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CPA Continuing Education Society of Pennsylvania

"IRS Updates"

<u>Topics:</u>

1) Qualified Business Income Deduction (IRC 199A)

2) Qualified Opportunity Zones

3) IRS Updates

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IRS News Release

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Treasury, IRS issue final regulations, other guidance on new qualified business income deduction; Safe harbor enables many rental real estate owners to claim deduction

IR-2019-04

WASHINGTON — Today the Treasury Department and the Internal Revenue Service issued final regulations and three related pieces of guidance, implementing the new qualified business income (QBI) deduction (section 199A deduction).

The new QBI deduction, created by the 2017 Tax Cuts and Jobs Act (TCJA) allows many owners of sole proprietorships, partnerships, S corporations, trusts, or estates to deduct up to 20 percent of their qualified business income. Eligible taxpayers can also deduct up to 20 percent of their qualified real estate investment trust (REIT) dividends and publicly traded partnership income.

The QBI deduction is available in tax years beginning after Dec. 31, 2017, meaning eligible taxpayers will be able to claim it for the first time on their 2018 Form 1040.

The guidance, released today includes:

- A set of regulations, finalizing proposed regulations issued last summer, A new set of proposed regulations providing guidance on several aspects of the QBI deduction, including qualified REIT dividends received by regulated investment companies
- A revenue procedure providing guidance on determining W-2 wages for QBI deduction purposes,
- A notice on a proposed revenue procedure providing a safe harbor for certain real estate enterprises that may be treated as a trade or business for purposes of the QBI deduction

The proposed revenue procedure, included in Notice 2019-07, allows individuals and entities who own rental real estate directly or through a disregarded entity to treat a rental real estate enterprise as a trade or business for purposes of the QBI deduction if certain requirements are met. Taxpayers can rely on this safe harbor until a final revenue procedure is issued.

The QBI deduction is generally available to eligible taxpayers with 2018 taxable income at or below $315,000 for joint returns and $157,500 for other filers. Those with incomes above these levels, are still eligible for the deduction but are subject to limitations, such as the type of trade or business, the amount of W-2 wages paid in the trade or business and the unadjusted basis immediately after acquisition of qualified property. These limitations are fully described in the final regulations.

The QBI deduction is not available for wage income or for business income earned by a C corporation.

For details on this deduction, including answers to frequently-asked questions, as well as information on other TCJA provisions, visit IRS.gov/taxreform.

Internal Revenue Service
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IRS Fact Sheet

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Qualified business income deduction

FS-2019-8, April 2019

Many individuals, including owners of businesses operated through sole proprietorships, partnerships, S corporations, trusts and estates may be eligible for a qualified business income deduction, also called the section 199A deduction. Some trusts and estates may also claim the deduction directly.

The deduction allows them to deduct up to 20 percent of their qualified business income (QBI), plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. Income earned by a C corporation or by providing services as an employee isn't eligible for the deduction.

The deduction is available for tax years beginning after Dec. 31, 2017. Eligible taxpayers can claim it for the first time on their 2018 federal income tax returns filed in 2019.

The deduction has two components.

1. **QBI component.** This component of the deduction equals 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. Depending on the taxpayer's taxable income, the QBI Component is subject to limitations including:
    a. The type of trade or business,

    b. The amount of W-2 wages paid by the qualified trade or business, and

    c. The unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business.

   These limitations do not apply to taxpayers with taxable income at or below a certain threshold. For 2018, the threshold amount is $315,000 for a married couple filing a joint return, and $157,500 for all other taxpayers.

   It may also be reduced by the patron reduction if the taxpayer is a patron of an agricultural or horticultural cooperative.

2. **REIT/PTP component.** This component of the deduction equals 20 percent of qualified REIT dividends and qualified PTP income. This component is not limited by W-2 wages or the UBIA of qualified property. Depending on the taxpayer's taxable income, the amount of PTP income that qualifies may be limited if the PTP is engaged in a specified service trade or business.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxable income minus net capital gain. The deduction is available regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

Qualified trade or business

A qualified trade or business is any section 162 trade or business, with three exceptions:

1. A trade or business conducted by a C corporation.

2. For taxpayers with taxable income that exceeds the threshold amount, specified services trades or business (SSTBs). An SSTB is a trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets or any trade or business principal asset is the reputation or skill of one or more of its employees or owners.

   The principal asset of a trade or business is the reputation or skill of its employees or owners if the trade or business consists of the receipt of income from endorsing products or services, the use of an individual's image, likeness, voice or other symbols associated with the individual's identity, or appearance at events or on radio, television and other media outlets.

   For 2018, the threshold amount is $315,000 for a married couple filing a joint return, and $157,500 for all other taxpayers. The SSTB limitations don't apply for taxpayers with taxable income at or below the threshold amount. Limitations are phased in for joint filers with taxable income between $315,000 and $415,000, and all other taxpayers with taxable income between $157,500 and $207,500. For later years, the threshold amounts and phase-in range will be adjusted for inflation.

3. Performing services as an employee.

For more information on what qualifies as a trade or business, see *Determining your qualified trades or businesses* in Publication 535.

Rental real estate enterprise safe harbor

Solely for the purposes of 199A, a safe harbor is available to individuals and owners of passthrough entities. Under the safe harbor a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. For more information on the safe harbor see Notice 2019-07.

Taxpayers may still treat rental real estate that doesn't meet the requirements of the safe harbor as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.

Qualified business income

QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts. These includable items must be effectively connected with the conduct of a trade or business within the United States. Count only items in taxable income. Generally, in computing QBI, account for any deduction attributable to the trade or business. This includes, but is not limited to, the deductible part of self-employment tax, self-employed health insurance, and deductions for contributions to qualified retirement plans (such as SEP, SIMPLE and qualified plan deductions),

QBI doesn't include any of the following.

- Items not properly includible in income, such as losses or deductions disallowed under the basis, at-risk, passive loss or excess business loss rules.
- Investment items such as capital gains or losses, or dividends.
- Interest income not properly allocable to a trade or business.
- Wage income.

- Income not effectively connected with the conduct of business within the U.S. (For more information, go to IRS.gov/ECI).
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments from a partnership.
- Payments received by a partner for services other than in a capacity as a partner.
- Qualified REIT dividends.
- Qualified PTP income.

Information for computing the qualified business income deduction

The Form 1040 Instructions and Publication 535 provide worksheets to compute the deduction. Use the Form 1040 instructions if:

1. The taxpayer has QBI, qualified REIT dividends or qualified PTP income;
2. 2018 taxable income before QBI deduction **isn't more** than $157,500 ($315,000 if married filing jointly); and
3. The taxpayer **isn't a patron** in a specified agricultural or horticultural cooperative.

Use Publication 535 if:

1. The taxpayer has QBI, qualified REIT dividends or qualified PTP income, and
2. 2018 taxable income before QBI deduction i**s more** than $157,500 ($315,000 if married filing jointly); or
3. The taxpayer **is a patron** in a specified agricultural or horticultural cooperative.

Cooperatives

Specified agricultural or horticultural cooperatives are allowed a deduction for income attributable to domestic production activities that is similar to the domestic production activities deduction under former section 199. Specified agricultural or horticultural cooperatives are cooperatives, to which Part I of subchapter T applies, that are engaged in the manufacturing, production, growth or extraction in whole or significant part of any agricultural or horticultural product, or in the marketing of agricultural or horticultural products.

More resources:

- IRS Tax Reform webpage
- FAQs on Section 199A
- IRS News Release

Tax Cuts and Jobs Act, Provision 11011 Section 199A - Qualified Business Income Deduction FAQs

Basic questions and answers on new 20-percent deduction for pass-through businesses

Below are answers to some basic questions about the new qualified business income (QBI) deduction, also known as the section 199A deduction, that may be available to individuals, including many owners of sole proprietorships, partnerships and S corporations. Some trusts and estates may also be able to take the deduction. This deduction, created by the 2017 Tax Cuts and Jobs Act, allows non-corporate taxpayers to deduct up to 20 percent of their QBI, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

Q1. What is the Qualified Business Income Deduction?

A1. Section 199A of the Internal Revenue Code provides many owners of sole proprietorships, partnerships, S corporations and some trusts and estates, a deduction of income from a qualified trade or business. The deduction has two components.

