

Rev. Proc. 2021-11

SECTION 1. PURPOSE

This revenue procedure provides methods for calculating W-2 wages as defined in section 199A(g)(1)(B)(ii) of the Internal Revenue Code (Code) and §1.199A-11 of the Income Tax Regulations for purposes of the W-2 wage limitation provided in section 199A(g)(1)(B)(i). Specified agricultural or horticultural cooperatives (Specified Cooperatives) are permitted a deduction under section 199A(g)(1)(A) equal to the lesser of 9 percent of qualified production activities income (QPAI) or taxable income of a Specified Cooperative, but not to exceed the W-2 wage limitation. This revenue procedure also modifies Revenue Procedure 2019-11, 2019-09 I.R.B. 742, to amend the method for determining W-2 wages for taxpayers with short taxable years.

SECTION 2. BACKGROUND

.01 Section 199A(g)(1)(B)(i) limits the amount of the deduction under section 199A(g)(1)(A) to 50 percent of the W-2 wages of the Specified Cooperative (as defined in §1.199A-8(a)(2)) for the taxable year. Section 199A(g)(1)(B)(ii) provides that

W-2 wages are determined in the same manner as under section 199A(b)(4), without regard to section 199A(b)(4)(B) (which excludes from the definition amounts not properly allocable to qualified business income for purposes of section 199A(c)(1)) and after application of section 199A(b)(5) (concerning acquisitions, dispositions, and short taxable years), except that such wages do not include any amount which is not properly allocable to domestic production gross receipts (DPGR) for purposes of section 199A(g)(3)(A).

.02 Section 199A(b)(4)(A) defines the term W-2 wages to mean, with respect to any person for any taxable year of such person, the amounts described in section 6051(a)(3) and (8) of the Code paid by such person with respect to employment of employees by such person during the calendar year ending during such taxable year. Section 199A(b)(4)(C) provides that W-2 wages shall not include any amount that is not properly included in a return filed with the Social Security Administration (SSA) on or before the 60th day after the due date (including extensions) for such return.

.03 Section 1.199A-11(c) provides the Internal Revenue Service with authority to issue guidance providing computational methods that may be used to calculate W-2 wages.

.04 This revenue procedure provides three methods for calculating W-2 wages (as defined in section 199A(g)(1)(B)(ii) and §1.199A-11) for purposes of section 199A(g) and the regulations thereunder. The first method (unmodified Box method) allows for a simplified calculation, while the second method (modified Box 1 method) and third method (tracking wages method) provide greater accuracy.

.05 W-2 wages calculated under this revenue procedure are not necessarily the W-2 wages that are properly allocable to DPGR and eligible for use in computing the section 199A(g) limitations. Under §1.199A-8(b)(5)(ii)(B), a Specified Cooperative that is not qualified as a farmer's cooperative organization under section 521 of the Code (nonexempt Specified Cooperative) must use only patronage W-2 wages that are properly allocable to patronage DPGR to compute its section 199A(g)(1)(B)(i) W-2 wage limitation. Under §1.199A-8(c)(2), a Specified Cooperative that is qualified as a farmer's cooperative organization under section 521 (exempt Specified Cooperative) must calculate separate patronage and nonpatronage deductions under section 199A(g)(1)(A) and apply separate patronage and nonpatronage W-2 wage limitations (unless an exempt Specified Cooperative treats all of its nonpatronage gross receipts and related deductions as patronage as described in §1.199A-8(b)(2)(ii), in which case, only one W-2 wage limitation would apply). Under §1.199A-11(b)(2) the Specified Cooperative must determine the amount of wages that is properly allocable to DPGR for purposes of calculating QPAI (as defined in section 199A(g)(3)(A)). The Specified Cooperative may use any reasonable method that is satisfactory to the Secretary of the Treasury or his delegate based on all of the facts and circumstances. The chosen reasonable method must be consistently applied from one taxable year to another and must clearly reflect the wages allocable to DPGR for purposes of QPAI. The books and records maintained for wages allocable to DPGR for purposes of QPAI must be consistent with any allocations. Then, the amount of W-2 wages that are properly allocable to DPGR is used in determining the W-2 wage limitation under

section 199A(g)(1)(B)(i) as determined under §1.199A-8(b)(5)(ii)(B) or §1.199A-8(c)(2) depending upon whether the Specified Cooperative is nonexempt or exempt, respectively.

