



Interactive Brokers

presents:

***U.S. Taxes &
Reporting for
Non-U.S. Clients***

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Webinar begins @ 12:00 pm

 **InteractiveBrokers**

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US Tax reporting for non – US investors

Section 1441 of the Internal Revenue Code

Focus on Chapter 3 not on Chapter 4
(FATCA)

What's covered

What's reportable

What is subject to withholding tax

When do treaties apply

Forms we issue

IRS Circular 230 Notice

The information in this presentation is provided for informational purposes only, and does not constitute tax advice and cannot be used by the recipient or any other taxpayer to avoid penalties under any federal, state, local or other tax statutes or regulations, or to resolve any tax issue.

Why U.S. Tax reporting

U.S. source income subject to withholding tax

When paid to a non-U.S. person

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Who is a Non-U.S. Person

A Non-U.S. Person is:

Not a U.S. Citizen

Not a U.S. Green Card holder

Not a legal resident of the U.S.

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Who is a U.S. Person

All U. S. Citizens regardless of residence

Dual Citizens – U.S. Citizenship trumps other country's

All U.S. Green Card holders regardless of residence. Green card trumps any other citizenship

Who is a U.S. Person

U.S. legal residents

A few exceptions

Employees of other Governments

Employees of the U.N. and World Bank

Students, teachers and researchers

with

an F-1 Visa (5 years max)

What is U.S. Source Income

Any payment received from revenue generated

In the U.S.

Interest

Dividends

Payments in lieu (PIL)

Rents

Stock loan fees

Business operating income – including distributions from MLPS and PTPS distributions

Why is there U.S. Withholding Tax?

Important distinction between withholding tax and income tax.

Basic premise is that people earning U.S. source income should pay tax on this income.

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Why is there U.S. Withholding Tax?

The U.S. is not the only country with withholding tax:

Canada

Netherlands

France

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Do I need to file a tax return in the U.S.

If you just have investment income, generally you do not have to file taxes in the U.S.

If you have rental income or business operating income you most likely have a filing obligation

If you own a MLP or PTP you may wish to file for a partial refund of tax withheld

What happens to the tax withheld?

IB remits any amounts withheld to the U.S. Government (IRS) weekly.

Once reporting forms are issued (March 15) IB cannot obtain refunds of any tax for the prior year that has been remitted.

What types of income are subject to withholding tax?

Business operating income

Rental income

Partnership income generated in the U.S.

Any other type of “flow through” income

For example trust income

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What types of income are subject to withholding tax?

From Investments:

Dividends

Payments in Lieu (PIL)

Royalties

Stock loan payments

Distributions from MLPs and PTPs

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What types of income are NOT subject to withholding tax?

Investment interest is reportable but not subject to withholding

Long – term and short term capital gain distributions from mutual funds –reportable but not subject to withholding

Gains (losses) on securities trading – not reportable

Withholding Rates

Investment income:

Statutory rate: 30%

Treaty rates: generally 15%,
however this can vary

Rents and operating income: 37%

MLP and PTP distributions: 37%

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How do I Qualify for a Treaty Rate

Primary residence in a country that has a tax treaty with the U.S.

Complete Form W-8BEN when account is opened and replace expired W-8Ben to remain eligible.

Form **1042-S**

Foreign Person's U.S. Source Income Subject to Withholding 2018

OMB No. 1545-0096

Department of the Treasury
Internal Revenue Service

▶ Go to www.irs.gov/Form1042S for instructions and the latest information.

Copy B
for Recipient

UNIQUE FORM IDENTIFIER AMENDED AMENDMENT NO.

