

**MEMO# 33062**

January 22, 2021

# **IRS Posts Drafts of Form W-4P and New Form W-4R for 2022 Relating to Payments from Retirement Plans and Annuities**

[33062]

January 22, 2021 TO: ICI Members

Operations Committee

Pension Committee

Pension Operations Advisory Committee

Transfer Agent Advisory Committee SUBJECTS: Pension

Tax RE: IRS Posts Drafts of Form W-4P and New Form W-4R for 2022 Relating to Payments from Retirement Plans and Annuities

The Internal Revenue Service (IRS) has posted an early release draft of the 2022 IRS Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments,[\[1\]](#) and an early release draft of new Form W-4R, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions.[\[2\]](#) The two forms would replace the current Form W-4P which is for use with both periodic and nonperiodic payments (and eligible rollover distributions) from retirement plans and annuities. The early release drafts are provided for information, review, and feedback.

## **Background**

As we previously reported,[\[3\]](#) in connection with a final regulation under section 3405(a) of the Internal Revenue Code (Code) relating to federal income tax withholding on certain periodic retirement and annuity payments,[\[4\]](#) the IRS indicated that it would postpone its planned issuance of a redesigned 2021 Form W-4P intended to align with the redesigned Form W-4, Employee's Withholding Certificate. The postponement was based on comments received from interested parties (including the ICI) regarding the time required by payors to implement the new form and a new default rate of withholding. The IRS indicated at the time that it "will continue working closely with the tax community on the redesign of Form W-4P, with the intention of making the withholding system more accurate and transparent for taxpayers."

## **Separate Forms**

Prior to release of the separate draft Forms W-4P and W-4R, in response to an informal IRS

request for input on the concept of having separate forms for periodic and nonperiodic payments/eligible rollover distributions,[5] ICI expressed concern that two separate forms could increase confusion among participants and increase administrative complexity. We further stated that the confusion could result in a delay in implementing (or failure to implement) the withholding that the participant anticipates. For example, a participant could either fill out the incorrect form associated with their distribution type or fill out both forms unnecessarily.

Based on informal discussions with ICI member firms, we explained to the IRS that currently plan participants and IRA owners generally use Form W-4P to elect out of withholding on nonperiodic distributions, but rarely use the form in other circumstances. For this reason, it is likely that creating a second form would make the withholding process more complex, create administrative complexity for payors, and lead to additional costs. Notwithstanding these comments, the IRS appears to be moving forward with plans to create two separate forms.

The coversheets to the early release draft Forms W-4P and W-4R indicate that the IRS anticipates further changes to the forms before being released as final. Regardless of whether it makes further changes to the drafts, the IRS expects to post new drafts before releasing the final forms. The IRS accepts comments about draft or final forms, instructions, or publications at [www.irs.gov/FormComments](http://www.irs.gov/FormComments).

If you have questions or comments about the draft forms, please contact Elena Chism at [elena.chism@ici.org](mailto:elena.chism@ici.org).

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#### endnotes

[1] The draft Form W-4P is available here: <https://www.irs.gov/pub/irs-dft/fw4p--dft.pdf>.

[2] The draft Form W-4R is available here: <https://www.irs.gov/pub/irs-dft/fw4r--dft.pdf>.

[3] See ICI Memorandum No. 32789, dated September 29, 2020, *available at* [https://www.ici.org/my\\_ici/memorandum/memo32789](https://www.ici.org/my_ici/memorandum/memo32789).

[4] The regulation implements an amendment made by the Tax Cuts and Jobs Act (TCJA). The TCJA amended Code section 3405(a)(4) in 2017 to change the determination of the default withholding rate applicable to periodic payments from pensions and annuities. The final regulation is *available at* <https://www.govinfo.gov/content/pkg/FR-2020-10-01/pdf/2020-21777.pdf>.

[5] The IRS indicated that the intent of having two separate forms would be to prevent confusion, for example, where an individual with non-periodic payments fills out information on the form relevant to periodic payments.

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