1. QBI Component. This component of the deduction equals 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. Depending on the taxpayer's taxable income, the QBI component is subject to multiple limitations including the type of trade or business, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. It may also be reduced by the patron reduction if the taxpayer is a patron of an agricultural or horticultural cooperative. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

2. REIT / PTP Component. This component of the deduction equals 20 percent of the combined qualified REIT dividends (including REIT dividends earned through a regulated investment company (RIC)) and qualified PTP income. This component is not limited by W-2 wages or the UBIA of qualified property. Depending on the taxpayer's income, the amount of PTP income that qualifies may be limited depending on the type of business engaged in by the PTP.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxpayer's taxable income minus the net capital gain. For details on figuring the deduction, see Q&A 6 and 7. The deduction is available for taxable years beginning after Dec. 31, 2017 and ending before December 31, 2025. Most eligible taxpayers will be able to claim it for the first time when they file their 2018 federal income tax return in 2019. The deduction is available, regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

Q2. Who may take the QBI deduction?

A2. Individuals and some trusts and estates with QBI, qualified REIT dividends or qualified PTP income may qualify for the deduction. In some cases, patrons of horticultural or agricultural cooperatives may be required to reduce their deduction. The IRS will be issuing separate guidance for co-ops.

Q3. How do S corporations and partnerships handle the deduction?

A3. S corporations and partnerships are generally not taxable and cannot take the deduction themselves. However, all S corporations and partnerships report each shareholder's or partner's share of QBI, W-2 wages, UBIA of qualified property, qualified REIT dividends and qualified PTP income on Schedule K-1 so the shareholders or partners may determine their deduction.

Q4. What is qualified business income?

A4. QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. Only items included in taxable income are counted. In addition, the items must be effectively connected with a U.S. trade or business. Items such as capital gains and losses, certain dividends, and interest income are excluded. W-2 income, amounts received as reasonable compensation from an S corporation, amounts received as guaranteed payments from a partnership, and payments received by a partner for services under section 707(a) are also not QBI.

Q5. What is a qualified trade or business?

A5. A qualified trade or business is any section 162 trade or business, with three exceptions:

1. A trade or business conducted by a C corporation.
2. For taxpayers with taxable income that exceeds the threshold amount, specified service trades or businesses (SSTBs). An SSTB is a trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading,

dealing in certain assets or any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners. The principal asset of a trade or business is the reputation or skill of its employees or owners if the trade or business consists of the receipt of income from endorsing products or services, the use of an individual's image, likeness, voice, or other symbols associated with the individual's identity, or appearances at events or on radio, television, or other media formats. The SSTB exception does not apply for taxpayers with taxable income below the threshold amount and is phased in for taxpayers with taxable income above the threshold amount. For 2018, the threshold amount is $315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers. The threshold amounts will be adjusted for inflation in subsequent years.

3. The trade or business of performing services as an employee.

Q6. How is the deduction for qualified business income computed?

A6. The SSTB limitation discussed in Q&A 5 does not apply if a taxpayer's taxable income (before the QBI deduction) is at or below the threshold amount, discussed in Q&A 5; the deduction is the lesser of:

A. 20 percent of the taxpayer's QBI, plus 20 percent of the taxpayer's qualified REIT dividends and qualified PTP income' or

B. 20 percent of the taxpayer's taxable income minus net capital gain.

If the taxpayer's taxable income (before the QBI deduction) is above the threshold amount, the deduction may be limited based on whether the business is an SSTB, the W-2 wages paid by the business and the unadjusted basis immediately after acquisition of certain property used by the business. For 2018, these limitations are phased in for joint filers with taxable income above $315,000 but below $415,000, and all other taxpayers with taxable income above $157,500 but below $207,500. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q7. I have income from a specified service trade or business. How does that affect my deduction?

A7. The SSTB limitation does not apply to any taxpayer whose taxable income (before the qualified business deduction) is at or below the threshold amounts discussed in Q&A #5. For taxpayers whose taxable income is within the phase-in range discussed in Q&A #6, the taxpayer's share of QBI, W-2 wages and UBIA of qualified property related to the SSTB may be limited. If the taxpayer's taxable income exceeds the phase-in range, no deduction is allowed with respect to any SSTB. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years.

Q8. In 2018, I will report taxable income under $315,000 and file married filing jointly. Do I have to determine if I am in an SSTB in order to take the deduction? Is there any limitation on my deduction?

A8. No, if your 2018 taxable income (before the QBI deduction) is at or below the threshold amount ($315,000, if married filing jointly, or $157,500 for all other filing statuses), the SSTB limitations do not apply. You will be able to deduct the lesser of:
a) Twenty percent (20%) of your QBI, plus 20 percent of your qualified REIT dividends and qualified PTP income, or
b) Twenty percent (20%) of your taxable income minus your net capital gain.
Income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q9. In 2018, I will report taxable income between $157,500 and $207,500 and file as single. I receive QBI. Does it matter if it is from an SSTB?

A9. Yes, because your taxable income is above the threshold amount, your QBI deduction with respect to any SSTB will be limited. However, because you are within the phase-in range (above $315,000 but below $415,000 for married filing joint, and all other taxpayers with taxable income above $157,500 but below $207,500), you may be allowed some QBI deduction with respect to an SSTB. In addition, for taxpayers above the threshold amount, the 20 percent QBI with respect to any trade or business, including an SSTB, may be limited by the amount of W-2 wages paid by the trade or business and the UBIA of qualified property held by the trade or business. Sections 1.199A-1 and 1.199A-2 of the regulations provides additional information.

Q10. In 2018, I am single and will report taxable income over $207,500. My only income is from an SSTB. Am I entitled to the deduction with respect to the SSTB?

A10. No. The same is true for a married couple filing a joint return whose taxable income exceeds $415,000.

Q11. In 2018, I am single and will report taxable income over $207,500. I am NOT in an SSTB. Am I entitled to the deduction?

A11. Yes, if you have QBI, qualified REIT dividends or qualified PTP income. For eligible taxpayers with total taxable income in 2018 over $207,500 ($415,000 for married filing joint returns), the deduction for QBI may be limited by the amount of W-2 wages paid by the qualified trade or business and the UBIA of qualified property held by the trade or business. The regulations provide additional information on these limitations. The IRS also issued Revenue Procedure 2019-11 providing methods for determining W-2 wages for purposes of the limitation.

Q12. How do co-ops qualify for the qualified business income deduction?

A12. The IRS will be issuing separate guidance for co-ops.

Q13. Is there a form for reporting the qualified business income deduction? And if so, where can I find it?

A13. There is no form for reporting the QBI deduction in 2018. However, two worksheets have been developed to help taxpayers compute their deduction. The first worksheet is located in the instructions to Form 1040 and can be used by taxpayers with taxable income (before the QBI deduction) at or below the threshold amount ($315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers) and that are not patrons in a horticultural cooperative.

The second worksheet will be located in Publication 535, Business Expenses. It should be used by taxpayers with taxable income exceeding the threshold amount. It should also be used by taxpayer's that are patrons of specified agricultural or horticultural cooperatives.

Q14. Does the deduction reduce earnings subject to self-employment tax?

A14. No. The QBI deduction does not reduce net earnings from self-employment, under section 1402. Similarly, the deduction does not reduce net investment income under section 1411 (Form 8960, Net Investment Income Tax).

Q15. If I report taxable income under the threshold are there any limits to my deduction?

A15. If your taxable income (before the QBI deduction) is at or below the threshold, then most of the limitations are not applicable.

The specified service trade or business, W-2 wage, and UBIA limitations do not apply to taxpayers whose taxable income is at or below these thresholds.

The deduction is limited the lesser of 20% of QBI plus 20% of qualified REIT dividends and qualified PTP income or 20% of taxable income less net capital gain for all taxpayers, regardless of income. Also, if you are a patron in an agricultural or horticultural cooperative, the QBI component may be reduced by the patron reduction. Finally, income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q16. Do any limitations apply to the REIT/PTP Component?

A16. Yes. The REIT/PTP Component generally includes qualified REIT dividends (including REIT dividends earned through a RIC) and PTP income as defined in section 199A and the regulations thereunder. For taxpayers above the threshold amount, discussed in Q&A #5 and #6, qualified PTP income may be limited if the PTP operates an SSTB. The limitation does not apply to any taxpayer whose taxable income (before the qualified business deduction) is at or below the threshold amounts discussed in Q&A #5. For taxpayers whose taxable income is within the phase-in range discussed in Q&A #6, the taxpayer's PTP income from the SSTB may be limited. If the taxpayer's taxable income exceeds the phase-in range, no deduction is allowed with respect to any SSTB operated by a PTP. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years.

Q17. If someone is a real estate professional, will their rental real estate qualify for the deduction?

A17. The deduction is not based on whether the taxpayer qualifies as a real estate professional under section 469. Rental real estate may constitute a trade or business for purposes of the QBI deduction if the rental real estate:

- Rises to the level of a trade or business under section 162,
- Satisfies the requirements for the safe harbor provided by Notice 2019-07, or
- Meets the self-rental exception (i.e., the rental or licensing of property to a commonly controlled trade or business conducted by an individual or RPE).