SECTION 3. RULES OF APPLICATION

.01 *In general.* In calculating W-2 wages for a taxable year under the methods described in this revenue procedure, include only wages properly reported on Forms W-2 that meet the applicable rules of §1.199A-11(a), §1.199A-8(b)(5)(ii)(B), and §1.199A-8(c)(2), as applicable. Specifically, §1.199A-11(a)(2) provides that, except as provided in §1.199A-11(d)(2) (concerning short taxable years that do not include December 31), the Forms W-2, Wage and Tax Statement, or any subsequent form or document used in determining the amount of W-2 wages are those issued for the calendar year ending during the taxable year of the Specified Cooperative for wages paid to employees (or former employees) of the Specified Cooperative for employment by the Specified Cooperative. Section 1.199A-11(a)(1) also provides that, for purposes of §1.199A-11, employees of the Specified Cooperative are limited to employees of such Specified Cooperative as defined in section 3121(d)(1) and (2) of the Code (that is, officers of a corporate taxpayer and employees of the taxpayer under the common law rules). Therefore, Forms W-2 provided to statutory employees described in section 3121(d)(3) (that is, Forms W-2 in which the “Statutory Employee” box in Box 13 is checked) should not be included in calculating W-2 wages under any of the methods described in this revenue procedure.

.02 *No application in determining whether amounts are wages for employment tax*

purposes. The discussions of “wages” in this revenue procedure and in the regulations under section 199A(g) are for purposes of section 199A(g) only and have no application in determining whether amounts are wages under section 3121(a) for purposes of the Federal Insurance Contributions Act, under section 3306(b) of the Code for purposes of the Federal Unemployment Tax Act, or under section 3401(a) of the Code for purposes of the Collection of Income Tax at Source on Wages (Federal income tax withholding), or any other wage-related determination. See §1.199A-11(a)(1) of the regulations.

SECTION 4. DEFINITION OF W-2 WAGES AND CORRELATION WITH BOXES ON FORM W-2

.01 Definition of W-2 wages. Section 199A(g)(1)(B)(ii) provides that W-2 wages are determined in the same manner as under section 199A(b)(4) (without regard to section 199A(b)(4)(B)). Section 199A(b)(4)(A) provides that W-2 wages means, with respect to any person for any taxable year of such person, the sum of the amounts described in section 6051(a)(3) and (8) paid by such person with respect to employment of employees by such person during the calendar year ending during such taxable year. Thus, as also provided in §1.199A-11(b)(1), W-2 wages include: (i) the total amount of wages (as defined in section 3401(a)); (ii) the total amount of elective deferrals (within the meaning of section 402(g)(3) of the Code); (iii) the compensation deferred under section 457 of the Code; and (iv) the amount of designated Roth contributions (as defined in section 402A of the Code).

.02 Correlation with Form W-2. The elective deferrals under section 402(g)(3) and

the amounts deferred under section 457 directly correlate to coded items reported in Box 12 on the 2019 Form W-2. Box 12, Code D is for elective deferrals to a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement); Box 12, Code E is for elective deferrals under a section 403(b) salary reduction agreement; Box 12, Code F is for elective deferrals under a section 408(k)(6) salary reduction Simplified Employee Pension (SEP); Box 12, Code G is for elective deferrals and employer contributions (including nonelective deferrals) to any governmental or nongovernmental section 457(b) deferred compensation plan; Box 12, Code S is for employee salary reduction contributions under a section 408(p) SIMPLE (simple retirement account); Box 12, Code AA is for designated Roth contributions (as defined in section 402A) under a section 401(k) plan; and Box 12, Code BB is for designated Roth contributions (as defined in section 402A) under a section 403(b) salary reduction agreement. However, designated Roth contributions are also reported in Box 1, wages, tips, other compensation and are subject to Federal income tax withholding.

SECTION 5. METHODS FOR CALCULATING W-2 WAGES

For any taxable year, a Specified Cooperative must calculate W-2 wages for purposes of section 199A(g)(1)(B)(i) using one of the three methods described in section 5.01, 5.02, and 5.03 of this revenue procedure. For a Specified Cooperative with a short taxable year, see section 6 of this revenue procedure. In calculating W-2 wages for a taxable year under the methods described in section 5.01, 5.02, and 5.03 of this revenue procedure, the Specified Cooperative includes only those Forms W-2 that

are for the calendar year ending with or within the taxable year of the Specified Cooperative and that meet the rules of application described in section 3 of this revenue procedure.

.01 Unmodified Box method. Under the unmodified Box method, W-2 wages are calculated by taking, without modification, the lesser of—

(1) The total entries in Box 1 of all Forms W-2 filed with SSA by the Specified Cooperative with respect to employees of the Specified Cooperative for employment by the Specified Cooperative; or

(2) The total entries in Box 5 of all Forms W-2 described in section 5.01(1) of this revenue procedure.

