

Revenue Information Bulletin No. 18-009
February 19, 2018
Individual Income Tax

Guidance on Updated Withholding Tables

On February 9, 2018, the Department issued an emergency rule to update Louisiana Administrative Code Section 61:I.1501 which provides for the withholding tables that employers use to determine the appropriate amount of withholding tax to deduct from an employee's wages. LA R.S. 47:112(A) requires every employer making payment of wages to deduct and withhold an amount of taxes as provided in the withholding tables promulgated by the Secretary. The updated withholding tables allow employers to deduct and withhold the correct amount of tax from their employees and avoid unnecessary penalties for employers and unexpected income tax liabilities for employees.

Purpose of the Updated Withholding Tables

The change to the withholding tables is necessary as a result of the recent passage of federal tax reform and the inverse relationship between federal and Louisiana income tax. As a general rule, as federal income tax decreases, state income tax increases.

The Tax Cuts and Jobs Act ("TCJA") provides for an increase in the federal standard deduction and a decrease in federal individual income tax rates beginning with the 2018 taxable year. Both of these federal changes affect state income tax, as follows:

Increased Federal Standard Deduction

Because of the higher federal standard deduction, more taxpayers will utilize the federal standard deduction instead of itemizing their deductions for federal purposes. For state tax purposes, LA R.S. 47:293(9)(a)(xi) provides a deduction of the excess of the federal itemized deductions over the federal standard deduction to arrive at Louisiana tax table income. In order to claim this deduction, a taxpayer must first itemize their federal deductions on Federal Schedule A, *Itemized Deductions*. If a taxpayer does not itemize for federal purposes, no corresponding deduction for state tax purposes exists. Therefore, taxpayers who previously itemized their federal deductions but now utilize the increased federal standard deduction may expect an increase in state income tax liability.

Decreased Federal Tax Rates

The TCJA reduced the federal tax rates and expanded the federal tax brackets. As a result, most taxpayers will have a lower federal tax liability beginning in the 2018 tax year. For state tax purposes, LA R.S. 47:293(9)(a)(ii) provides a deduction of the amount of federal income tax

liability to arrive at Louisiana tax table income. As the federal income tax liability decreases, the state specific deduction for the amount of federal income tax liability decreases resulting in a higher state income tax liability.

Example

For 2018, John and Jane Smith are married taxpayers with no dependents and reside in Louisiana. John and Jane’s federal adjusted gross income is \$120,000 based on wages from their employers. John and Jane’s deductions include \$8,000 of state income tax, \$5,000 of charitable contributions, and \$7,000 of mortgage interest (combined total of \$20,000 in federal itemized deductions).

Assuming John and Jane’s filing status is married filing jointly, and based on these simplified facts, John and Jane Smith’s federal tax burden decreased by \$1,234 while their state tax burden increased by \$458.¹

| | <u>Previous Law</u> | <u>TCJA</u> | <u>(Decrease)/ Increase in Tax Liability</u> |
|---|-------------------------|---------------|--|
| Federal | | | |
| Federal Adjusted Gross Income | 120,000 | 120,000 | |
| Standard Deduction (based on MFJ filing status) | | (24,000) | |
| Itemized Deductions (see breakdown above) | (20,000) | | |
| Personal Exemptions | (8,300) | | |
| Taxable Income | 91,700 | 96,000 | |
| Federal Income Tax | 14,233 | 12,999 | (1,234) |
| Louisiana | | | |
| Federal Adjusted Gross Income | 120,000 | 120,000 | |
| Excess Federal Itemized Deduction | (7,000) | | |
| Federal Income Tax Liability | (14,233) | (12,999) | |
| LA Tax Table Income | 98,767 | 107,001 | |
| LA Income Tax | 3,275 | 3,733 | 458 |
| Total Combined Tax Burden | 17,508 | 16,732 | (776) |

The updated withholding tables account for the increased state income tax liability to avoid John and Jane owing additional tax at the time the return is filed.

¹ This example is only for estimation of the federal and state tax burden changes as a result of passage of the Tax Cuts and Jobs Act.

Implementation of the Updated Withholding Tables

Employers should begin using the updated 2018 withholding tables as soon as possible **but no later than February 16, 2018**.

The Emergency Rule will be published in the February 2018 issue of the *Louisiana Register* and may be accessed by visiting the Department's website at the following web address:

<http://revenue.louisiana.gov/LawsPolicies/1802EMR030.pdf>.

Updates to Louisiana Form R-1300, *Employee Withholding Exemption Certification (L-4)*

Employers are required to maintain Form R-1300 in order to withhold the correct amount of withholding tax from an employee's wages.

Employees are not required to update Form R-1300 and do not need to update their exemptions and dependents due to the changes in the withholding tables. However, employees should review their additional withholding amounts (Line 8 of Form R-1300; Version 4/11) to ensure the appropriate amount of income tax is withheld. For example, if an employee also receives other types of income (e.g. interest and dividend income), the employee should consider increasing withholdings from wages to account for the other income.

For questions concerning this matter, please contact the Policy Services Division at (225) 219-2780. For questions concerning a taxpayer's return, please contact Customer Service at (855) 307-3893.

Kimberly Lewis Robinson
Secretary