Whether rental real estate rises to the level of a trade or business under section 162 depends on all the facts and circumstances. To be engaged in a trade or business under section 162, the taxpayer must be actively involved in the activity with continuity and regularity and the primary purpose for engaging in the activity must be for income or profit.

Q18. If I have net income from one qualified business and a net loss from another qualified business, is the loss from the second business carried forward and applied against that same business in the future or is it netted against the income from the first business when calculating the deduction? What if the losses are greater than the income, does this mean I will not get a deduction?

A18. A taxpayer must net their QBI, including losses, from multiple trades or businesses (including aggregated trades or businesses). So, negative QBI from one business will offset positive QBI from other trades or businesses (including aggregated trades or businesses) in proportion to the net income of the trades or businesses with positive QBI.

If the total QBI from all trades or businesses is less than zero, the taxpayer's QBI Component will be zero and any negative amount is carried forward to the next taxable year. The carried forward negative QBI will be treated as negative QBI from a separate trade or business for purpose of determining the QBI Component in the next taxable year.

Q19. Does a net for QBI Component loss, reduce the REIT PTP Component?

A19. A net loss in the QBI Component does not impact the calculation of the deduction with respect to the REIT/PTP Component. However, if qualified PTP income is a loss, it is netted against qualified REIT dividends in a separate netting calculation from the loss netting of the QBI Component. These two netting requirements could result in two separate loss carryforwards, one for the QBI Component and one for the REIT/PTP Component.

Q20. Do I have to materially participate in a business to qualify for the deduction?

A20. No. Material participation under section 469 is not required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction (if they otherwise satisfy the requirements of section 199A) regardless of their involvement in the trade or business.

Q21. I file a joint return, my income is under the threshold amount, the only income I have is from W-2 wages and a domestic Schedule C business. Does my QBI equal the amount on Schedule C, line 31, Net profit or (loss)?

A21. Not necessarily. As discussed in Q&A #4, QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. In addition to the profit or loss from Schedule C, QBI must be adjusted by any other items of gain or deduction related to the business, including but not limited to gains from Form 4797, the deductible part of self-employment tax, self-employed health insurance, self-employed SEP, SIMPLE, and qualified plan deductions. Amounts received as W-2 income, reasonable compensation from an S corporation, guaranteed payments from a partnership, and payments received by a partner for services under section 707(a) are not QBI and are not eligible for the deduction.

Q22. I am a statutory employee and report my income on Schedule C. Does it qualify for the qualified business income deduction?

A22. Payments made to statutory employees, as defined in section 3121(d)(3), are excluded from the definition of wages considered income from the trade or business of performing services as an employee under §1.199A-5(d)(1). Items of income, gain, deduction, and loss from performance of services as a statutory employee are considered QBI and are eligible for the QBI deduction to the extent the requirements of section 199A are satisfied.

Q23. Can you explain in more detail how losses that are limited by basis, at-risk, or passive activity rules affect the deduction?

A23. Items not included in taxable income are not qualified items of income, gain, deduction, or loss and are not current year QBI. If a taxpayer has a suspended loss that is allowed against current year taxable income, whether the loss reduces QBI depends on whether the loss was limited before or after January 1, 2018.

If the loss was disallowed before 2018, the loss is never taken into account for purposes of computing QBI. This means the taxpayer must keep track of pre-2018 disallowed losses, so that they can be excluded from QBI in the year the loss is allowed.

If the loss was generated after 2018, it is included in QBI if it is a qualified item of deduction or loss that would otherwise be included in QBI, but not until the year it is included/allowed in taxable income.

Disallowed, limited, or suspended losses must be used in order from the oldest to the most recent on a first-in, first-out (FIFO) basis.

Q24. How do I satisfy the disclosure requirements if I choose to aggregate my trade or businesses?

A24. Pub 535, Business Expenses, has a Qualified Business Income Deduction Worksheet that can be used to compute the QBI deduction. Schedule B, Aggregation of Business Operations, or another schedule reflecting the taxpayer's aggregation should be attached to the return as a PDF to satisfy the disclose requirement.

Q25. Do I need to disclose my aggregated trades or businesses when I use the simplified worksheet in the Instructions for Form 1040 to calculate the QBI deduction?

A25. Yes, taxpayers should disclose their aggregations regardless of which worksheet they use to compute the QBI deduction. A failure to aggregate will not be considered to be an aggregation for purposes of the consistency requirement. So, if the taxpayer is under the threshold in 2018 and there is not a need to aggregate, it would not prevent the taxpayer from aggregating in a subsequent year when the taxpayer's taxable income exceeds the threshold amount.

Q26. I received a REIT dividend either directly or through a regulated investment company (RIC), reported as a section 199A dividend in box 5 of Form 1099-DIV. Is this amount eligible for the QBI deduction?

A26. Box 5 of Form 1099-DIV is used by REITs and RICs to report amounts that may be eligible for the QBI deduction, but some amounts reported in box 5 may be ineligible for the deduction.

Ineligible dividends include those for which the taxpayer did not meet holding period requirements for REIT or RIC stock. The QBI deduction may not be taken for any dividend reported in box 5 for dividend received on a share of REIT or RIC stock that is held for 45 days or less during the 91-day period beginning on the date that is 45 days before the date on which such share became ex-dividend with respect to the dividend. When counting the number of days the stock is held, include the day the stock is disposed of but not the day the stock is acquired. Also, don't count days during which the risk of loss was diminished. Specifically, don't count any day during which any of the following conditions are met:

A. The taxpayer had an option to sell, was under a contractual obligation to sell, or entered into (and not closed) a short sale of substantially identical stock or securities.
B. The taxpayer was a grantor (writer) of an option to buy substantially identical stock or securities.
C. The taxpayer's risk of loss was diminished by holding one or more other positions in substantially similar or related property.

In addition, the deduction may not be taken for any dividend on shares of REIT or RIC stock reported in box 5 to the extent the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

Pass-through Entity

Q27. I am a partner in several partnerships, how do I know what qualifies for the deduction?

A27. The Schedule K-1s for 2018 have new codes for the QBI deduction items. The partnership needs to provide each partner with their share of QBI, W-2 wages, UBIA of qualified property, and other information necessary for partners to compute their deduction. The same rules apply for S corporations.

If a partnership or S corporation fails to provide this information, the final regulations provide that each unreported income of positive QBI, W-2 wages, or UBIA of qualified property attributable to the entity's trades or businesses will be presumed to be zero. This means that a partner or shareholder may be unable to claim a QBI deduction on the entity's income if the entity fails to report the information. It is recommended that taxpayer follow-up with a pass-through entity if they do not provide the necessary information.

Q28. If a pass-through entity has one business, is it only required to provide one dollar amount for the QBI?

A28. The pass-through entity is required to provide the owners QBI information necessary for the owner to compute the deduction. If the entity only has ordinary income from a single trade or business, it may be appropriate to reflect one QBI amount. Items from a pass-through entity are required to be separately stated due to the potential of unique treatment on one or more owners' returns. Items not included in current year taxable income are not included in QBI. Therefore, additional details will also need to be provided for the owners. If for example, in addition to ordinary income the owner is allocated a section 179 deduction, since the 179 deduction may be limited, the detail would be required in order for the owner to properly determine the current year QBI.

Also note that the rules to separately state items from each activity for the application of the at-risk rules and passive activity loss limitation rules still apply even when a pass-through entity chooses to aggregate a trade or business for the purposes of section 199A.

Q29. My income is under the threshold amount and I only have income from W-2 wages and a partnership interest. Does my QBI equal the amount of partnership income reported on Schedule K-1?

A29. Maybe. As discussed in Q&A 4, QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. To determine the total amount of QBI, the taxpayer must consider deductions not reported on Schedule K-1 that are related to the trade or business. This could include unreimbursed partnership expenses, business interest expense, the deductible part of self-employment tax, the self-employment health insurance deduction, and self-employed SEP, SIMPLE, and qualified plan deductions in addition to other adjustments. Amounts received as guaranteed payments and payments received by a partner for services under section 707(a) are not QBI and are not eligible for the deduction.

Q30. What about fiscal-year pass-through entities? I have a partnership whose fiscal year ended on March 31, 2018. Do I get a qualified business income deduction for the income I earned?

A30. The QBI deduction itself is available only to taxpayers whose tax years begin after December 31, 2017.

However, any QBI reported to a taxpayer from a related passthrough entity with a taxable year beginning in 2017 and ending in 2018 is treated as having been incurred in the owner's taxable year in which the passthrough entity's taxable year ends.