1 Income code	2 Gross income	3 Chapter indicator. Enter "3" or "4"		13e Recipient's U.S. TIN, if any		13f Ch. 3 status code	
		3a Exemption code	4a Exemption code			13g Ch. 4 status code	
		3b Tax rate	4b Tax rate	13h Recipient's GIIN	13i Recipient's foreign tax identification number, if any		13j LOB code
5 Withholding allowance				13k Recipient's account number			
6 Net income				13l Recipient's date of birth (YYYYMMDD)			
7a Federal tax withheld							
7b Check if federal tax withheld was not deposited with the IRS because escrow procedures were applied (see instructions) <input type="checkbox"/>							
8 Tax withheld by other agents							
9 Overwithheld tax repaid to recipient pursuant to adjustment procedures (see instructions)							
10 Total withholding credit (combine boxes 7a, 8, and 9)				14a Primary Withholding Agent's Name (if applicable)			
11 Tax paid by withholding agent (amounts not withheld) (see instructions)				14b Primary Withholding Agent's EIN		15 Check if pro-rata basis reporting <input type="checkbox"/>	
12a Withholding agent's EIN	12b Ch. 3 status code	12c Ch. 4 status code		15a Intermediary or flow-through entity's EIN, if any	15b Ch. 3 status code	15c Ch. 4 status code	
12d Withholding agent's name				15d Intermediary or flow-through entity's name			
12e Withholding agent's Global Intermediary Identification Number (GIIN)				15e Intermediary or flow-through entity's GIIN			
12f Country code	12g Foreign taxpayer identification number, if any			15f Country code	15g Foreign tax identification number, if any		
12h Address (number and street)				15h Address (number and street)			
12i City or town, state or province, country, ZIP or foreign postal code				15i City or town, state or province, country, ZIP or foreign postal code			
13a Recipient's name			13b Recipient's country code	16a Payer's name		16b Payer's TIN	
13c Address (number and street)				16c Payer's GIIN		16d Ch. 3 status code	16e Ch. 4 status code
13d City or town, state or province, country, ZIP or foreign postal code				17a State income tax withheld	17b Payer's state tax no.	17c Name of state	

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 11386R

Form **1042-S** (2018)

IMPORTANT TAX INFORMATION: This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanctions may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Reporting

Income codes – Box 1

01	Interest paid by U.S. obligors – General
29	Deposit Interest (credit balance)
30	Original issue discount
33	Substitute payment – Interest (PIL interest)
06	Dividends paid by U.S. Corporations – General
34	Substitute payments – dividends (PIL dividends)
40	Other U.S. Source dividend equivalents
35	Substitute payment – other
36	Capital Gain distributions
50	Other Income

Reporting

New codes:

If an account does not have either a home country identification number or US Taxpayer ID (ITIN) there are now different codes for reporting the same items if you reside in a treaty country:

Dividends with tax ID code 06

Dividends without Tax ID code 52

Dividend PIL with tax ID code 34

Dividend PIL without tax ID code 53



Reporting

Each type of income is a separate form

Box 1 Income Type code

Box 2 Gross Income

Box 3a/3b Exemption code

Box 3b/4b Withholding Rate

Box 7,8 U.S. Tax withheld

Reporting

Box 7a – Total tax withheld

Box 8 – Tax withheld by other Agents

Box 9 – Tax repaid to recipient

The sum of boxes 7a, 8 and 9 is reported in Box 10. This is the credit for US taxes you are allowed.

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Reporting

Focus on Box 8 – Tax Withheld by other Agents

US tax withholding at the source of the dividend

Withholding is not done by IB but by the clearing agent for the security

Usually for a security that pays a “blended” dividend part US source income, part another country source

Why did I get a refund for last year's tax in my account?

Focus on Box 9:

Often companies re-categorize payments after the fact. When we learn of these re-categorizations before the issuance of reporting forms we refund any tax withheld to your account.

This often occurs early in the following year.

Once forms are issued in March, we can no longer refund tax withheld to you.

Reporting

Exemption codes are for income, such as investment interest that are reportable, but exempt from withholding

Common codes:

04 Exempt under tax treaty

05 Portfolio interest exempt under IRS code section.

What do I do if the wrong amount is withheld?

If you feel that the wrong rate has been withheld or there has been some other type of over withholding you can file with the U.S. for a refund.

File form 1040 NR for individuals

Remember, because IB has already sent these funds to the IRS, we cannot refund over withholding after the forms are issued.

When should I file a US return?

If you have any US source business income or rental Income (or Loss)

If you own a PTP or MLP and have 37% withheld from distributions you may be entitled to a refund of part of this withholding when a return is filed.

Remember to weigh the cost of preparing and filing a US return vs. the amount to be gained.