IRS axes estimated tax penalties for 400,000 taxpayers

By **Michael Cohn**
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The Internal Revenue Service said Wednesday it would automatically waive the estimated tax penalty for over 400,000 eligible taxpayers who have already filed their 2018 federal income tax returns but didn't claim the waiver.

Earlier this year, in response to complaints from taxpayers who discovered they hadn't withheld enough from their paychecks last year after passage of the 2017 tax overhaul and ended up with high tax bills, the IRS lowered the usual 90 percent penalty threshold to 80 percent to help taxpayers whose withholding and estimated tax payments fell short of their total 2018 tax liability. The agency also removed the requirement that estimated tax payments be made in four equal installments, as long as they were all made by Jan. 15, 2019. The 90 percent threshold was initially lowered to 85 percent on Jan 16 and, after further complaints from lawmakers, it was lowered once more to 80 percent on March 22.

The IRS said it would apply the waiver automatically to the tax accounts of all eligible taxpayers, so there's no need to contact the IRS to apply for or request the waiver. The automatic waiver will be given to any individual taxpayer who has paid at least 80 percent of their total tax liability through federal income tax withholding or quarterly estimated tax payments but didn't claim the special waiver available to them when they filed their 2018 return earlier this year.

"The IRS is taking this step to help affected taxpayers," said IRS Commissioner Chuck Rettig in a statement Wednesday. "This waiver is designed to provide relief to any person who filed too early to take advantage of the waiver or was unaware of it when they filed."

IRS Commissioner Charles "Chuck" Rettig

Andrew Harrer/Bloomberg

In the months ahead, the IRS also plans to mail out copies of notices CP21 granting this relief to affected taxpayers. Any eligible taxpayer who has already paid the penalty will receive a refund check approximately three weeks after their CP21 notice regardless if they asked for penalty relief. The IRS stressed that eligible taxpayers who have already filed a 2018 return don't need to request penalty relief, contact the IRS, or take any other action to receive this relief.

For those taxpayers who haven't filed their 2018 taxes yet, such as those who asked for an extension until Oct. 15, the IRS is urging every eligible taxpayer to claim the waiver on their tax return when they do file. The quickest and easiest way is to file electronically and take advantage of the waiver computation built into their tax software package. Those who opt to file a paper return can fill out Form 2210 and attach it to the return, as per the instructions for Form 2210.

The IRS is again urging every taxpayer to do a "Paycheck Checkup" and review their withholding status for 2019. There's a new Tax Withholding Estimator tool available on IRS.gov to help. More information about tax withholding and estimated tax can be found on the IRS's Pay As You Go web page, along with Publication 505. That's particularly important for anyone who encountered an unexpected tax bill or a tax penalty when they filed this year, along with taxpayers who made withholding adjustments last year or had a major life change. Those at high risk also include taxpayers who itemized in the past but now claim the increased standard deduction, along with dual wage earner households, employees with non-wage sources of income, and people with complicated tax situations.

Michael Cohn

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