.02 Modified Box 1 method. Under the modified Box 1 method, the Specified Cooperative makes modifications to the total entries in Box 1 of Forms W-2 filed with respect to employees of the Specified Cooperative. W-2 wages under this method are calculated as follows—

(1) Total the amounts in Box 1 of all Forms W-2 filed with SSA by the Specified Cooperative with respect to employees of the Specified Cooperative for employment by the Specified Cooperative;

(2) Subtract from the total in section 5.02(1) of this revenue procedure amounts included in Box 1 of Forms W-2 that are not wages for Federal income tax withholding purposes, including amounts that are treated as wages for purposes of income tax withholding under section 3402(o) of the Code (for example, supplemental unemployment compensation benefits within the meaning of Rev. Rul. 90-72, 1990-2

C.B. 211); and

(3) Add to the amount obtained after section 5.02(2) of this revenue procedure the total of the amounts that are reported in Box 12 of Forms W-2 with respect to employees of the Specified Cooperative for employment by the Specified Cooperative and that are properly coded D, E, F, G, or S.

.03 Tracking wages method. Under the tracking wages method, the Specified Cooperative actually tracks total wages subject to Federal income tax withholding and makes appropriate modifications. W-2 wages under this method are calculated as follows—

(1) Total the amounts of wages subject to Federal income tax withholding that are paid to employees of the Specified Cooperative for employment by the Specified Cooperative and that are reported on Forms W-2 filed with SSA by the Specified Cooperative for the calendar year; and

(2) Add to the amount obtained after section 5.03(1) of this revenue procedure the total of the amounts that are reported in Box 12 of Forms W-2 with respect to employees of the Specified Cooperative for employment by the Specified Cooperative and that are properly coded D, E, F, G, or S.

SECTION 6. APPLICATION IN CASE OF SHORT TAXABLE YEAR

.01 Special rule for Specified Cooperative with a short taxable year. In the case of a Specified Cooperative with a short taxable year, subject to the rules of application described in section 3 of this revenue procedure, the W-2 wages of the Specified Cooperative for the short taxable year shall include only those wages paid during the

short taxable year to employees of the Specified Cooperative, only those elective deferrals (within the meaning of section 402(g)(3)) made during the short taxable year by employees of the Specified Cooperative, and only compensation actually deferred under section 457 during the short taxable year with respect to employees of the Specified Cooperative. See §1.199A-11(e) of the regulations.

.02 Method required for a short taxable year and modifications required in application of method. The W-2 wages of a Specified Cooperative with a short taxable year shall be determined under the tracking wages method described in section 5.03 of this revenue procedure. In applying the tracking wages method in the case of a short taxable year, the Specified Cooperative must apply the method as follows—

(1) For purposes of section 5.03(1) of this revenue procedure, the total amount of wages subject to Federal income tax withholding and reported on Form W-2 must include only those wages subject to Federal income tax withholding that are actually or constructively paid to employees during the short taxable year and reported on Form(s) W-2 for any calendar year(s) containing any day within that short taxable year;

(2) For purposes of section 5.03(2) of this revenue procedure, only the portion of the total amounts reported in Box 12, Codes D, E, F, G, or S on Forms W-2, that are actually deferred or contributed during the short taxable year are included in W-2 wages; and

(3) For purposes of this section 6.02, if, at the time the Specified Cooperative files its income tax return, the Specified Cooperative has paid wages during the short taxable year that are reportable but not yet reported as W-2 wages in a Form W-2 filed with the

Social Security Administration (SSA), the Specified Cooperative may include these wages as W-2 wages for the short taxable year, but only if such wages are properly included in a Form W-2 filed with the SSA on or before the 60th day after the due date (including extensions) for the Form W-2.

SECTION 7. MODIFICATION OF REVENUE PROCEDURE 2019-11

.01 Revenue Procedure 2019-11 provides methods for calculating W-2 wages, as defined in section 199A(b)(4) and § 1.199A-2, for purposes of determining the deduction for qualified business income under section 199A(a)(1). Section 6 of Rev. Proc. 2019-11 provides a method for determining W-2 wage in the case of a taxpayer with a short taxable year. Specifically, section 6.01 of Rev. Proc. 2019-11 provides that for purposes of determining W-2 wages in the case of a taxpayer with a short taxable year, “the W-2 wages of a taxpayer with a short taxable year shall be determined under the tracking wages method described in section 5.03 of this revenue procedure.”

