

Annual Withholding Tax Return for U.S. Source Income of Foreign Persons

1997

Department of the Treasury Internal Revenue Service

See instructions.

If this is an Amended Return, check here . . . If completing only Part II as a transmittal document, check here . . .

Name of withholding agent, Taxpayer identification number, For IRS Use Only (CC, FD, RD, FF, CAF, FP, CR, I, EDC, SIC)

If you will not be liable for returns in the future, check here . . . Enter date final income paid . . . Check here if you made quarter-monthly deposits using the 90% rule . . .

Part I Record of Federal Tax Liability (Do not show Federal tax deposits here.)

Table with columns: Line No., Period ending, Tax liability for period (including any taxes assumed on Form(s) 1000). Rows for Jan, Feb, Mar, Apr, May, June, Sept, Oct, Nov, Dec.

61a Total tax liability, 61b Adjustments, 61c Total net tax liability, 62 No. of Forms 1042-S filed, 63 For all Form(s) 1042-S and 1000, 64 Total paid by Federal tax deposit coupons, 65 Enter overpayment applied as a credit, 66 Total payments, 67 If line 61c is larger than line 66, 68 If line 66 is larger than line 61c, 69 Apply overpayment on line 68 to (check one): Credit on 1998 Form 1042; or Refund

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than withholding agent) is based on all information of which preparer has any knowledge.

Sign Here: Your signature, Date, Capacity in which acting. Paid Preparer's Use Only: Preparer's signature, Date, Check if self-employed, Preparer's social security no., Firm's name (or yours if self-employed) and address, EIN, ZIP code

Transmittal of Paper Forms 1042-S

Part II

▶ **DO NOT** complete Part II if you are completing Part I of this Form 1042.

Name of withholding agent

Taxpayer identification number

70 Complete this line **only** if you have **not yet filed** a 1997 Form 1042 (Part I).

Number of paper Forms 1042-S attached: **a** Original **b** Voided **c** Corrected

71 Complete this line if you have **already filed** a 1997 Form 1042 (Part I). **Caution:** You cannot use Part II to transmit any Forms 1042-S that would cause the gross income or tax withheld information shown on your previously filed Form 1042 (Part I) to change. Instead, you must file an amended Form 1042 (Part I). See the instructions.

Number of paper Forms 1042-S attached: **a** Original **b** Voided **c** Corrected

72 Number of paper Forms 1042-S previously filed with Form 1042 (Parts I or II), if applicable

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Changes To Note

A "Transmittal Document" checkbox and new Part II have been added to allow payers to use Form 1042 to transmit paper Forms 1042-S before and, in some cases, after they have filed a Form 1042 tax return. This procedure replaces prior year instructions for "Transmittal for corrected paper Forms 1042-S."

Line 61b has been added to allow regulated investment companies and real estate investment trusts to make adjustments for dividends declared in the last quarter of the year but not paid until January of the following year.

Purpose of Form

Use Form 1042 to report tax withheld on certain income of nonresident aliens, foreign partnerships, foreign corporations, and nonresident alien or foreign fiduciaries of estates or trusts, and to transmit paper **Forms 1042-S**, Foreign Person's U.S. Source Income Subject to Withholding.

Who Must File

Every U.S. withholding agent who receives, controls, has custody of, disposes of, or pays any fixed or determinable annual or periodic income must file an annual return for the preceding calendar year on Form 1042. Certain Canadian withholding agents must also file an annual return on Form 1042 (see below). The withholding agent must transmit with Form 1042 the information called for on Form 1042-S.

You must file Form 1042:

- If you are required to file Form(s) 1042-S (whether or not any tax was withheld or was required to be withheld). File Form 1042 even if you file Forms 1042-S only on magnetic media or electronically.
- If you pay gross investment income to foreign private foundations that are subject to tax under section 4948(a).

Who Is a Withholding Agent

Any person required to withhold tax is a withholding agent. A withholding agent may be an individual, trust, estate, partnership, corporation, government agency, association, or tax-exempt foundation, whether domestic or foreign.

Canadian withholding agent. If you are a nominee, representative, fiduciary, or partnership in Canada and you receive dividends from sources in the United States for the account of any person who is not entitled to the reduced rate granted under the tax treaty between the United States and Canada, you are a withholding agent and you must withhold the additional tax due on the income. Send the additional U.S. tax withheld, in U.S. dollars, with Form 1042 to the Internal Revenue Service Center, Philadelphia, PA 19255, by March 16, 1998.

Note: Every person required to deduct and withhold any tax under Chapter 3 of the Code is liable for such tax. See section 1461.

Where and When To File

File Form 1042 with any paper Forms 1042-S and other required forms and attachments with the Internal Revenue Service Center, Philadelphia, PA 19255, by March 16, 1998.

Also send amended returns and transmittal documents to this address.

