

was no reasonable basis for the statement, the individual shall pay a penalty of \$500 for the statement. There was a reasonable basis for a statement of the number of exemptions an individual claimed on a Form W-4, if the individual properly completed the Form W-4 by taking into account only allowable amounts for items which are allowable and by computing the number of exemptions in accordance with the instructions on the Form W-4. This penalty is in addition to any criminal penalty provided by law. This penalty may be assessed at any time after the statement is made, until the expiration of the applicable statute of limitations.

(b) *Deficiency procedures not to apply.* The civil penalty imposed by section 6682 may be assessed and collected without regard to the deficiency procedures provided by Subchapter B of Chapter 63 of the Code.

[T.D. 7963, 49 FR 28706, July 16, 1984]

§ 31.7805-1 Promulgation of regulations.

In pursuance of section 7805 of the Internal Revenue Code of 1954, the foregoing regulations are hereby prescribed. (See § 31.0-3 of subpart A of the regulations in this part relating to the scope of the regulations.)

PART 32—TEMPORARY EMPLOYMENT TAX REGULATIONS UNDER THE ACT OF DECEMBER 29, 1981 (PUB. L. 97-123)

Sec.

32.1 Social security taxes with respect to payments on account of sickness or accident disability.

32.2 Railroad retirement taxes with respect to payments on account of sickness or accident disability.

AUTHORITY: 95 Stat. 1662 and 1663, 26 U.S.C. 3121(a) and 3231(e)(4); 68A Stat. 917, 26 U.S.C. 7805.

§ 32.1 Social security taxes with respect to payments on account of sickness or accident disability.

(a) *General rule.* Notwithstanding the provisions of § 31.3121(a)(2)-1(a)(2), the amount of any payment on or after January 1, 1982, made to, or on behalf of, an employee or any of his dependents on account of sickness or accident

disability is not excluded from the term “wages” as defined in section 3121(a)(2)(B) unless such payment is—

(1) Received under a workmen’s compensation law, or

(2) Made by a third party pursuant to a contractual agreement between the employer and third party entered into prior to December 14, 1981, but then only if—

(i) The third party’s coverage for that employee’s group ceases prior to March 1, 1982,

(ii) No third party payment is made to such employee under that contract after February 28, 1982, and

(iii) The cessation of the third party’s coverage for that employee’s group indefinitely terminates the contractual relationship between the third party and the employer as to sickness and accident disability benefits for that employee’s group.

See section 3121(a)(4) and § 31.3121(a)(4)-1 for the exclusion from the term “wages” of any payment on account of sickness or accident disability made after the expiration of 6 calendar months following the last calendar month in which the employee worked.

(b) *Examples.* The application of the provisions of subparagraph (2) of paragraph (a) may be illustrated by the following examples:

Example 1. Company Q enters into a contract on August 31, 1981, with Insurance Company R to provide sickness and accident disability payments to Q’s employees. The contract expires on February 28, 1982. On March 1, 1982, Q enters into a new contract with R to provide sickness and accident disability payments to Q’s employees. Payments made by R pursuant to the contract expiring February 28, 1982, are included in “wages” as defined in section 3121(a)(2)(B).

Example 2. Company S enters into a contract on November 15, 1981, with Insurance Company T to provide sickness and accident disability payments to S’s employees. The contract expires on February 15, 1982, and is not renewed. A, one of S’s employees, has been receiving sickness payments from T since December 1, 1981. T makes its final payment to A on February 22, 1982. The payments made by T to A pursuant to its contract with S are not included in “wages” as defined in section 3121(a)(2)(B).

(c) *Workmen’s compensation laws.* (1) For purposes of paragraph (a)(1) of this