(2) The application of the provisions of subparagraph (1) of this paragraph (g) may be illustrated by the following examples:

Example 1. B is employed by Company M. B becomes sick and is absent from work for 3 months. While B is absent from work, he receives sick pay from Insurance Company N pursuant to a plan established by M and to which M has made contributions on behalf of B. M is the employer for whom services are normally rendered by B.

Example 2. C is employed by Company O and is also employed on a part-time basis by Company Q. C becomes sick while at work at Q’s place of business. C is absent from work for 3 months. While C is absent from work, he receives sick pay from Insurance Company P pursuant to a plan established by O and to which O has made contributions on behalf of C. O is the employer for whom services are normally rendered by C.

Example 3. D is a member of a labor union whose members receive health and welfare benefit payments from a trust fund which is supported by the contributions of the various employers who employ the labor union’s members. D has been employed by Company R for 4 days when he becomes sick and is absent from work for 3 months. While D is absent from work he receives sick pay from his union’s trust fund to which R has made contributions on behalf of D’s behalf. R is the employer for whom services are normally rendered by D.

(3) For purposes of paragraph (e) of this section, in the case of payments on account of sickness or accident disability made to employees by a third party insurer pursuant to a contract of insurance with a multiemployer plan which is obligated to make payments on account of sickness or accident disability to such employees pursuant to a collectively bargained agreement, if the third party insurer making the payments complies with the requirements of subdivisions (i) and (ii) of subparagraph (2) of paragraph (e) and notifies the plan of the amount of compensation paid on which tax was withheld and deposited within the time required for notification of the employer under subparagraph (2) of paragraph (e), then the plan (and not the third party insurer) shall be required to pay the tax imposed by section 3221 and to comply with the requirements of section 6051 and §§31.6051–1 and 31.6051–2 with respect to the compensation.


PART 34 [RESERVED]

PART 35—EMPLOYMENT TAX AND COLLECTION OF INCOME TAX AT SOURCE REGULATIONS UNDER THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

Sec. 35.3405–1 Questions and answers relating to withholding on pensions, annuities, and certain other deferred income.

35.3405–1T Questions and answers relating to withholding on pensions, annuities, and other deferred income (temporary regulations).


§ 35.3405–1 Questions and answers relating to withholding on pensions, annuities, and certain other deferred income.

The following questions and answers relate to withholding on pensions, annuities, and other deferred income under section 3405 of the Internal Revenue Code of 1986, as added by section 334 of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97–248) (TEFRA).

a–1 through d–34 [Reserved]. For further guidance, see §35.3405–1T.

d–35. Q. Through what medium may a payor provide the notice required under section 3405 to a payee?

A. A payor may provide the notice required under section 3405 (including the abbreviated notice described in d–27
of §35.3405–1T and the annual notice described in d–31 of §35.3405–1T to a payee on a written paper document. However, see §1.401(a)–21 of this chapter for rules permitting the use of electronic media to provide applicable notices to recipients with respect to retirement plans and individual retirement plans.


§35.3405–1T Questions and answers relating to withholding on pensions, annuities, and certain other deferred income (temporary regulations).

The following questions and answers relate to withholding on pensions, annuities, and other deferred income under section 3405 of the Internal Revenue Code of 1954, as added by section 334 of the Tax Equity and Fiscal Responsibility Tax Act of 1982 (Pub. L. 97–248) (TEFRA):

a. In general.

b. Periodic payments.

c. Nonperiodic distributions.

d. Notice and election procedures.

e. Reporting and recordkeeping.

A. IN GENERAL

a–1. Q. How did TEFRA change the law on withholding requirements for pensions, annuities, and other deferred income?

A. TEFRA amended the Internal Revenue Code to impose withholding requirements on designated distributions paid after December 31, 1982. Further, although under prior law individuals could elect to have Federal income tax withheld from certain pension and annuity payments, TEFRA requires withholding on all designated distributions unless the payee elects not to have withholding apply.

a–2. Q. What type of payment is a designated distribution that is subject to the new withholding rules?

A. A designated distribution is any distribution or payment from or under an employer deferred compensation plan, an individual retirement plan (as defined in section 7701(a)(37)), or a commercial annuity. However, a designated distribution does not include any portion of a distribution which it is reasonable to believe is not includible in the gross income of the payee. For rules concerning when it is reasonable to believe that all or part of a distribution is not includible in the gross income of the recipient, see questions a–24 through a–33. In addition, a payment or distribution that is treated as wages under section 3401(a) is not a designated distribution subject to the new withholding rules. For examples of these payments, see questions a–18 through a–23.

a–3 Q. What is an employer deferred compensation plan for purposes of the new withholding rules?

A. An employer deferred compensation plan is any pension, annuity, profit-sharing, stock bonus, or other plan that defers the receipt of compensation.

a–4. Q. What is a commercial annuity for purposes of the new withholding rules?

A. A commercial annuity is an annuity, endowment, or life insurance contract issued by an insurance company licensed to do business under the laws of any State. See, also, question f–21.

a–5. Q. When does the new law take effect?

A. In general, withholding is required on any designated distribution made after December 31, 1982. In the case of periodic payments beginning before January 1, 1983, the first payment after December 31, 1982 is treated as the first periodic payment for purposes of the withholding requirements. The Secretary has authority to delay (but not beyond June 30, 1983) the application of these withholding provisions to any payor if the payor can establish that it is impossible to comply with these provisions without undue hardship. Additionally, no penalty will be imposed for failure to withhold on periodic payments if the failure occurs before July 1, 1983, and if a good faith attempt is made to comply.

Procedures for requesting a delay in implementation of the withholding provisions are under consideration.

a–6. Q. What effect does the new law have on the old law provisions relating to withholding of tax from annuity payments by request?

A. If payment is part of a designated distribution, the rules of section 3402(o) (relating to voluntary withholding on