Extension of time to file. If you need more time to file Form 1042, you may submit **Form 2758**, Application for Extension of Time To File Certain Excise, Income, Information, and Other Returns.

Form 2758 **does not** extend the time for payment of tax.

Additional Information

For details on withholding of tax, get **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations, by calling 1-800-TAX-FORM (1-800-829-3676).

Income Tax Withholding on Wages, Pensions, Annuities, and Certain Other Deferred Income

Use **Form 941**, Employer's Quarterly Federal Tax Return, to report social security and Medicare taxes, and any income tax withheld, on wages paid to a nonresident alien employee.

Use **Form 945**, Annual Return of Withheld Federal Income Tax, to report income tax withheld under section 3405 from pensions, annuities, and certain other deferred income paid to a nonresident alien individual. However, if the recipient has elected under section 3405(a)(2) or (b)(2) not to have withholding under section 3405, these payments are subject to withholding under section 1441 and the tax withheld must be reported using Forms 1042 and 1042-S.

Use **Schedule H (Form 1040)**, Household Employment Taxes, to report social security and Medicare taxes, and any income tax withheld, on wages paid to a nonresident alien household employee.

For more information, see the instructions for these forms.

Deposit Requirements

Generally, if you are not required to use the Electronic Federal Tax Payment System, you must deposit the tax withheld and required to be shown on Form 1042 with an authorized financial institution or a Federal Reserve bank or branch using your preprinted **Form 8109**, Federal Tax Deposit Coupon. Do not use anyone else's coupons. If you do not have your coupons when a deposit is due, contact your IRS district office. To avoid a penalty, **do not** mail your deposits directly to the IRS.

How much tax you are required to withhold determines the frequency of your deposits. The following rules explain how often deposits must be made:

1. If at the end of any quarter-monthly period the total amount of undeposited taxes is \$2,000 or more, you must deposit the taxes within 3 banking days after the end of the quarter-monthly period. (A quarter-monthly period ends on the 7th, 15th, 22nd, and last day of the month.) To determine banking days, do not count Saturdays, Sundays, legal holidays, or any local holidays observed by authorized financial institutions.

The deposit rules are considered met if:

- You deposit at least 90% of the actual tax liability for the deposit period, **and**
- If the quarter-monthly period is in a month other than December, you deposit any underpayment with your first deposit that is required to be made after the 15th day of the following month.

Any underpayment of \$200 or more for a quarter-monthly period ending in December must be deposited by January 31.

2. If at the end of any month the total amount of undeposited taxes is at least \$200 but less than \$2,000, you must deposit the taxes within 15 days after the end of the month. If you make a deposit of \$2,000 or more during any month **except December** under rule 1 above, carry over any end-of-the-month balance of less than \$2,000 to the next month. If you make a deposit of \$2,000 or more during December, any end-of-December balance of less than \$2,000 should be paid directly to the IRS along with your Form 1042 by March 16, 1998.

3. If at the end of a calendar year the total amount of undeposited taxes is less than \$200, you may either pay the taxes with your Form 1042 or deposit the entire amount by March 16, 1998.

Note: If you are requesting an extension of time to file using Form 2758, follow the above rules to see if you must make a deposit of any balance due or if you can pay it with Form 2758. See Form 2758 and its instructions for more information.

Completing Form 8109. In most cases, you will fill out a Form 8109 following the instructions in the coupon book. However, if a deposit liability arises from a distribution reportable on Form 1042 for the prior year, darken the 4th quarter box on Form 8109. If the distribution is reportable for the current year, darken the 1st quarter box. In all cases, follow the coupon book instructions for completing the rest of the deposit coupon.

Deposits by foreign corporations. Fill in a preprinted Federal Tax Deposit Coupon showing the "Amount of Deposit" in U.S. dollars. Mail the completed coupon with a bank draft in U.S. dollars to:

Federal Reserve Bank of Philadelphia
Attn: Treasury Tax and Loan Unit
P.O. Box 44
Philadelphia, PA 19105 USA

Electronic deposit requirement. If your total deposits of income tax withheld and social security, Medicare, and railroad retirement taxes were more than \$50,000 in 1996, you must make electronic deposits for all depository tax liabilities that occur after 1997. When determining whether you exceed the \$50,000 deposit threshold, combine deposits of the following tax returns you filed: Forms 941, 941-M, 941-PR, 941-SS, 943, 945, and CT-1. If you were required to deposit by electronic funds transfer in prior years, continue to do so in 1998.

The **Electronic Federal Tax Payment System (EFTPS)** must be used to make electronic deposits. If you are required to make deposits by electronic funds transfer and fail to do so, you may be subject to a 10% penalty. However, no penalties for failure to use EFTPS will be imposed prior to July 1, 1998, if you were first required to use EFTPS on or after July 1, 1997.

Taxpayers who are not required to make electronic deposits may voluntarily participate in EFTPS. For information on EFTPS, call 1-800-945-8400 or 1-800-555-4477. (These numbers are for EFTPS information only.)

