

Description of Tax or Penalty	Tax or Penalty Amount
<b>I. Reporting and Withholding Penalties</b>	
<p>A. Penalty for failure to timely deposit withholding and payroll taxes (Code § 6656 and Rev. Rul. 75-191). This failure to deposit penalty does not apply where taxes were not withheld (<i>e.g.</i>, either in a case where income is not reported, or where no withholding was collected).</p>	<p>10% of underreported employer FICA taxes plus 10% of all income tax withholding and employee FICA taxes that were withheld but not deposited.</p>
<p>B. Penalty for failure to pay employment taxes required to be shown on payroll tax return within 10 days of notice and demand (Code § 6651(a)(3)).</p>	<p>25% of total payroll taxes (penalty is ½% per month of underreporting, up to 25%); penalty can be avoided by simply paying within 10 days of notice and demand.</p>
<p>C. Penalty for negligence, disregard of rules or regulations, and substantial understatement of tax (Code § 6662).</p>	<p>20% of underpayment of employment taxes. Code § 6664(c)(1) provides that the penalty may not be imposed with respect to the portion of an underpayment if the taxpayer acted in good faith and there was reasonable cause for the underpayment.</p>
<p>D. Penalties for incorrect or untimely Form W-2.</p> <p>(1) Incorrect Form W-2 to IRS (Code § 6721).</p> <p>(2) Incorrect Form W-2 to employee (Code § 6722).</p>	<p>\$100 per W-2, up to maximum of \$1,500,000 for all such failures in the aggregate for the year (\$30 per W-2, with \$250,000 annual cap if corrected within 30 days of January 31, or \$60 per W-2 with \$500,000 annual cap if corrected on or before Aug. 1) or, in case of intentional disregard, greater of 10% of underreported amount or \$250 per W-2 (with no annual cap). (Lower annual caps apply to small employers with gross receipts under \$5M.)</p> <p>\$100 per W-2, up to maximum of \$1,500,000 for all such failures in the aggregate for the year (\$30 per W-2, with \$250,000 annual cap if corrected within 30 days of January 31, or \$60 per W-2 with \$500,000 annual cap if corrected on or before Aug. 1) or, in case of intentional disregard, greater of 10% of underreported amount or \$250 per W-2 (with no annual cap). ). (Lower annual caps apply to small employers with gross receipts under \$5M.)</p>
<p>E. Penalty for willful failure to furnish Form W-2 or willful furnishing of false or fraudulent W-2 (Code § 6674).</p>	<p>\$50 per W-2.</p>
<b>II. Interest</b>	
<p>Interest is charged on the entire assessment of taxes and penalties. (Code §§ 6601(a) and (b).) The interest rates, fixed by IRS regulations and rulings, are higher than market rates. (Code §§ 6601 and 6621.)</p>	<p>Varies by quarter based on 3 percentage points (or 5 percentage points for large corporate underpayments) over the federal short-term interest rate.</p>