For example, a calendar year partner in a partnership with a fiscal year end of March 31, 2018, will be able to include the partnership's QBI for the entire fiscal year in determining the partner's 2018 QBI deduction. The partner may also use the partnership's W-2 wages and UBIA of qualified property in computing the deduction, if applicable.

Note that the pass-through entity's 2017 Schedule K-1 does not have the detail relating to the new QBI deduction. The entity should still provide the necessary detail to the owners as an attachment to the Schedule K-1.

Q31. In 2018, I receive a Schedule K-1 allocating a PTP loss. The loss is not currently allowable due to the passive activity rules. Is it used in computing the REIT/PTP component?

A31. No. Since the loss is not included in taxable income for 2018, it is not used in computing the QBI deduction in 2018. In a later taxable year, when the loss is allowable, the loss generated in 2018 will be used in computing the REIT/PTP component.

Q32. I was told that I can rely on the rules in the proposed regulations under § 1.199A-1 through 1.199A-6 to calculate qualified business income (QBI) for my 2018 tax return. Does this mean I do not have to include adjustments for items such as the deductible portion of self-employment tax, self-employed health insurance deduction, or the self-employed retirement deduction when calculating my QBI in 2018?

A32. Section 199A(c)(1) defines qualified business income as the net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer. Proposed regulation § 1.199A-1(b)(4) followed this definition, providing that QBI is the net amount of qualified items of income, gain, deduction, and loss with respect to any trade or business as determined under the rules of 1.199A-3(b). Section 1.199A-1(b)(5) of the final regulations retains this rule, also providing that QBI means the net amount of qualified items of income, gain, deduction, and loss with respect to any trade or business (or aggregated trade or business) as determined under the rules of 1.199A-3(b).

Section 1.199A-3(b)(2) defines the term "qualified items of income, gain, deduction, and loss" as items of gross income, gain, deduction, and loss to the extent such items are effectively connected with the conduct of a trade or business within the United States (with certain modifications) and included or allowed in determining taxable income for the taxable year. The final regulations add additional clarity in § 1.199A-3(b)(1)(vi), which provides that generally deductions attributable to a trade or business are taken into account for purposes of computing QBI to the extent that the requirements of section 199A and § 1.199A-3 are satisfied. For purposes of section 199A only, deductions such as the deductible portion of the tax on self-employment income under section 164(f), the self-employed health insurance deduction under section 162(l), and the deduction for contributions to qualified retirement plans under section 404 are considered attributable to a trade or business to the extent that the individual's gross income from the trade or business is taken into account in calculating the allowable deduction, on a proportionate basis to the gross income received from the trade or business.

The above the line adjustments for self-employment tax, self-employed health insurance deduction, and the self-employed retirement deduction are examples of deductions attributable to a trade or business for purposes of section 199A. There is no inconsistency between the proposed and final regulations on this issue. QBI must be adjusted for these items in 2018.

Q33. Health insurance premiums paid by an S-Corporation for greater than 2% shareholders reduce qualified business income (QBI) at the entity level by reducing the ordinary income used to compute allocable QBI. If I take the self-employed health insurance deduction for these premiums on my individual tax return, do I have to also include this deduction when calculating my QBI from the S-Corporation?

A33. Generally, the self-employed health insurance deduction under section 162(l) is considered attributable to a trade or business for purposes of section 199A and will be a deduction in determining QBI. This may result in QBI being reduced at both the entity and the shareholder level.

Disclaimer

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News Release

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IRS issues guidance relating to deferral of gains for investments in a qualified opportunity fund

IR-2019-75

WASHINGTON –The Internal Revenue Service today issued guidance providing additional details about investment in qualified opportunity zones.

The proposed regulations allow the deferral of all or part of a gain that is invested into a Qualified Opportunity Fund (QO Fund) that would otherwise be includible in income. The gain is deferred until the investment is sold or exchanged or Dec. 31, 2026, whichever is earlier. If the investment is held for at least 10 years, investors may be able to permanently exclude gain from the sale or exchange of an investment in a QO Fund.

Qualified opportunity zone business property is tangible property used in a trade or business of the QO Fund if the property was purchased after Dec. 31, 2017. The guidance permits tangible property acquired after Dec. 31, 2017, under a market rate lease to qualify as "qualified opportunity zone business property" if during substantially all of the holding period of the property, substantially all of the use of the property was in a qualified opportunity zone.

A key part of the newly released guidance clarifies the "substantially all" requirements for the holding period and use of the tangible business property:

- For use of the property, at least 70 percent of the property must be used in a qualified opportunity zone.
- For the holding period of the property, tangible property must be qualified opportunity zone business property for at least 90 percent of the QO Fund's or qualified opportunity zone business's holding period.
- The partnership or corporation must be a qualified opportunity zone business for at least 90 percent of the QO Fund's holding period.

The guidance notes there are situations where deferred gains may become taxable if an investor transfers their interest in a QO Fund. For example, if the transfer is done by gift the deferred gain may become taxable. However, inheritance by a surviving spouse is not a taxable transfer, nor is a transfer, upon death, of an ownership interest in a QO Fund to an estate or a revocable trust that becomes irrevocable upon death.

The guidance is posted on IRS.gov. These regulations relate to the Tax Cuts and Jobs Act (TCJA), the tax reform legislation enacted in December 2017.

For information about other TCJA provisions, visit IRS.gov/taxreform.

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Opportunity Zones Frequently Asked Questions

Q1. What is an Opportunity Zone?

A1. An Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury via his delegation of authority to the Internal Revenue Service.

Q2. How were Opportunity Zones created?

A2. Opportunity Zones were added to the tax code by the Tax Cuts and Jobs Act on December 22, 2017.

Q3. Have Opportunity Zones been around a long time?

A3. No, they are new. The first set of Opportunity Zones, covering parts of 18 states, were designated on April 9, 2018. Opportunity Zones have now been designated covering parts of all 50 states, the District of Columbia and five U.S. territories.

Q4. What is the purpose of Opportunity Zones?

A4. Opportunity Zones are an economic development tool—that is, they are designed to spur economic development and job creation in distressed communities.

Q5. How do Opportunity Zones spur economic development?

A5. Opportunity Zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains invested in a Qualified Opportunity Fund (QOF) until the earlier of the date on which the investment in a QOF is sold or exchanged, or December 31, 2026. If the QOF investment is held for longer than 5 years, there is a 10% exclusion of the deferred gain. If held for more than 7 years, the 10% becomes 15%. Second, if the investor holds the investment in the Opportunity Fund for at least ten years, the investor is eligible for an increase in basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged.

Q6. What is a Qualified Opportunity Fund?

A6. A Qualified Opportunity Fund is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in a Qualified Opportunity Zone.

Q7. Do I need to live in an Opportunity Zone to take advantage of the tax benefits?

A7. No. You can get the tax benefits, even if you don't live, work or have a business in an Opportunity Zone. All you need to do is invest a recognized gain in a Qualified Opportunity Fund and elect to defer the tax on that gain.

Q8. I am interested in knowing where the Opportunity Zones are located. Is there a list of Opportunity Zones available?

A8. Yes. The list of designated Qualified Opportunity Zones can be found at Opportunity Zones Resources and in the Federal Register at IRB Notice 2018-48. Further a visual map of the census tracts designated as Qualified Opportunity Zones may also be found at Opportunity Zones Resources.

Q9: What do the numbers mean on the Qualified Opportunity Zones list, Notice 2018-48?

A9: The numbers are the population census tracts designated as Qualified Opportunity Zones.

Q10: How can I find the census tract number for a specific address?

A10: You can find 11-digit census tract numbers, also known as GEOIDs, using the U.S. Census Bureau's Geocoder. After entering the street address, select ACS2015_Current in the Vintage drop-down menu and click Find. In the Census Tracts section, you'll find the number after GEOID.

Q11. I am interested in forming a Qualified Opportunity Fund. Is there a list of Opportunity Zones available in which the Fund can invest?

A11. Yes. The list of designated Qualified Opportunity Zones in which a Fund may invest to meet its investment requirements can be found at Notice 2018-48.

Q12. How does a corporation or partnership become certified as a Qualified Opportunity Fund?

A12. To become a Qualified Opportunity Fund, an eligible corporation or partnership self-certifies by filing Form 8996, Qualified Opportunity Fund, with its federal income tax return. Early-release drafts of the form and instructions are posted, with final versions expected in December. The return with Form 8996 must be filed timely, taking extensions into account.

Q13: Can a limited liability company (LLC) be an Opportunity Fund?

A13: Yes. A LLC that chooses to be treated either as a partnership or corporation for federal tax purposes can organize as a Qualified Opportunity Fund.

