



GMS Flash Alert



2019-136 | August 30, 2019

United States – Refunding of 2018 Underpayment Penalties by IRS

The U.S. Internal Revenue Service (IRS) recently announced in [IR-2019-144](#) that it is automatically waiving the estimated tax penalty for eligible individual taxpayers who fell short of their total 2018 tax liability.¹ As reported earlier this year, the IRS initially lowered the usual 90-percent threshold for the penalty to 85 percent² and further lowered it to the current 80 percent.³ Following the announcement, individuals who have paid at least 80 percent of their total tax liability through their federal income tax withholding or quarterly estimated payment, but failed to claim the special waiver when they filed their 2018 returns, will have their estimated tax penalty waived automatically by the IRS.

WHY THIS MATTERS

The waiver computations were integrated into commercially-available tax software shortly after they were announced, so many assignees are likely unaffected by this automatic waiver. However, companies who fund the cost of penalties and interest for employees on tax-equalized assignments will want to work with their tax service providers to identify employees who may be receiving a refund and determine whether any refund is payable to the company.

Background

Normally, taxpayers must pay federal income taxes as they earn income, through withholding and/or estimated tax payments. Generally, a taxpayer will be subject to a penalty if the taxpayer fails to pay the lesser of the following amounts during the tax year:

- 90 percent of the tax shown on the taxpayer’s return for the tax year, or
- 100 percent of the tax shown on the taxpayer’s return for the previous tax year (110 percent if the taxpayer’s adjusted gross income on the previous year’s return exceeds \$150,000) if the previous tax year was a full 12 months long.

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Notice 2019-11

On January 16, 2019, the IRS announced that it would waive the penalty for failure to make estimated income tax payments for the 2018 tax year – otherwise required to be made on or before January 15, 2019 – for any individual whose total withholding and estimated tax payments made on or before January 15, 2019, equaled or exceeded 85 percent of the tax shown on that individual's return for the 2018 tax year. In order to request the estimated tax penalty waiver, the IRS required eligible individual taxpayers to file [Form 2210](#), *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*, with their 2018 income tax returns.

Notice 2019-25

On March 22, 2019, the IRS expanded the penalty waiver to individuals whose total withholding and estimated tax payments made on or before January 15, 2019 equaled or exceeded 80 percent of the tax shown on the return for the 2018 tax year. Also, the IRS updated the procedures for taxpayers who paid the underpayment penalty but who qualified for relief under the expanded waiver.

IR-2019-144

On August 14, 2019, the IRS announced that it is automatically applying the waiver to all eligible taxpayers, so taxpayers do not need to take any further action. The IRS will mail copies of notices granting relief to affected taxpayers. If a taxpayer has already paid the penalty, the IRS will be issuing refunds of the penalty amount approximately three weeks after the notice.

KPMG NOTE

However, taxpayers who have not yet filed their 2018 federal tax returns are encouraged to claim the penalty waiver on their returns.

FOOTNOTES:

- 1 See [IR-2019-144](#) (August 14, 2019) on the IRS Web site.
- 2 See GMS *Flash Alert* [2019-008](#) (January 21, 2019) for additional information.
- 3 See GMS *Flash Alert* [2019-055](#) (March 26, 2019) for additional information.

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