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Notice 92-6, 1992-7 I.R.B. 18, 1992-1 C.B. 495, 1992 WL 786329 (IRS NOT)

Internal Revenue Service (I.R.S.)

Notice
CHANGE IN WITHHOLDING TABLES

January 29, 1992

Errors in temporary regulations T.D. 8255, 1989-2 C.B. 259, relating to reimbursement to State and local law enforcement agencies, are corrected.

The Internal Revenue Service intends to publish a revision of the 1992 Circular E (Pub. 15), Employer's Tax Guide. The revised Circular E, dated February 1992, contains new wage withholding tables and supersedes the January 1992 version recently mailed to employers. Circular A (Pub. 51), Agricultural Employer's Tax Guide, and Pub. 493, Alternative Tax Withholding Methods and Tables, are also being revised to reflect the new withholding tables. The revisions of Circular E and Circular A will be mailed to all employers to whom the Service mailed the January 1992 versions.

In general, the new tables reduce the amount of Federal income tax required to be withheld on wages paid to low-and middle-income employees and retirees. The new tables generally apply to amounts paid on or after March 1, 1992. The new tables apply under section 3402 of the Internal Revenue Code solely for purposes of withholding of Federal income taxes on wages (including periodic payments from pension plans, individual retirement accounts, or annuities treated as wages for withholding purposes under section 3405 of the Code). The new tables do not apply to withholding of social security, Medicare, and all other Federal taxes.

I. REASON FOR THE NEW TABLES
Section 3402 of the Code requires every employer to withhold Federal income taxes on wages in accordance with tables and computational procedures established by the Service. The principal purpose of wage withholding is to assure current payment of the correct amount of Federal income taxes.

Many employees end retirees experience substantial overwithholding of Federal income taxes, and overwithholding is particularly prevalent among low- and middle-income individuals. Overwithholding significantly reduces take-home pay for these individuals, who must wait to receive the amounts overwithheld until they file their income tax returns the following year and receive refunds from the Service.

II. GENERAL DESCRIPTION OF ADJUSTMENTS MADE IN THE NEW TABLES WITH RESPECT TO LOW- AND MIDDLE-INCOME EMPLOYEES AND RETIREES
The new tables reflect adjustments made in order to reduce overwithholding of Federal income taxes for low- and middle-income employees and retirees.

For employees who are withheld at the married rate end whose annual wages from an employer are below the phase-out range, the effect of this adjustment is to reduce Federal income tax withholding by that employer by up to $345 per year below the level that otherwise would apply. Thus, for a married couple with two working spouses, the adjustment could total up to $690 per year. The adjustment also could reach $690 per year for a married worker with two jobs. For employees withheld at the married rate, the adjustment is phased out if annual wages from an employer are between approximately $88,000 and $99,000 (more precisely, between $78,700 and $90,200 after reducing gross wages by $2,300 for each withholding allowance claimed). There is no change in withholding for employees whose annual wages from each employer are above the phase-out range.

For employees who are withheld at the single rate end whose annual wages from an employer are below the phase-out range, the effect of the adjustment is to reduce wage withholding by that employer by up to $172 per year below the level that otherwise would apply. Thus, for a single worker with two jobs, the adjustment could reduce wage withholding by up to $345. For employees withheld at the single rate, the adjustment is phased out if annual wages from an employer are between approximately $52,000 end $58,000 (more precisely, between $47,450 and $53,200 after gross wages are reduced by $2,300 for each withholding allowance claimed). There is no change in withholding for employees whose annual wages from each employer are above the phase-out range.

The same reductions also apply to retirees who have Federal income taxes withheld by payors on periodic payments from pensions, individual retirement accounts, or annuities.

Somewhat smaller reductions may result in 1992, depending on when an employer or payor implements the new tables.

III. EFFECTIVE DATE FOR THE NEW TABLES

The new tables generally apply to amounts paid on or after March 1, 1992.

