until it's time to file for 2018. The US tax code has a bigger impact on your life than you think.

Don't believe us? You don't have to – just take a look at your most recent paycheck. Have you been wondering what happened to it? Why do the amounts withheld look so different? And why did your salary get a little boost? Were you given a raise you don't know about?

If you've got questions about payroll taxes, we've got answers!

First, let's take a quick look at the background and purpose of payroll taxes. As you probably know, a big chunk of money is hacked off your gross income each payday. This money goes toward payroll taxes, which, in turn, supports Social Security, Medicare and various other social insurance benefits.

You also pay a federal income tax each month, which helps fund public education, transportation, the Department of Corrections, the state police, and parks. And, unless you live in Texas, Florida, Washington, Nevada, Tennessee, Wyoming, New Hampshire, South Dakota, or Alaska, you'll need to pay a state income tax as well.

The exact amounts being withheld from your paycheck changes a bit every year and varies according to your income level and the W-4 you filled out when you first started working at your job.

Several months ago, the IRS released the income-tax withholding tables for 2018. While these tables are updated annually, this year, the changes need to incorporate the recent tax code reform and are more significant than usual.

If you are an employer

Business owners were instructed to implement the new withholding rates as quickly as possible, but no later than Feb. 15, 2018. The IRS has ensured that this step will be as easy as possible for employers by designing the new tables to work with the W-4 forms that have already been filled out by their employees. (The IRS is currently revising the old W-4 to reflect the recent changes, such as variations in available itemized deductions, increases in the child tax credit and the repeal of dependent exemptions.)

If you have not done so already, make sure your company's payroll reflects the new rates. You can use the payroll tax calculator on IRS.gov to ensure you are fully compliant with the law. It doesn't pay to be negligent about this: Failure to pay the correct amounts of income tax in a timely manner can result in hefty tax penalties.

Paycheck changes

If you are an employee, you may have noticed a slight increase in your paycheck over the last few months.

You can thank the good ol' government for your surprise pay raise! The revised tax code made several changes that affect the average taxpayer, mostly for the good. If you're wondering what your payroll tax rates look like now, you can check out the full table of changes here.

Most notably, the new law increases the standard deduction, repeals personal exemptions and shuffles the general tax rates and brackets around a bit. For the average employee, these changes mean a boost in their income.

What you need to do now

It is your employer's responsibility to ensure the amount withheld from your paycheck reflects the new rates, but it's up to you to review and update your W-4 as necessary.

You filled out this form when you started your current job, but you are allowed to change it whenever you'd like. It's always a good idea to review your W-4 every now and then, but with the new tax laws in place, it's even more important for you to do so. You want to ensure your chosen exemptions and deductions incorporate the new changes.

It’s crucial that you have the right amount withheld from your paycheck. Withhold too little, and you’ll owe the IRS a chunk of money next tax season; withhold too much, and you’ll get a huge refund instead of letting that money grow all year.

Also, it’s especially important to review your forms if you itemize your deductions, own your home, are self-employed, have recently married or recently had a child. One small change on your W-4 can make a huge difference in your taxes.

To determine whether you’re withholding the optimal amounts, use the IRS calculator on IRS.gov. You’ll be asked to input information about your paycheck and personal life, and then you’ll be told the amount you should be withholding. Hold that number up against what you see on your paycheck. If the amounts match, you’re doing fine. If they’re off, be sure to see your HR representative about changing your W-4 to optimize your withholding amount.

The US tax code may be a pain to deal with sometimes, but for most of us, the recent tax reform is good news. Make sure you’re taking full advantage of the new payroll tax rates!

Your Turn: If your paycheck got a boost this year, what are you doing with that bit of extra cash? Do you spend it or save it? Share your ideas with us in the comments!

SOURCES*:

https://www.irs.gov/newsroom/2018-withholding-tables-now-available

https://www.irs.gov/pub/irs-pdf/n1036.pdf

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