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Update on new federal tax withholding forms for pension benefit payments

New federal tax withholding forms for pension benefit payments are required starting in 2023.

Volume 45

Issue 31

November 7, 2022

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Background

Internal Revenue Service (IRS) Form W-4P, *Withholding Certificate for Periodic Pension or Annuity Payments*, was redesigned for 2022. This form is used to make withholding elections for periodic pension or annuity payments. Previously, Form W-4P was also used to make withholding elections for nonperiodic payments and eligible rollover distributions, but starting in 2022, the newly available IRS Form W-4R, *Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions*, can be used for these types of payments. Although the final redesigned Form W-4P and new Form W-4R are available for use in 2022, the IRS requires the use of the new forms starting January 1, 2023.

Pension withholding rules and the new IRS forms

Plan sponsors should pay particular attention to the following notable items regarding the pension withholding rules and the new forms:

- For payments that began before 2022 (or where payments commenced in 2022 and the plan is using a 2021 or earlier Form W-4P), a pensioner is not required to complete a new Form W-4P, and the prior withholding election (or the default withholding election) remains in effect unless the pensioner submits a new Form W-4P.
- For an eligible rollover distribution, the Form W-4R is used to select a withholding rate greater than the 20% default withholding rate.
- For nonperiodic payments, the Form W-4R is used to select a withholding rate (between 0% and 100%) other than the 10% default withholding rate.

- For periodic payments, the Form W-4P is used to make adjustments to reflect the appropriate withholding rate (similar to Form W-4 wage withholding) or to elect no withholding.
- The new default withholding rate for periodic payments is single filing status with no adjustments (rather than married with three withholding allowances as with the prior form).

Timing

The new forms must be used starting January 1, 2023. The IRS recently announced that, for payers using electronic or paper substitutes for Forms W-4P and W-4R, payers must incorporate all required changes to the 2023 versions of their forms, and the updated forms 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. It is uncertain when the IRS will issue the final forms. As of the date of this publication, the IRS has released a draft of the 2023 Form W-4R, which does not contain substantial changes from the 2022 version.

In closing

Plan sponsors and plan administrators are encouraged to contact their recordkeepers, trustees, and paying agents to ensure that the Form W-4P and Form W-4R requirements that will become effective on January 1, 2023 are being incorporated into their withholding forms as well as their pension processing systems, procedures, communications, and distribution packages.

We will continue to monitor developments in this area and provide updates as the IRS releases additional guidance.

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