Employers also may choose to treat the new tables as effective beginning on any earlier date (but not before January 1, 1992). Accordingly, an employer may (but is not required to) withhold at the levels specified in the new tables on wages paid from January 1, 1992 to February 29, 1992. As another alternative, if an employer has withheld on such wages at higher levels, the employer may (but is not required to) repay the excess to employees and reduce the employer's subsequent tax deposits. (Employers who repay the excess withholding on or before filing their return on Form 941, Employer's Quarterly Federal Tax Return, for the quarter ending March 31, 1992, should correspondingly reduce the amount of tax they pay and the amount of tax liability they report on Form 941 for that quarter. Employers who repay the excess withholding after Form 941 is filed should follow the instructions in Circular E for claiming credit for overpayments and adjusting returns).

If an employer makes a good faith effort to implement the new tables as soon as practicable, but is unable to implement them by March 1, 1992, the employer may treat the new tables as effective beginning on the date that the employer implements them.

For wages paid in 1992 prior to the date that the new tables are effective, employers should withhold Federal income taxes based on the withholding tables in the January 1992 versions of Circular E, Circular A, or Pub. 493.

The same effective date rules apply to payors of periodic payments from pensions, individual retirement accounts, or annuities.

IV. INSTRUCTIONS FOR EMPLOYEES OR RETIREES WHO WISH TO MAINTAIN CURRENT LEVELS OF WAGE WITHHOLDING

Employees or retirees who are affected by the adjustment in the new tables generally may choose to maintain their current rate of Federal income tax withholding. Employees or retirees who wish to do so should request that their employers or payors withhold additional dollar amounts.

To maintain the current rate of Federal income tax withholding on wages, an affected employee should provide a new Form W-4 to each employer. Employees withheld at the married rate should divide $345 by the total number of pay periods in the year and enter that amount (plus any additional withholding already requested) on Line 6 of Form W-4. Employees withheld at the single rate should divide $172 by the total number of pay periods in the year and enter that amount (plus any additional withholding already requested) on Line 6 of Form W-4. Employees do not need to change the number of allowances claimed on Form W-4. For married couples where both spouses are affected employees, each spouse should follow this procedure.

For affected employees whose annual wages from an employer are in the phase-out range, the current rate of Federal income tax withholding on wages may be maintained by requesting somewhat lesser amounts of additional withholding. No action is needed to maintain withholding at the currant rate for employees whose annual wages from each employer are above the phase-out range.

Retirees who wish to maintain their current rate of Federal income tax withholding on periodic payments from pensions, individual retirement accounts, or annuities should follow a similar procedure. However, retirees receiving such payments generally should use Form W-4P (instead of Form W-4) and should enter the amount determined under the procedure (plus any additional withholding already requested) on Line 3 of Form W-4P.

V. WAIVER OF PENALTIES FOR UNDERPAYMENT OF ESTIMATED TAXES IN 1992

Section 6654 of the Code imposes a penalty on individuals who fail to make timely payments of their estimated tax. Subject to certain exceptions, an individual avoids this penalty if his or her Federal income tax withholding on wages and quarterly estimated tax payments are at least equal to 90 percent of the tax liability for the current year or 100 percent of the tax liability for the immediately preceding year. Under the withholding tables in the January 1992 versions of Circular E, Circular A, and Pub. 493, an employee or retiree whose income consists predominantly of wages (including periodic payments from pensions, individual retirement accounts, or annuities) generally satisfies the obligation to make timely payments of estimated tax if he or she properly completes Form W-4 or Form W-4P.

Under section 6654(e)(3) of the Code, the Service has authority to waive the penalty in unusual circumstances to the extent its imposition would be inequitable. Pursuant to this authority, the Service will waive the penalty to the extent that underpayment of tax by an employee or retiree is attributable to a reduction in Federal income tax withholding for 1992 that is caused by the adjustment made in the new tables (i.e., to the extent withholding is reduced below the amount that would have been withheld if the employer or payor used the withholding tables in the January 1992 versions of Circular E, Circular A, or Pub. 493).

If you have questions about the new withholding tables or about completing Form W-4, please call 1-800-829-1040. Employees needing more information on determining the correct withholding can order Publication 919, “Is My Withholding Correct for 1992?”, by calling 1-800-829-3676. If you have other questions about this notice, contact Alfred G. Kelley at (202) 566-4747 (not a toll-free call).

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