



IRS to Revise Withholding Lock-in Letter Format and Inputs

The Internal Revenue Service (IRS) will soon issue withholding “Lock-In” letters using a new format, with new input fields to correspond with the significant revisions to the 2020 Form W-4, Employee’s Withholding Certificate. The IRS has also issued new guidance for employers. Employers should carefully observe the new lock-in letters and guidance to avoid becoming liable for any additional tax that should have been withheld in accordance with such letters.

Background

In some cases, the IRS may issue a lock-in letter (Letter 2800C or 2808C) to an employer, specifying the settings to use for federal income tax withholding for an employee. Prior to 2020, such letters would generally restrict the withholding allowances that an employee may claim.

Employers must comply with the lock-in letter as of a date specified in the lock-in letter unless otherwise notified by the IRS; generally within 60 days of receipt of a lock-in letter. An employer may not decrease the withholding rate without IRS approval. Electronic Form W-4 systems that permit employees to submit or change Forms W-4 online must be capable of blocking changes from employees for whom a lock-in letter has been received.

New Withholding Compliance Lock-In Letters

IRS Letters 2800C and 2808C are being redesigned to include the new lock-in instructions. Instead of restricting the number of withholding allowances, the letters will provide employers with the withholding (filing) status, withholding rate and any annual reductions to withholding or additional amount to withhold per pay period, in dollar amount terms. The format shown below is what the withholding instructions will look like on the redesigned lock-in letters:

Withholding Status (Filing Status): **Single, Married or Head of Household**

Withholding rate: **Standard withholding rate or higher withholding rate checkbox**

Annual reductions from withholding (Form W-4 line 3): \$ _____

Other income (Form W-4 line 4(a)): \$ _____

Deductions (Form W-4 line 4 (b)): \$ _____

Additional amount to withhold per paycheck (Form W-4 line 4(c)): \$ _____

Employers who have already converted their payroll systems to the new 2020 withholding methods can input values to Step 4(a) and 4(b) as follows:

4(a) – \$12,900 for MFJ or \$8,600 for all others; and

4(b) – Number of allowances, as specified in the letter, multiplied by \$4,300.

These amounts may change annually.



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Regulatory Update

New Letters Not Yet in Effect

The IRS Payroll News Issue 2020-03 (March 4, 2020) notes that “until the redesigned Letters 2800C and 2808C are cleared for publishing, the IRS Withholding Compliance Unit will continue to issue the Withholding Compliance Lock-in Letters using the old allowance withholding method and employers should follow the letters as directed.”

As with the Form W-4, existing lock-in letters using the withholding-allowance format should continue to be observed and may not be revised by the IRS.

Updated FAQs

New FAQs address the interaction between the new federal Form W-4 and existing lock-in letters. The FAQs explain that if a revised Form W-4 received from the employee results in more withholding than specified in the lock-in letter, the employer should use the Form W-4. However, if the revised Form W-4 results in less withholding, the employer must withhold based on the lock-in letter. The employee may contact the IRS to request a modification to the lock-in letter. Employers that do not follow IRS lock-in letter instructions may be liable for any additional amounts that should have been withheld.

The FAQs also explain that employers may not need two software systems for employees who are subject to lock-in letters (i.e., for lock-in letters prior to 2020, and for those after 2019). Rather, the same set of withholding tables can be applied to systems for old and new lock-in letters. Or, employers may use a single system based on the new Form W-4. To calculate withholding at the rate specified in the letter, as noted above, the Step 4(a) value is \$12,900 for married employees filing jointly; \$8,600 for all other employees. These amounts may change annually. The Step 4(b) value is the number of withholding allowances indicated in the letter multiplied by the allowance amount (\$4,300 in 2020).

For additional information:

- [Pub 15-T](#), Worksheet 1, Employer’s Withholding Worksheet for Percentage Method Tables for Automated Payroll Systems
- Updated [Withholding Compliance Questions and Answers](#)
- [Income Tax Withholding Assistant for Employers](#) to help with calculations
- [Understanding the 2020 Form W-4 and How to Use it to Calculate Withholding](#) webinar

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