

**MEMO# 32151**

January 16, 2020

# **IRS Issues New Interim Guidance on the Default Withholding Rate for Retirement and Annuity Distributions**

[32151]

January 16, 2020 TO: ICI Members

Operations Committee

Pension Committee

Pension Operations Advisory Committee

Transfer Agent Advisory Committee SUBJECTS: Pension

Tax RE: IRS Issues New Interim Guidance on the Default Withholding Rate for Retirement and Annuity Distributions

The IRS recently published Notice 2020-3,[\[1\]](#) providing guidance for the 2020 calendar year on withholding obligations with respect to periodic payments from pensions and annuities.

## **Default Withholding for 2020**

When the payee of a pension or annuity has not made a withholding election by completing the Form W-4P (the Withholding Certificate for Pension or Annuity Payments), then the payor of a pension or annuity must apply a default withholding rate. Previously, the default withholding rate was specified in the Internal Revenue Code (Code). The Tax Cuts and Jobs Act amended the Code to provide that the default rate “shall be determined under rules prescribed by the Secretary.”[\[2\]](#) Section IV of Notice 2020-3 provides that, for 2020, the rule for default withholding will continue to parallel the rule for prior years (based on treating the payee as a married individual claiming three withholding allowances and applying that status to the applicable withholding tables and related computational procedures in the 2020 Publication 15-T).

## **2020 Form W-4P and Related Tables and Computational Procedures**

In prior years, the Form W-4P paralleled the Form W-4 (the Employee’s Withholding Certificate). IRS has redesigned the Form W-4 for 2020,[\[3\]](#) however, and therefore, the information requested on the Form W-4P no longer parallels the information requested on the Form W-4. IRS has designed the withholding tables and computational procedures in the 2020 Publication 15-T (Federal Income Tax Withholding Methods) to work with the redesigned 2020 Form W-4 as well as the earlier versions. For purposes of withholding from periodic payments from pensions and annuities, IRS plans to provide in the 2020

Publication 15-A (Employer's Supplemental Tax Guide) that the 2020 Form W-4P will work with the withholding tables and computational procedures in the 2020 Publication 15-T that are applicable to a 2019 or earlier Form W-4.

## Comments Requested

In the Notice, IRS announces that it is considering whether to change the default rate of withholding for periodic payments for years after 2020. IRS requests comments on this issue, including whether a change would present any administrative challenges, by February 17, 2020.

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### endnotes

[1] IRS Notice 2020-3 is available at <https://www.irs.gov/pub/irs-drop/n-20-03.pdf>.

[2] See Code section 3405(a)(4). Previously, this provision provided that the default rate “shall be determined by treating the payee as a married individual claiming 3 withholding exemptions.” For 2018 and 2019, IRS Notices 2018-14 and 2018-92 provided rules parallel to those in place for prior years, treating the payee as a married individual claiming three withholding allowances.

[3] For example, the redesigned Form W-4 requests the employee’s filing status rather than marital status, and it no longer requests the number of withholding allowances the employee is claiming.

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