Q14. I sold some stock for a gain in 2018, and, during the 180-day period beginning on the date of the sale, I invested the amount of the gain in a Qualified Opportunity Fund. Can I defer paying tax on that gain?

A14. Yes, you may elect to defer the tax on the amount of the gain invested in a Qualified Opportunity Fund. Therefore, if you only invest part of your gain in a Qualified Opportunity Fund(s), you can elect to defer tax on only the part of the gain which was invested.

Q15. How do I elect to defer my gain on the 2018 sale of the stock?

A15. You may make an election to defer the gain, in whole or in part, when filing your 2018 Federal Income Tax return. That is, you may make the election on the return on which the tax on that gain would be due if you do not defer it.

Q16. I sold some stock on December 15, 2017, and, during the required 180-day period, I invested the amount of the gain in a Qualified Opportunity Fund. Can I elect to defer tax on that gain?

A16. Yes. You make the election on your 2017 return. Attach Form 8949, reporting Information about the sale of your stock. Precise instructions on how to use that form to elect deferral of the gain will be forthcoming shortly.

Q17. Can I still elect to defer tax on that gain if I have already filed my 2017 tax return?

A17. Yes, but you will need to file an amended 2017 return, using Form 1040X and attaching Form 8949.

Q18. How can I get more information about Opportunity Zones?

A18. Over the next few months, the Treasury Department and the Internal Revenue Service will be providing further details, including additional legal guidance, on this new tax benefit. More information will be available at Treasury.gov and IRS.gov.

Q19: Can I defer section 1231 capital gain net income for a taxable year under the Opportunity Zone rules?

A19: Yes. If a taxpayer's section 1231 gains for any taxable year exceed the section 1231 losses for that year, the net gain is long-term capital gain. A taxpayer can elect to defer some or all of this capital gain under section 1400Z-2 by making an investment of a corresponding amount in a Qualified Opportunity Fund (QOF) during the 180-day period that begins on the last day of the taxpayer's taxable year.

Q20: Can I transfer property other than cash as an investment to a QOF?

A20: Yes. A taxpayer can transfer property other than cash as an investment to a QOF. However, a transfer of non-cash property may result in only part of the investment being eligible for Opportunity Zone tax benefits, so that not all of the taxpayer's capital gain is able to be deferred. See proposed regulations §1400Z2(a)-1(b)(9) & (10).

Q21: When I transfer property to a QOF, does my holding period of the property also transfer to my QOF eligible investment?

A21: No. The Opportunity Zones tax incentives provisions determine a taxpayer's holding period in a qualifying investment in a QOF without regard to the holding period of the cash or other property transferred to the QOF.

Q22: I deferred gain based on an investment in a QOF, and now that QOF has dissolved before the end of my deferral period. What happens to my deferred gain?

A22: When the QOF dissolved, the deferral period ended, and you must include the deferred gain when you file your return, reporting the gain on Form 8949.

Q23: I deferred a gain based on an investment in a QOF, and now I gave the investment to my child before the deferral period had ended. Is there anything that I need to do?

A23: Yes. The deferral period ended when you gave away the QOF investment. You must include the deferred gain when you file your return, reporting the gain on Form 8949.

Q24: When is tangible property "original use" tangible property?

A24: Tangible property is original use on the date first placed in service in the qualified opportunity zone for purposes of depreciation or amortization. Used tangible property satisfies the original use requirement if the property has not been previously placed in service in the qualified opportunity zone.

Q25: Can inventory in transit be "qualified opportunity zone business property?"

A25: Yes. Inventory of a QOF, including raw materials, does not fail to be "used in a qualified opportunity zone" solely because the inventory is in transit from a vendor to the QOF or from the QOF to a customer.

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IRS, Treasury unveil proposed W-4 design for 2020

IR-2019-98

WASHINGTON –Today the Internal Revenue Service issued a draft of the 2020 Form W-4, Employee's Withholding Allowance Certificate, that will make accurate withholding easier for employees starting next year.

The revised form implements changes made following the 2017 Tax Cuts and Jobs Act, which made major revisions affecting taxpayer withholding. The redesigned Form W-4 no longer uses the concept of withholding allowances, which was previously tied to the amount of the personal exemption. Due to changes in the law, personal exemptions are currently not a central feature of the tax code.

“The new draft Form W-4 reflects important feedback from the payroll community and others in the tax community,” said IRS Commissioner Chuck Rettig. “The primary goals of the new design are to provide simplicity, accuracy and privacy for employees while minimizing burden for employers and payroll processors.”

The IRS and Treasury collected extensive feedback over the past year while working closely with the payroll and tax community to develop a redesign that best serves taxpayers.

The IRS expects to release a near-final draft of the 2020 W-4 in mid-to-late July to give employers and payroll processors the tools they need to update systems before the final version of the form is released in November. To make additional improvements to this initial draft for 2020, the IRS is now accepting comments for 30 days. To facilitate review of this form, IRS is also releasing FAQs about the new design.

The IRS anticipates the related instructions for employers will be released in the next few weeks for comment as well.

The IRS reminds taxpayers that this draft W-4 is not for current use, but is a draft of the form to be used starting in 2020. Employees who have submitted a Form W-4 in any year before 2020 will not be required to submit a new form merely because of the redesign. Employers can continue to compute withholding based on the information from the employee’s most recently submitted Form W-4.

For 2019, taxpayers should continue using the current W-4. The IRS also continues to encourage people to do a Paycheck Checkup as soon as possible to see if they are withholding the right amount of tax from their paychecks, particularly if they had too much or too little tax withheld when they filed their 2018 taxes earlier this year. People with major life changes, such as a marriage or a new child, should also check their withholding.

The IRS cannot respond individually to those who submit comments, but the agency does appreciate the feedback and will consider all comments received.

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Form **W-4**

Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
▶ **Give Form W-4 to your employer.**
▶ **Your withholding is subject to review by the IRS.**

OMB No. 1545-0074

2020

Step 1: Enter Personal Information

1a First name and middle initial	Last name	**1b Social security number**
Home address (number and street)		▶ **Does your name match the name on your social security card?** If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to *www.ssa.gov*.
City or town, state, and ZIP code		

1c ☐ **Single or Married filing separately** ☐ **Married filing jointly**
☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2 through 4 if they apply to you; otherwise, skip to Step 5. See instructions on page 2.

Step 2: Account for Multiple Jobs

Caution: The correct amount of withholding depends on income earned from all jobs in the household. If you:
- Hold more than one job at a time, or
- Are married filing jointly and both you and your spouse work,

account for this below or you may owe additional tax when filing your tax return.
(If you and/or your spouse have income from self-employment, see page 2.)

2 **Multiple jobs.** Do **only one** of the following.
- Use the calculator at *www.irs.gov/W4App* for most accurate withholding; **or**
- Use Worksheet 1 on page 3 and enter the result on line 4c below for roughly accurate withholding; **or**
- If there are only two jobs in your household, you may check here. Do the same on Form W-4 for the other job. With this option, more tax than necessary may be withheld from your wages, but you generally won't have too little tax withheld . . . . ▶ ☐

Complete lines 3 through 4b on Form W-4 for only one job in the household. (Your withholding will be most accurate if you do this on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents

3 **Dependents.** If your income will be $200,000 or less ($400,000 or less if married filing jointly) (see instructions):
- Multiply the number of qualifying children under age 17 by $2,000 ▶ $
- Multiply the number of other dependents by $500 . . . . ▶ $

Add the amounts above and enter the total here . . . . **3** $

Step 4: Other Adjustments (optional)

4a **Other income.** If you want tax withheld for other income you expect this year that will not have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs . . **4a** $

b **Deductions.** If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use Worksheet 2 on page 3 and enter the result here **4b** $

c Enter any additional amount you want withheld each **pay period** . . . . **4c** $

d **Exemption.** You can claim exemption from withholding for 2020 if:
- For 2019, you had **no** federal income tax liability; **and**
- For 2020, you expect to have **no** federal income tax liability.

If you meet both of these conditions, certify by writing "Exempt" here . . . . . . ▶ **4d**

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

▶ **Employee's signature** (This form is not valid unless you sign it.) ▶ **Date**

Employers Only

5 Employer's name and address	**6** First date of employment	**7** Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2020)

General Instructions

Future Developments

For the latest information about developments related to Form W-4, such as legislation enacted after it was published, go to *www.irs.gov/FormW4.*

Purpose of Form

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Complete a new Form W-4 when your personal or financial situation changes. For more information on withholding and when you must furnish a new Form W-4, see Pub. 505.

