

Washington Pulse

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New Retirement Payment Withholding Procedure is (Finally) Final

The IRS released a new withholding form on January 4, 2022: [Form W-4R](#), *Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions*. The IRS also issued a revised [Form W-4P](#), *Withholding Certificate for Pension or Annuity Payments*. As a result, payers and individuals will have a new process for calculating and electing federal income tax withholding on retirement distributions. Although the IRS will not require payers to use the new and revised forms until January 1, 2023, payers may start using them in 2022.

Tax Withholding in General

With few exceptions, a part of every paycheck is withheld by employers to offset or prepay a portion of federal income taxes that may be owed. Although the most universal tax withholding is assessed on compensation from employment, withholding is also applied to other kinds of income, including distributions from retirement savings arrangements.

Retirement Distribution Withholding Requirements

IRA and employer plan distributions are subject to certain withholding requirements. Employer plan distributions—such as those from 401(k) plans—that are made payable to taxpayers and that are *eligible* to be rolled over—are subject to mandatory 20 percent federal tax withholding. The mandatory 20 percent withholding rate applies only to the taxable portion of the distribution. IRA distributions and employer plan distributions that are *not eligible* to be rolled over—such as RMDs or hardship distributions—are subject to different withholding rates based on whether the distribution is a periodic distribution or a nonperiodic distribution.

A periodic distribution is a distribution that is an annuity or similar periodic payment. The standard withholding rate for periodic distributions will vary based on factors such as the total distributions received annually and the recipient's status (marital or head-of-household). Recipients can waive or increase withholding on their periodic distributions.

Distributions that are not periodic distributions are called “nonperiodic” distributions. For these distributions, a standard 10 percent withholding rate applies unless the recipient elects to waive withholding or to withhold at a higher rate.

Elections are Changing

Until now, withholding elections for both periodic and nonperiodic distributions have been captured on the same IRS Form W-4P. Beginning in 2023, withholding elections for periodic distributions will be made on the revised Form W-4P. Withholding elections for nonperiodic distributions will be made on the new IRS Form W-4R. An important new development is the ability of those receiving nonperiodic distributions to elect a withholding rate of *less than 10* percent.

Default Withholding Rates

If a taxpayer receiving *nonperiodic* distributions fails to elect a withholding rate or to waive withholding, the 10 percent rate will apply. In the past, the default withholding rate for periodic distributions was “married claiming three withholding allowances.” Under the new withholding rules, the default—if no election is made—will be “single with no adjustments.” This will result in a larger amount withheld for federal taxes.

Pre-2022 Elections Will Carry Over

Taxpayer withholding elections, including defaulted rates, made in 2021 or before for both periodic and nonperiodic distributions will apply to future distributions unless a new election is made.

Revised Implementation Plan

The IRS had originally planned on requiring payers to use the new forms in 2022. But because the final forms were released in January 2022, the IRS granted additional time for payers and service providers to update their systems. Payers will not be required to use the new forms until January 1, 2023. This means that in 2022, the 2021 IRS [Form W-4P](#) can be used for taxpayer withholding elections for both periodic and nonperiodic distributions. Importantly, with these 2022 forms now available, payers and service providers can update their system programming. The IRS encourages use of the new forms in 2022, if possible.

The IRS notes that the 2022 withholding tables that are provided in IRS [Publication 15-T](#), *Federal Income Tax Withholding Methods*, can be used with the 2021 Form W-4P.

Stay Tuned

Over the next few months, payers and service providers will be busy updating their systems and forms to reflect the necessary changes. Ascensus will continue to follow any new guidance as it is released. Please visit ascensus.com for the latest news and developments on this and other issues.