

## Significant Changes to 2022 Pension and IRA Reports Reflected on Draft Withholding Forms

PUBLISHED: April 1, 2021

On March 12, the IRS released the latest versions of the 2022 draft withholding forms for pension, IRA and annuity payments. While pension withholding elections have historically all been made on Form W-4P, that form will be split into two forms for 2022 –

- Form W-4P will be used *only* to withhold federal income tax from *periodic* payments—those that are paid at regular intervals over the span of more than one year; and
- Form W-4R will apply to withholding on nonperiodic payments and eligible rollover distributions (i.e., 10% voluntary withholding and 20% mandatory withholding).

Notably, the Form W-4P provides for a new default withholding rate of single with no adjustments (*i.e.*, no longer married with three allowances), which likely will result in more taxes withheld.

These new forms (or substitute forms) will be required for pension distributions made in 2022, although current retirees will not need to complete a new Form W-4P if there are no withholding changes. As anticipated, the changes to Form W-4P generally take a similar approach to those taken for wages with Form W-4. If a prior year Form W-4P is used for current retirees, then a computational bridge will be required to calculate the withholding for 2022 (and beyond). The guidance indicates that few changes will be made to the bridge currently contemplated and, therefore, recordkeepers and plan sponsors should be able to consider system changes at this time.

Recordkeepers, plan sponsors and other payors may want to consider tackling these form changes early on, as they are likely to entail extensive system changes. Extensive electronic system

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requirements can be found on the first page of each form, which are in addition to those described in Pub. 15-A. For example, electronic systems set up as a substitute to paper Forms W-4P and W-4R must replicate the text and instructions from the face of the paper forms. No pop-ups or hover-boxes are permitted (which is causing some concerns). The electronic system must also include a hyperlink to the forms on irs.gov or include the instructions and worksheet in their entirety in the electronic system interface itself.

The timing of final forms is always difficult to predict; however, the drafts imply that the forms are near final. As previously noted, the Service clearly stated that the computational steps in the draft Form W-4P should not change, and may be relied upon for purposes of systems programming. However, the IRS also indicated that the final version will include updates to the 2022 Marginal Tax Rate Tables as well as minor text changes to the instructions and/or formatting changes.

Comments can be submitted on the draft forms [here](#).

## Next Steps

Plan sponsors, recordkeepers and other payors should review and update their withholding procedures for 2022 payments, and take into account lead times for system changes. Conforming changes on distribution kits and various participant communications also may be needed. Failure to comply with these pending rules raises various reporting and withholding penalties and tax obligations for the plan administrator/payor – so careful consideration of the rollout of the new withholding materials is important.

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