

MEMO# 34283

September 13, 2022

IRS Guidance on Use of Substitute Forms for Withholding on Retirement Plan Distributions

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TO: ICI Members

Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension

Tax RE: IRS Guidance on Use of Substitute Forms for Withholding on Retirement Plan Distributions

The Internal Revenue Service (IRS) recently posted guidance regarding implementation of the newly redesigned forms for withholding on retirement plan distributions, Forms W-4P (Withholding Certificate for Periodic Pension or Annuity Payments) and W-4R (Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions). As we previously reported, the IRS posted final versions of the redesigned withholding forms for 2022 earlier this year and indicated that use of the 2022 forms would be optional until 2023.[\[1\]](#) The new guidance provides updated information on the use of "Substitute and Telephonic Submissions of Forms W-4P and W-4R."[\[2\]](#) Previous guidance relating to the redesigned forms indicated that any substitute electronic systems must exactly replicate the text of the paper Form W-4R.[\[3\]](#) There have been questions regarding the application of this exact replication standard to processing telephonic distributions, as well as questions relating to other electronic substitute systems.

A summary of the highlights follows, but we encourage members to read the complete guidance on the IRS website.

Electronic Substitutes

The guidance addresses the following issues relating to electronic substitutes to the paper forms:

- Payers need not require payees to submit Social Security numbers and other personal information already held on file electronically, as long as the account where the election is being made is directly or indirectly linked to the electronically stored personal information.
- References to page numbers on the paper form should be replaced with appropriate

references to the relevant material (e.g., the deductions worksheet from Form W-4P) when the paper form page numbers are not applicable to the substitute form.

- Electronic substitutes to Form W-4R may provide a link to a web page with the Marginal Rate Tables (instead of reproducing the actual tables from the paper form), as long as specific instructions are followed (including certain required text).

Telephonic Submissions

In regard to telephonic submissions of Form W-4R, the guidance indicates that telephonic submissions are permissible and provides three different scripts for use depending on the situation. For example, one script for nonperiodic distributions (to payees within the United States and its possessions) reads as follows:

"The default withholding rate is 10%. You can choose to have a different rate - including any rate from zero to 100%. You can also go to Form W-4R, found online at [READ WEBSITE ADDRESS OF 2022 FORM W-4R], for further instructions and a rate table that helps you choose a rate that is appropriate for your tax situation."

A script for nonperiodic distributions to payees outside the United States reads:

"The default withholding rate is 10%. You can choose to have a different rate, but you generally can't choose a rate of less than 10% for payments to be delivered outside the United States and its possessions. You can also go to Form W-4R, found online at [READ WEBSITE ADDRESS OF 2022 FORM W-4R], for further instructions and a rate table that helps you choose a rate that is appropriate for your tax situation."

Another script for eligible rollover distributions reads:

"The default withholding rate is 20%. You can choose a rate greater than 20%, but you may not choose a lower rate. You can also go to Form W-4R, found online at [READ WEBSITE ADDRESS OF 2022 FORM W-4R], for further instructions and a rate table that helps you choose a rate that is appropriate for your tax situation."

In addition to using the applicable script, payers may provide other information to payees for further explanation and context. We expect more guidance on these scripts for nonperiodic and eligible rollover distributions and on telephonic submission of Form W-4P (for periodic payments). In the meantime, this guidance provides interim instructions for making programming changes to accommodate telephonic submission of Form W-4P, including the specific text from the form that should be included in a script.

Paper Substitutes

With respect to use of paper substitutes, the guidance states that payers should generally follow the same guidelines that apply for electronic substitutes to Forms W-4P and W-4R, except where those guidelines apply only in the context of electronic substitutes (such as instructions concerning pop-ups and hover-boxes). In addition, paper substitute forms must include the applicable form's instructions and worksheets rather than providing a web address where the payee can find the applicable form on IRS.gov.

More to Come

Although we have asked IRS to delay implementation of the redesigned forms such that they remain optional for the 2023 tax year (and we requested a meeting with IRS to discuss our concerns with the redesigned forms and needed guidance),[\[4\]](#) the website update described herein does not include a delay.[\[5\]](#) As noted earlier, the IRS anticipates providing

further guidance on some of the points described above. The guidance notes that the applicable form instructions and publications (e.g., Publication 15-A, Employer's Supplemental Tax Guide, and Publication 15-T, Federal Income Tax Withholding Methods) will be updated with this new information for 2023.

Elena Barone Chism
Associate General Counsel - Retirement Policy

endnotes

[1] See ICI Memorandum No. 33985, dated January 6, 2022, available at <https://www.ici.org/memo33985> and ICI Memorandum No. 33889, dated November 9, 2021, available at <https://www.ici.org/memo33889>.

[2] The guidance is available at <https://www.irs.gov/forms-pubs/additional-guidance-for-substitute-and-telephonic-submissions-of-forms-w-4p-and-w-4r>.

[3] Publication 15-A (Employer's Supplemental Tax Guide) provides specific requirements for electronic systems set up as a substitute to paper Form W-4R, generally requiring that electronic systems must exactly replicate the text from the paper Form W-4R (with certain specified exceptions). See p.3 of Pub. 15-A, available at <https://www.irs.gov/pub/irs-pdf/p15a.pdf>.

[4] See ICI Memorandum No. 34268, dated August 23, 2022, available at <https://www.ici.org/memo34268>.

[5] The website specifies that, for payers using electronic or paper substitutes for Forms W-4P and W-4R, substitute forms for 2023 incorporating all changes made to the 2023 versions of these forms and complying with the guidelines described herein and in the 2022 Publication 15-A and 2022 Publication 15-T must be in use by the later of January 1, 2023, or 30 days after the IRS releases the final versions of the 2023 Form W-4P and 2023 Form W-4R.