

GAO Highlights

Highlights of [GAO-18-548](#), a report to congressional requesters

Why GAO Did This Study

Withholding helps the federal government collect taxes year-round and prevents some individual taxpayers from owing large amounts when they file their tax returns. Public Law 115-97—referred to by the President and many administrative documents as the Tax Cuts and Jobs Act—made a number of changes that affect individual taxpayers beginning in 2018 and gave Treasury authority to establish new rules governing federal tax withholding. IRS publishes withholding tables for employers to use to determine how much tax to withhold from an employee's pay.

GAO was asked to review the revised federal tax withholding tables for 2018. This report examines (1) Treasury's and IRS's processes for developing federal tax withholding tables; and (2) the outreach Treasury and IRS conducted on withholding and how they assessed the effectiveness of that outreach.

GAO reviewed Treasury and IRS documentation and analysis, interviewed Treasury and IRS officials, and compared federal standards of internal control to Treasury and IRS processes. GAO interviewed a nongeneralizable sample of selected organizations representing audiences IRS identified for outreach on withholding.

What GAO Recommends

GAO is recommending that Treasury and IRS document roles and responsibilities for updating the tax withholding tables. Treasury and IRS agreed with the recommendation.

View [GAO-18-548](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or mctiguej@gao.gov.

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FEDERAL TAX WITHHOLDING

Treasury and IRS Should Document the Roles and Responsibilities for Updating Annual Withholding Tables

What GAO Found

Generally, employers are required to withhold income taxes on employee pay, but employees can exclude part of their pay from withholding. Currently, the amount of an employee's pay to be excluded from withholding is determined by multiplying the number of withholding allowances an employee claims by a set dollar value. Internal Revenue Service (IRS) guidance directs employees to claim withholding allowances that match their personal circumstances, such as any tax deductions they plan to take and tax credits they plan to claim when filing their tax returns. Employers then subtract excluded amounts from employees' pay; the rest of the employees' pay is subject to withholding.

Prior to 2018, the withholding allowance value was prescribed by law. Public Law 115-97, enacted in December 2017, gave the Department of the Treasury (Treasury) authority to set the value of a withholding allowance for 2018. According to Treasury officials, Treasury's goals for choosing a withholding allowance value for 2018 included increasing accurate withholding (where taxpayers' withholding matches their tax liability) and not increasing instances of underwithholding or overwithholding (where taxpayers' withholding is less than or greater than their tax liability, respectively). Treasury assessed how alternative values for the 2018 withholding allowance might affect taxpayers' withholding and chose a value of \$4,150, what the allowance value would have been under prior law. According to Treasury, it chose the \$4,150 value because there was no other value it tested that better achieved Treasury's goals.

Treasury and IRS officials described to GAO how the withholding tables were updated, both before 2018 and for 2018. According to the officials, before 2018, IRS adjusted items such as the withholding allowance value and income tax brackets for inflation, as prescribed by law and attained Treasury approval before they were published. Treasury officials stated that for 2018, after choosing the withholding allowance value, the process for updating the withholding tables followed the process for a typical year.

Although Treasury and IRS described to GAO the process for updating the withholding tables, limited documentation of that process exists. For example, there is limited documentation of Treasury's and IRS's roles and responsibilities. According to IRS officials, IRS did not document the process to update the withholding tables because it was routine and straightforward. However, federal internal control standards require agencies to document responsibilities through policies. Documenting the process for updating withholding tables will help Treasury and IRS ensure that it is implemented consistently in the future, for example, if staff with experience in updating the tables were to leave Treasury and IRS.

Treasury and IRS conducted outreach to encourage taxpayers to reassess their withholding and IRS monitored key metrics to assess the effectiveness of that outreach. IRS reported it (1) updated and created pages on its website; (2) used IRS email listservs and social media; and (3) shared withholding materials with partners including tax-related groups, large employers, employer associations, and organizations representing small businesses. To assess the effectiveness of its outreach, IRS monitored key metrics and asked for feedback from partners.