Exemption. If you meet both requirements on line 4d, you may skip lines 2–4c and complete line 4d. If you claim an exemption from withholding, you will need to submit a new Form W-4 by February 16, 2021.

Self-employment. Generally, you will owe both income and self-employment taxes on any self-employment income you receive separate from the wages you receive as an employee. If you want to pay these taxes through withholding from your wages, use the calculator at *www.irs.gov/W4App* to figure the amount to have withheld.

When to use the calculator. Consider using the calculator at *www.irs.gov/W4App* if you:

1. Expect to work only part of the year;

2. Have dividend or capital gain income or are subject to additional taxes, such as the net investment income tax;

3. Have self-employment income (see above);

4. Prefer the most accurate withholding for multiple job situations; or

5. Prefer to limit information provided in Steps 2–4 but do not want to sacrifice accuracy.

Specific Instructions

Step 1, line 1c. Check your anticipated filing status. This will determine the standard deduction and tax rates used to compute your withholding.

Step 2. Use this line if you have more than one job at the same time or are married filing jointly and you and your spouse both work.

Consider checking the box on line 2 if there are only two jobs in the household. The more different the pay is at the two jobs, the more overwithholding will occur.

CAUTION *__Multiple job households.__ Complete lines 3–4b on only one Form W-4 in the household. Withholding will be most accurate if you do this on the Form W-4 for the highest paying job.*

Step 3. Use this line for tax credits, if any, you expect to claim in 2020. When you file your tax return, you may be eligible to claim a credit for your qualifying children and/or dependents. To qualify for the child tax credit, the child must be under age 17 as of December 31, must be your dependent who lives with you for more than half the year, and must have a valid social security number. You may be able to claim a credit for other dependents for whom a child tax credit can't be claimed, such as a qualifying child who doesn't meet the age or social security number requirement for the child tax credit or a qualifying relative. To learn more about these credits, see Pub. 972, Child Tax Credit. Line 3 of Form W-4 provides instructions for determining the amount of the credits. You also can include **other tax credits** on this line, such as education tax credits and the foreign tax credit. To do so, add an estimate of the amount for the year to your credits for dependents and enter the total amount on line 3.

Step 4 (optional).

Line 4a. Enter on line 4a the total of your other estimated income for the year, if any. You should not include income from any jobs. If you complete line 4a, you likely won't have to make estimated tax payments for that income. If you prefer to pay estimated tax rather than having tax on other income withheld from your paycheck, see Form 1040-ES, Estimated Tax for Individuals.

Line 4b. Enter the amount from Worksheet 2 on page 3 if you expect to claim deductions other than the basic standard deduction on your 2020 tax return and want to reduce your withholding to account for these deductions. This includes both itemized deductions and other deductions such as for student loan interest and IRAs.

Line 4c. Enter on this line any additional tax you want withheld from your pay **each pay period,** including any amounts from Worksheet 1, line 4. Entering an amount here will reduce your paycheck and will either increase your refund or reduce any amount of tax that you owe.

Worksheet 1 (Keep for your records.)

Use this worksheet if you don't want to use one of the other options listed in Step 2 on Form W-4. Complete this worksheet for only *one* job in the household and enter the result on the Form W-4 for that job. Withholding will be most accurate if you enter the result on the Form W-4 for the highest paying job.

Note: If both jobs have annual wages of more than $99,999, see Pub. 505 for additional tables; or, you can use the online withholding calculator at *www.irs.gov/W4App.*

1	**Two jobs.** If you have two jobs or you're married filing jointly and your spouse also works, find the amount from the appropriate table on page 4. Using the "Higher Paying Job" column and the "Lower Paying Job" row, find the value at the intersection of the two household salaries and enter that value on line 1. Then, **skip** to line 3	**1**	$
2	**Three jobs.** If you and/or your spouse have three jobs at the same time, complete lines 2a, 2b, and 2c below. Otherwise, skip to line 3.		
	a Find the amount from the appropriate table on page 4 using the annual wages from the highest paying job in the "Higher Paying Job" column and the annual wages for your next highest paying job in the "Lower Paying Job" row. Find the value at the intersection of the two household salaries and enter that value on line 2a	**2a**	$
	b Add the annual wages of the two highest paying jobs from line 2a together and use the total as the wages in the "Higher Paying Job" column and use the annual wages for your third job in the "Lower Paying Job" row to find the amount from the appropriate table on page 4 and enter on line 2b . .	**2b**	$
	c Add the amounts from lines 2a and 2b and enter the result on line 2c	**2c**	$
3	Enter the number of pay periods per year for the highest paying job. For example, if that job pays weekly, enter 52; if it pays every other week, enter 26; if it pays monthly, enter 12, etc.	**3**	
4	**Divide** the annual amount on line 1 or 2c by the number of pay periods on line 3. (You may round this to the closest whole dollar amount.) Enter this amount here and on **line 4c** of Form W-4 for the highest paying job	**4**	$

Worksheet 2 (Keep for your records.)

1	Enter an estimate of your 2020 itemized deductions. Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to $10,000), and medical expenses in excess of 10% of your income	**1**	$
2	Enter: { • $XX,XXX if you're married filing jointly or qualifying widow(er) • $XX,XXX if you're head of household • $XX,XXX if you're single or married filing separately }	**2**	$
3	If line 1 is greater than line 2, subtract line 2 from line 1. If line 2 is greater than line 1, enter "-0-" . .	**3**	$
4	Enter an estimate of your student loan interest, IRA contributions, and certain other adjustments. See Pub. 505 for more information	**4**	$
5	Add lines 3 and 4. Enter the result here and on line 4b of Form W-4	**5**	$

Married Filing Jointly or Qualifying Widow(er)

Higher Paying Job Annual Taxable Wage & Salary	Lower Paying Job Annual Taxable Wage & Salary									
	$0 - 9,999	$10,000 - 19,999	$20,000 - 29,999	$30,000 - 39,999	$40,000 - 49,999	$50,000 - 59,999	$60,000 - 69,999	$70,000 - 79,999	$80,000 - 89,999	$90,000 - 99,999
$0 - 9,999	$X	$XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX
$10,000 - 19,999	XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$20,000 - 29,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$30,000 - 39,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$40,000 - 49,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$50,000 - 59,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$60,000 - 69,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$70,000 - 79,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX
$80,000 - 99,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX
$100,000 - 149,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$150,000 - 239,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$240,000 - 259,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$260,000 - 279,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$280,000 - 299,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$300,000 - 319,999	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$320,000 - 364,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$365,000 - 524,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$525,000 and over	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX

Single or Married Filing Separately

Higher Paying Job Annual Taxable Wage & Salary	Lower Paying Job Annual Taxable Wage & Salary									
	$0 - 9,999	$10,000 - 19,999	$20,000 - 29,999	$30,000 - 39,999	$40,000 - 49,999	$50,000 - 59,999	$60,000 - 69,999	$70,000 - 79,999	$80,000 - 89,999	$90,000 - 99,999
$0 - 9,999	$XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX
$10,000 - 19,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$20,000 - 29,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$30,000 - 39,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$40,000 - 59,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$60,000 - 79,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$80,000 - 99,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX
$100,000 - 124,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX
$125,000 - 149,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$150,000 - 174,999	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$175,000 - 199,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$200,000 - 249,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$250,000 - 349,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$350,000 - 449,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$450,000 and over	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX

Head of Household

Higher Paying Job Annual Taxable Wage & Salary	Lower Paying Job Annual Taxable Wage & Salary									
	$0 - 9,999	$10,000 - 19,999	$20,000 - 29,999	$30,000 - 39,999	$40,000 - 49,999	$50,000 - 59,999	$60,000 - 69,999	$70,000 - 79,999	$80,000 - 89,999	$90,000 - 99,999
$0 - 9,999	$XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX	$X,XXX
$10,000 - 19,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$20,000 - 29,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$30,000 - 39,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$40,000 - 59,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX
$60,000 - 79,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$80,000 - 99,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$100,000 - 124,999	X,XXX	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$125,000 - 149,999	X,XXX	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$150,000 - 174,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$175,000 - 199,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$200,000 - 249,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$250,000 - 349,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$350,000 - 449,999	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
$450,000 and over	X,XXX	X,XXX	X,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX

FAQs on the Early Release of the 2020 Form W-4

1. **Why redesign Form W-4?**
   The new design reduces the form's complexity and increases the transparency and accuracy of the withholding system. While it uses the same underlying information as the old design, it replaces complicated worksheets with more straightforward questions that make accurate withholding easier for employees.

2. **What happened to withholding allowances?**
   Allowances are no longer used for the redesigned Form W-4 to increase transparency, simplicity, and accuracy. In the past, the value of a withholding allowance was tied to the amount of the personal exemption. Due to changes in law, currently you cannot claim personal exemptions or dependency exemptions.