.02 Under the tracking wages method in section 5.03 of Rev. Proc. 2019-11, W-2 wages are calculated by totaling the amounts of wages subject to Federal income tax withholding that are paid to employees of the taxpayer for employment by the taxpayer and that are reported on Forms W-2 filed with SSA by the taxpayer for the calendar year and adding to this amount the total of the amounts that are reported in Box 12 of Forms W-2 with respect to employees of the taxpayer for employment by the taxpayer and that are properly coded D, E, F, G, and S. Section 6.02(A) of Rev. Proc. 2019-11 further provides that, in applying the tracking wages method in the case of a short taxable year, “the total amount of wages subject to Federal income tax withholding and reported on

Form W-2 must include only those wages subject to Federal income tax withholding that are actually or constructively paid to employees during the short taxable year and reported on Form W-2 for the calendar year ending with or within that short taxable year (or, for a short taxable year that does not contain a calendar year ending with or within such short taxable year, wages subject to federal income tax withholding that are actually or constructively paid to employees during the short taxable year and reported on Form W-2 for the calendar year containing such short taxable year).”

.03 Under section 6.02(A) of Rev. Proc. 2019-11, taxpayers with a short taxable year containing, but not ending on, December 31 can include only W-2 wages actually or constructively paid during the portion of the short taxable year in the calendar year ending on December 31 and cannot include the W-2 wages actually or constructively paid during the portion of the short taxable year that falls within the following calendar year. Section 6 of this revenue procedure, which similarly addresses calculating W-2 wages for taxpayers with a short taxable year, addresses this issue by providing that, for purposes of section 5.03 of this revenue procedure (which parallels section 5.03 of Rev. Proc. 2019-11), the total amount of wages subject to Federal income tax withholding and reported on Form W-2 includes wages subject to Federal income tax withholding that are actually or constructively paid to employees during the short taxable year and reported on Form(s) W-2 for *any calendar year(s) containing any day within that short taxable year*. In addition, section 6.02 of this revenue procedure provides that a Specified Cooperative may include in W-2 wages for the short taxable year any wages paid during the short taxable year that are otherwise includable as W-2 wages except

that they have not been reported on Forms W-2 because the Forms W-2 on which those wages must be reported are not yet due, but only if such wages are properly included in a Form W-2 filed with the SSA on or before the 60th day after the due date (including extensions) for such return.

.04 This revenue procedure modifies Rev. Proc. 2019-11 so that taxpayers with a short taxable year containing, but not ending on, December 31 can include *all* wages actually or constructively paid during the short taxable year, and so that the provision in section 6 of Rev. Proc. 2019-11 concerning the calculation of W-2 wages for taxpayers with short taxable years is consistent with the similar provision in section 6 of this revenue procedure.

.05 Accordingly, section 6.02 of Rev. Proc. 2019-11 is modified to read as follows:

.02 Method required for a short taxable year and modifications required in application of method. The W-2 wages of a taxpayer with a short taxable year shall be determined under the tracking wages method described in section 5.03 of this revenue procedure. In applying the tracking wages method in the case of a short taxable year, the taxpayer must apply the method as follows—

(A) For purposes of section 5.03(A) of this revenue procedure, the total amount of wages subject to Federal income tax withholding and reported on Form W-2 must include only those wages subject to Federal income tax withholding that are actually or constructively paid to employees during the short taxable year and reported on Form(s) W-2 for any calendar year(s) containing any day within that short taxable year;

(B) For purposes of section 5.03(B) of this revenue procedure, only the portion of the total amounts reported in Box 12, Codes D, E, F, G, or S on Forms W-2, that are actually deferred or contributed during the short taxable year are included in W-2 wages; and

(C) For purposes of this section 6.02, if, at the time of the filing of the taxpayer's income tax return, the taxpayer has paid wages during the short taxable year that are reportable but not yet reported as W-2 wages in a Form W-2 filed with the Social Security Administration (SSA), then the taxpayer may still include those wages as W-2 wages for the short taxable year, but only if such wages are properly included in a Form W-2 filed with the SSA on or before the 60th day after the due date (including extensions) for such return.

SECTION 8. EFFECT ON OTHER REVENUE PROCEDURES

Revenue Procedure 2019-11 is modified by section 7 of this revenue procedure.

SECTION 9. EFFECTIVE DATE

This revenue procedure applies to taxable years ending after December 31, 2017.

SECTION 10. DRAFTING INFORMATION

The principal authors of this revenue procedure are Andrew Holubeck and Mikhail Zhidkov of the Office of the Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes) and Jason Deirmenjian of the Office of the Associate Chief Counsel (Passthroughs & Special Industries). However, other personnel from the Department of the Treasury and the Internal Revenue Service participated in its development. For further information regarding this revenue

procedure contact Andrew Holubeck or Mikhail Zhidkov at (202) 317-4774, or Jason Deirmenjian at (202) 317-4470.