

New Tax Relief For Clients Who Underwithheld

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The Treasury and the IRS are lowering the withholding underpayment threshold to 80% to give more taxpayers relief from tax penalties if they didn't withhold enough taxes from their paychecks last year in the wake of 2018 tax overhaul.

The change applies to taxpayers whose total withholding and estimated tax payments for 2018 are equal to or greater than 80% of their taxes owed. The usual threshold for avoiding a tax penalty is 90%, but earlier this year the Treasury agreed to reduce the threshold to 85%. The Treasury and the IRS came under pressure from lawmakers to either waive the tax penalty for underwithholding entirely this year or lower it to 80%.

"I appreciate the bipartisan interest from members of Congress on this issue and agree that further relief should be provided to taxpayers," said Treasury Secretary Steven Mnuchin in a statement. "Treasury is exempting even more taxpayers from the usual underpayment penalties in an effort to help those who attempted in good faith to meet their withholding obligations."

Last year, the Treasury and the IRS urged taxpayers to use an online withholding calculator and the updated W-4 form to help them figure the right amount to withhold from their paychecks, but the calculator was difficult to use and required a great deal of guesswork, so relatively few taxpayers actually used it. In cases where taxpayers have marginally miscalculated their 2019 withholdings, the extra waiver should help more taxpayers avoid a penalty for underpaying their taxes. Upcoming guidance and updated Form 2210 instructions will give taxpayers more guidance on this relief and filing for penalty abatement. The Treasury is still urging taxpayers to check their withholding at [IRS.gov/withholding](https://www.irs.gov/withholding) to make sure they are withholding enough this year and are getting the full benefits of the new tax law.

The IRS said it would waive the estimated tax penalty for any taxpayer who paid at least 80% of their total tax liability in 2018 via federal income tax withholding, quarterly estimated tax payments or a combination of the two. The revised waiver computation will be integrated into

commercially available tax software and reflected in an upcoming revision of the instructions for Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts. Taxpayers who have already filed for tax year 2018 but qualify for the expanded relief will be able to claim a refund by filing Form 843, Claim for Refund and Request for Abatement and include the statement "80% Waiver of estimated tax penalty" on Line 7. The form cannot be filed electronically.

In Notice 2019-25, the IRS officially expanded the waiver. "We heard the concerns from taxpayers and others in the tax community, and we made this adjustment in an effort to be responsive to a unique scenario this year," said IRS Commissioner Chuck Rettig in a statement. "The expanded penalty waiver will help many taxpayers who didn't have enough tax withheld. We continue to urge people to check their withholding again this year to make sure they are having the right amount of tax withheld for 2019."

Lawmakers praised the extra relief. Rep. Judy Chu, D-Calif., pointed out that she had received a commitment from Mnuchin to respond to her request for this relief during a House Ways and Means Committee hearing last week on the Treasury Department budget. She had made the same request in a letter last month with Rep. John Lewis, D-Ga., which followed a similar letter last July with 12 other Democratic members of the Ways and Means Committee asking the IRS to grant the relief. Chu also recently re-introduced legislation known as the Taxpayer Penalty Protection Act that would have lowered the penalty threshold to 80% had the Treasury not acted on the request. Senator Kirsten Gillibrand, D-N.Y., introduced similar legislation in the Senate earlier this year.

"Families depend on their tax refunds each year to pay down bills, make ends meet, and save for the future," Chu said in a statement. "But this year, the reality for many is much different as they are shocked to discover they owe hundreds or thousands of dollars to the IRS through no fault of their own, and could even face penalties. I have been concerned about this issue since the passage of the Republican tax law. That's why I introduced the Taxpayer Penalty Protection Act, to waive this penalty for more taxpayers. Even Nina Olsen, the National Taxpayer Advocate, confirmed to the House Ways and Means Committee that the confusion created by the new tax law could lead to many taxpayers facing a penalty and urged the government to act. As tax filing season is in full swing, Treasury's action will relieve the financial anxiety facing worried taxpayers across the country. I am glad that Secretary Mnuchin responded to my request and acted in accordance with my legislation to make this change."

Sen. Ron Wyden, D-Ore., the top Democrat on the Senate Finance Committee, also praised the announcement that taxpayers who paid at least 80% of their estimated taxes would not face

penalties. “The Trump administration is taking a step to undo the harm the Republican tax law inflicted on millions of families whose taxes were under-withheld through no fault of their own,” he said in a statement. “Piling penalties on top of unexpectedly high tax bills while corporations and the wealthy reap a windfall would have been a slap in the face. It shouldn’t have taken nearly three months to provide additional relief to families facing financial anxiety, but I’m pleased the administration has taken the action we requested.”

Wyden noted that he first raised the issue of penalties for families whose taxes were under-withheld in a January letter to IRS Commissioner Charles Rettig. Wyden and Senate Minority Leader Chuck Schumer, D-N.Y., then led 39 Senate Democrats in a follow-up letter last month expressing concern that the 85% threshold wasn’t low enough.

Republicans also hailed the expanded relief. “I appreciate Commissioner Rettig’s consideration of bipartisan congressional feedback urging IRS to provide additional penalty relief to taxpayers for this tax-filing season,” Senate Finance Committee chairman Chuck Grassley, R-Iowa, said in a statement. “IRS has done a laudable job updating withholding tables to reflect the changes in tax law. But no withholding table will be 100% accurate for all taxpayers. Over the past year, the IRS implemented a campaign reminding Americans to check their withholding to ensure they’re paying the correct amount of tax throughout the year. This further relief for taxpayers is welcome news for taxpayers who weren’t fully prepared and may have been inadvertently under-withheld due to the significant changes made to the tax code following legislative reforms in the last Congress. The Tax Cuts and Jobs Act was the biggest change to the federal tax code in a generation. This is a reasonable approach in the first year after major reforms to allow taxpayers some flexibility to avoid paying unexpected penalties.”

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