3. **Are all employees required to submit a new Form W-4?**
   No. Employees who have submitted Form W-4 in any year before 2020 are not required to submit a new form merely because of the redesign. Employers will continue to compute withholding based on the information from the employee's most recently submitted Form W-4.

Employee FAQs

4. **My tax situation is simple. Are some questions optional?**
   Yes. The form is divided into 5 steps. The only two steps required for all employees are Step 1, where you enter personal information like your name and filing status, and Step 5, where you sign the form. If Steps 2 – 4 apply to you, your withholding will more accurately match your tax liability if you complete them.

5. **What happens if I only fill out step 1 and then sign the form?** Your withholding will be computed based on your filing status's standard deduction and tax rates, with no other adjustments.

6. **When should I increase my withholding?**
   You should increase your withholding if 1) you hold more than one job at a time or you and your spouse both have jobs (Step 2) or 2) you have income from sources other than jobs that is not subject to withholding (line 4a). If you do not make these adjustments, you will likely owe additional tax when filing your tax return, and you may owe interest and penalties. With regard to income from other sources, you can pay estimated tax instead of having extra withholding.

7. **When should I decrease my withholding?**
   If you are eligible for income tax credits such as the child tax credit or credit for other dependents, and/or you are eligible for deductions (other than the standard deduction), you can follow the instructions described in lines 3 and 4b to decrease your withholdings by the appropriate amount.

8. **I want a refund when I file my tax return. How should I complete the redesigned Form W-4?**
The redesigned Form W-4 makes it easier for you to have your withholding match your tax liability. But some employees may prefer to have more of their money withheld from their paychecks throughout the year and then get that money back as a refund when they file their tax returns. The simplest way to increase your withholding is to enter on line 4c the additional amount you would like your employer to withhold from each paycheck after your Form W-4 takes effect. Whether you will be due a refund (and, if so, the amount of your refund) when you file your tax return depends on the details of your entire tax situation.

9. **Why do I need to account for multiple jobs (Step 2)? I have never done that before.**
Tax rates increase as income rises, and only one standard deduction can be claimed on each tax return, regardless of the number of jobs in the household. Therefore, if you have more than one job at a time or are married filing jointly and both you and your spouse work, more money should usually be withheld from the combined pay for all the jobs than would be withheld if each job was considered by itself. Adjustments to your withholding usually should be made to avoid owing additional tax, and potentially penalties and interest, when you file your tax return. All of this has been true for many years; it did not change with the recent tax law changes. The old Form W-4 accounted for multiple jobs using detailed instructions and worksheets that many employees may have overlooked. Step 2 of the redesigned Form W-4 lists three different options you may choose from to make the necessary withholding adjustments.

10. **Which option in Step 2 should I use to account for my multiple jobs? Which is most accurate? What if I don't want to reveal to my employer on my W-4 that I have a second job?**
Step 2 allows you to choose <u>one</u> of three options, which involve tradeoffs between accuracy, privacy, and ease of use:
Option 1: For maximum accuracy and privacy (to avoid revealing to your employer on your W-4 that you have multiple jobs) use the calculator at www.irs.gov/W4app. You will be guided to enter an additional amount to withhold on line 4c. You will need to know the approximate amount of pay for each job, but you will need to enter the additional amount on the Form W-4 for only one of the jobs. If pay for any of the jobs changes significantly, you will need to furnish a new Form W-4 to have accurate withholding.
Option 2: If you do not have access to the online calculator but wish to have roughly accurate withholding while retaining privacy, you may use Worksheet 1 on page 3 and similarly be guided to enter an additional amount to withhold on line 4c. You will need to know the approximate amount of pay for each job, but you will need to enter the additional amount on the Form W-4 for only one of the jobs. If pay for any of the jobs changes the additional withholding amount in the lookup table, you will need to furnish a new Form W-4 to have accurate withholding.
Option 3: If there are only two jobs held at the same time in your household, you may check the box in Step 2 on the forms for both jobs. The standard deduction and tax brackets will be divided equally between the two jobs. You would not need to furnish a new Form W-4 to account for pay changes at either job. This option is less accurate—more tax than necessary may be withheld from your wages—but you generally won't have too little tax withheld. (The more similar the earnings at the two jobs, the more accurate

this option will be. To get an idea of how much over withholding you can expect in your case, see the tables that will be provided in the 2020 Pub. 505.) This option reveals to your employer on your W-4 that you have multiple jobs in your household. But it also is the easiest option to use: just check the box.

11. **The instructions above Step 3 say that in multiple job households, adjustments in lines 3 through 4b are to be made on only one form, and that withholding will be most accurate if the adjustments are made on the W-4 for the highest paying job. But what happens if pay at two jobs is relatively similar or if the job that pays more changes over time?**
In general, making these adjustments on the Form W-4 for the highest paying job increases accuracy. However, if the jobs in your household pay about the same or if the job that pays more changes over time, it is less important which Form W-4 is used to make the adjustment.

12. **What if I have a side gig where I'm not treated as an employee?**
If you have self-employment income, you will generally owe both income tax and self-employment tax. Form W-4 is primarily intended to be used by employees who are not subject to self-employment tax. Thus, like the old Form W-4, the redesigned Form W-4 does not compute self-employment tax. If you would like to use Form W-4 to make an adjustment to your withholding to account for self-employment income that you will receive from another source, use the withholding calculator at www.irs.gov/W4app or refer to IRS Publication 505.

13. **What if I don't want to reveal my non-job income, such as income from earnings on investments or retirement income, to my employer (line 4a)?**
You are not required to have tax on non-wage income withheld from your paycheck. Instead, you can pay estimated tax on this income using Form 1040-ES, Estimated Tax for Individuals. However, if you want to use Form W-4 to have tax for this income withheld from your paycheck, you have two options. You can report the income on line 4a. If you don't want to report this income directly on line 4a, you can use the withholding calculator at www.irs.gov/W4app. The calculator will help you calculate the additional amount of tax that should be withheld from your paycheck. You will then enter that amount on line 4c, without reporting the income to your employer. If you expect to have dividend or capital gain income, your withholding will be more accurate if you have the calculator compute the withholding adjustment rather than reporting this income on line 4a.

14. **I have a more complex tax situation. Is there a computer program I can use to help me complete Form W-4?**
Yes. To provide maximum accuracy, you are encouraged to use the withholding calculator available at www.irs.gov/W4app. Updates and improvements to the calculator are underway that will be compatible with the redesigned Form W-4 in 2020. You may wish to use the withholding calculator if you 1) expect to work only part of the year, 2) have dividend or capital gain income or are subject to additional taxes, such as the net investment income tax, 3) have self-employment income, 4) prefer the most accurate withholding for multiple job situations, or 5) prefer to limit information provided in Steps 2–4 but do not want to sacrifice accuracy.

Employer FAQs

15. **Does this mean our software will need two systems—one for forms submitted before 2020 and another for forms submitted after 2019?**
Not necessarily. The same set of withholding tables will be used for both sets of forms. You can apply these tables separately to systems for new and old forms. Or, rather than having two separate systems, you may prefer to use a single system based on the redesigned form. To do this, you could enter zero or leave blank information for old forms for the data fields that capture the information on the redesigned form but was not provided to you under the old design. Additional guidance will be provided on the payroll calculations needed based on the data fields on the new and old forms.

16. **How do I treat employees hired after 2019 who do not submit a Form W-4?**
New employees who fail to submit a Form W-4 after 2019 will be treated as a single filer with no other adjustments. This means that a single filer's standard deduction with no other entries will be taken into account in determining withholding. The IRS and the Treasury Department anticipate issuing guidance consistent with this approach.

17. **Are employees hired after 2019 required to use the redesigned form?**
Yes. Beginning in 2020, all new employees must use the redesigned form. Similarly, any employees hired prior to 2020 who wish to adjust their withholding must use the redesigned form.

18. **What about employees hired prior to 2020 who want to adjust withholding from their pay dated January 1, 2020, or later?**
Employees must use the redesigned form.

19. **May I ask all of my employees hired before 2020 to submit new Forms W-4 using the redesigned version of the form?**
Yes. You may ask, but as part of the request you should explain that (1) they are not required to submit new Form W-4 and (2) if they do not submit a new Form W-4, withholding will continue based on a valid form previously submitted. For those employees who furnished forms before 2020 and who do not furnish a new one after 2019, you must continue to withhold based on the forms previously submitted. You are not permitted to treat employees as failing to furnish Forms W-4 if they don't furnish a new Form W-4. Note that special rules apply to Forms W-4 claiming exemption from withholding.

20. **Will there still be an adjustment for nonresident aliens?**
Yes. The IRS will provide instructions in the 2020 Publication 15-T Federal Income Tax Withholding Methods on the additional amounts that should be added to wages to determine withholding for nonresident aliens. Additionally, nonresident alien employees should continue to follow the special instructions in Notice 1392 when completing their Forms W-4.

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News Release

06 | 04 | 19

IRS takes additional steps to protect taxpayer data; plans to end faxing and third-party mailings of certain tax transcripts

IR-2019-101

WASHINGTON — As part of its ongoing efforts to protect taxpayers from identity thieves, the Internal Revenue Service today announced it will stop its tax transcript faxing service in June and will amend the Form 4506 series to end third-party mailing of tax returns and transcripts in July.

Tax transcripts are summaries of tax return information. Transcripts have become increasingly vulnerable as criminals impersonate taxpayers or authorized third parties. Identity thieves use tax transcripts to file fraudulent returns for refunds that are difficult to detect because they mirror a legitimate tax return.

The halt to the faxing and third-party service this summer are two more steps the IRS is taking to protect taxpayer data. In September 2018, the IRS began to mask personally identifiable information for every individual and entity listed on the transcript. See New Tax Transcript and Customer File Number. At that time, the IRS announced it intended to stop its faxing and third-party mailing service, and has since worked with tax professionals to assure they have what they need for tax preparation and representation.

Faxing service ends June 28

Starting June 28, 2019, the IRS will stop faxing tax transcripts to both taxpayers and third parties, including tax professionals. This action affects individual and business transcripts.

Individual taxpayers have several options to obtain a tax transcript. They may:

- Use IRS.gov or the IRS2Go app to access Get Transcript Online; after verifying their identities, taxpayers may immediately download or print their transcript, or
- Use IRS.gov or the IRS2Go app to access Get Transcript by Mail; transcript will be delivered within 10 days to the address of record, or
- Call 800-908-9946 for an automated Get Transcript by Mail feature, or
- Submit Form 4506-T or 4506T-EZ to have a transcript mailed to the address of record.

Tax professionals also have several options to obtain tax transcripts necessary for tax preparation or representation as follows:

- Request that the IRS mail a transcript to the taxpayer's address of record, or
- Use e-Services' Transcript Delivery System online to obtain masked individual transcripts and business transcripts, or
- Obtain a masked individual transcript or a business transcript by calling the IRS, faxing authorization to the IRS assistor and the IRS assistor will place the document in the tax practitioner's e-Services secure mailbox.
- When needed for tax preparation purposes, tax practitioners may:
  - Obtain an unmasked wage and income transcript by calling the IRS, faxing authorization to the IRS assistor and the IRS assistor will place the document in the tax practitioner's e-Services secure mailbox, or
  - Obtain an unmasked wage and income transcript if authorization is already on file by using e-Service's Transcript Delivery System.

Certain third-party mailings stop July 1

Effective July 1, 2019, the IRS will no longer provide transcripts requested on Form 4506, Form 4506-T and Form 4506T-EZ to third parties, and the forms will be amended to remove the option for mailing to a third-party. These forms are often used by lenders and others to verify income for non-tax purposes. Among the largest users are colleges and universities verifying income for financial aid purposes. Tax professionals also are large volume users.

Taxpayers may continue to use these forms to obtain a copy of their tax return or obtain a copy of their tax transcripts. This change will NOT affect use of the IRS Data Retrieval Tool through the Free Application for Federal Student Aid (FAFSA) process.

Third parties who use these forms for income verification have other alternatives. The IRS offers an Income Verification Express Service (IVES) which has several hundred participants, who, with proper authorization, order transcripts. Lenders or higher education institutions can either contract with existing IVES participants or become IVES participants themselves. The tax transcript is an official IRS record. Taxpayers may choose to provide transcripts to requestors instead of authorizing the third party to request these transcrpts from the IRS on their behalf.

Tax professionals who are attorneys, Certified Public Accountants or Enrolled Agents (i.e., Circular 230 practitioners) and do not have an e-Services account may create one and, with proper authorization from clients, can access the e-Services' Transcript Delivery System. Unenrolled tax practitioners must have an e-File application on file and be listed as delegated users to access TDS.

Customer File Number helps match transcripts

Because the taxpayer's name and Social Security number are now partially masked, the IRS also created a Customer File Number space that can be used to help third parties match transcripts to taxpayers. Third parties can assign a Customer File Number, such as a loan application number or a student identification number. The number will populate on the transcript and help match it to the client/student.

Learn more about the Customer File Number at About the New Tax Transcript and the Customer File Number.

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News Release

06 | 03 | 19

IRS now billing those who filed for 2018 but didn't pay; many payment options available

IR-2019-99

WASHINGTON — The Internal Revenue Service today advised those now receiving tax bills because they filed on time but didn't pay in full that there are many easy options for paying what they owe.

Taxpayers can pay online, by phone or using their mobile device. Taxpayer who can't pay in full may consider payment plans and compromise options; the IRS wants anyone facing a tax bill to know that they have many choices available to them.

If a tax return was filed but the amount owed are unpaid, the taxpayer will receive a letter or notice in the mail from the IRS, usually within a few weeks. These notices, including CP14 and CP501, which notify taxpayers that they have a balance due, are frequently mailed during June and July.

Recent major tax law changes affect most taxpayers, and while the vast majority are receiving refunds, others discovered that they owe tax this year. Many of them may qualify for a waiver of the estimated tax penalty that normally applies. See IRS Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, and its instructions for details.

Taxpayers are reminded to pay as much as possible, as soon as possible to minimize interest and penalties.

Making a payment

Taxes can be paid anytime throughout the year. When paying, taxpayers should keep in mind:

- Electronic payment options are the quickest way to make a tax payment.
- IRS Direct Pay (bank account) is a free way to pay online directly from a checking or savings account.
- Taxpayers can choose to pay with a debit or credit card. Although the payment processor will charge a processing fee, no fees go to the IRS.
- The IRS2Go app provides mobile-friendly payment options. Taxpayers can use Direct Pay or card payments on mobile devices.
- Taxpayers can pay using their tax software when they e-file. For those using a tax preparer, they can ask the preparer to make the tax payment electronically.
- Taxpayers may also enroll in the Electronic Federal Tax Payment System and have a choice of using the internet or phone and using the EFTPS Voice Response System.

Those who can't pay in full have several options. They can:

Set up a payment plan
With the Online Payment Agreement, taxpayers can usually set up a payment plan (including an installment agreement) in a matter of minutes. Individuals who owe $50,000 or less in combined income tax, penalties and interest likely qualify for an Online Payment Agreement.

Online applications to establish tax payment plans are available Monday – Friday, 6 a.m. to 12:30 a.m.; Saturday, 6 a.m. to 10 p.m.; Sunday, 6 p.m. to midnight. All times are Eastern time.

Another option is getting a loan. In many cases, loan costs may be lower than the combination of interest and penalties the IRS must charge under federal law.

Make paying easier
Automating payments makes it easy to avoid default. Using direct debit from a bank account or a payroll deduction means taxpayers don't have to remember to send in a payment and saves postage costs. User fees may apply, except to low-income taxpayers, but are lower than fees for manual payment plans.

Pausing collection
If the IRS determines a taxpayer is unable to pay, it may delay collection until their financial condition improves.

Settle for less
The Offer in Compromise program allows some struggling taxpayers to settle their tax bill for less than the full amount due. User fees apply except to low-income taxpayers. This year's Offer in Compromise guide and application can be found at www.irs.gov/OICbooklet. The online Offer in Compromise Pre-Qualifier tool can help taxpayers determine if they are eligible.

Check tax withholding
For many taxpayers, this year's unexpected tax bill could have been avoided with a Paycheck Checkup. The IRS urges all taxpayers to check their withholding for 2019, including those who made withholding adjustments in 2018 or had a major life change. Those most at risk of having too little tax withheld from their pay include taxpayers who itemized in the past but now take the increased standard deduction as well as two-wage-earner households, employees with non-wage sources of income, and those with complex tax situations.

Taxpayers can figure out the appropriate withholding to their paychecks with the IRS's Withholding Calculator on IRS.gov. It's never too early to check withholding.

Online tools
The IRS urges everyone to take advantage of the many tools and other resources available on IRS.gov. The Let Us Help You page answers most tax questions, and Publication 5136, IRS Services Guide, links to these and other IRS services.

Taxpayers can go to IRS.gov/account to securely access information about their federal tax account. They can view the amount they owe, payment history and key information for the most current year tax return as originally filed. Visit IRS.gov/secureaccess to review the required identity authentication process.