Interest and Penalties

If you file Form 1042 late, or fail to pay or deposit the tax when due, you may be liable for penalties and interest unless you can show that the failure to file or pay was due to reasonable cause and not willful neglect.

1. Interest. Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, and substantial understatements of tax from the due date (including extensions) to the date of payment. Interest is figured at a rate determined under section 6621.

2. Late filing of Form 1042. The penalty for not filing Form 1042 when due (including extensions) is 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax.

3. Late payment of tax. The penalty for not paying tax when due is usually 1/2 of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the unpaid tax.

4. Failure to deposit tax when due. The penalty for failure to deposit tax when due is 2% for deposits not more than 5 days late, 5% for deposits more than 5 days late but not more than 15 days late, and 10% for deposits more than 15 days late. The penalty is increased to 15% if the tax is not deposited within 10 days after the date of the first delinquency notice sent to the taxpayer.

5. Other penalties. Penalties may be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

Specific Instructions

Part I

Note: File **only one** Form 1042 (Part I) consolidating all Form 1042-S recipient information, regardless of the number of different clients, branches, divisions, or types of income for which you are the withholding agent. Show your name, address, and employer identification number in the entity section.

Address. Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and you have a P.O. box, show the box number instead of the street address.

Lines 1 through 60. Do not enter any negative amounts on these lines.

Line 61a. The amount on line 61a must equal the sum of the monthly totals as listed on the Record of Federal Tax Liability. No adjustments may be made on this line. Except for adjustments described in the instructions for line 61b, adjustments may only be made on the appropriate entry line in the Tax Liability column of the Record of Federal Tax Liability.

Line 61b. If you are a regulated investment company (RIC) that has paid a dividend in January subject to section 852(b)(7) (relating to certain dividends declared in the preceding October, November, or December), enter your additional tax liability on those dividends declared in 1997 but paid in January 1998 **less** your additional tax liability on those dividends declared in 1996 but paid in January 1997. Show any negative amount in brackets.

If you are a real estate investment trust (REIT) that has paid a dividend in January subject to section 857(b)(8) (relating to certain dividends declared in the preceding October, November, or December), enter your additional tax liability on those dividends declared in 1997 but paid in

January 1998 **less** any additional tax liability on those dividends declared in 1996 but paid in January 1997. Show any negative amount in brackets.

Attach a statement showing your calculation.

Line 63a. The amount on line 63a should equal the sum of all magnetic media and paper document Forms 1042-S, line 3, column (b), plus the amount shown on **Forms 1000**, Ownership Certificate, you have submitted to date.

Line 63b. The amount on line 63b should equal the sum of all Forms 1042-S, line 3, column (g) (less any tax released to the recipient before you file Form 1042), plus the tax assumed from Forms 1000. If it does not, attach a statement to Form 1042 explaining the difference.

Lines 68 and 69. You may claim an overpayment shown on line 68 as a refund or a credit. Check the applicable box on line 69 to show which you are claiming. If you claim a credit, it can reduce your required deposits of withheld tax for 1998.

Caution: *Be sure to reconcile amounts on Form 1042 with amounts on Forms 1042-S (including magnetic media files), to avoid unnecessary correspondence with the IRS.*

Part II

Caution: *Do not use Part II if changes made to Forms 1042-S, or additional Forms 1042-S submitted, also change the gross income or tax information previously reported on Form 1042 (Part I). Instead, file an amended Form 1042 (Part I). See **Amended Return** below.*

Be sure to check the "Transmittal" box on the front of Form 1042. Complete your identifying information at the top of the form. Enter your name and taxpayer identification number in Part II.

Line 70. If you have **not yet filed** a Form 1042 (Part I) for 1997, you may complete Part II to:

- Submit original paper document Forms 1042-S; or
- Void or correct paper document Forms 1042-S previously submitted on a Part II transmittal document.

You may send in more than one Part II transmittal document to submit paper Forms 1042-S prior to filing your Form 1042 (Part I). You may submit corrected and voided Forms 1042-S even though changes reflect differences in gross income and tax withheld information on Forms 1042-S previously submitted with a Part II transmittal document.

Line 71. If you have **already filed** a Form 1042 (Part I) for 1997, you may use Part II to submit original, voided, or corrected paper document Forms 1042-S only if the corrections **do not change** the gross income or tax withheld information previously reported on line 63c of your Form 1042 (Part I). For example, you may submit a Form 1042-S to change an income code in column (a) of a previously submitted Form 1042-S.

You are not required to sign at the bottom of page 1 when using Part II of this form.

Forms You Must Send With Form 1042

Send Copy A of all paper document Forms 1042-S when you file Form 1042 (Part I or II) even if income is exempt from tax withholding. Also, see **Magnetic Media/Electronic Reporting** in the Instructions for Form 1042-S.

Attach to Form 1042 a copy of each **Form 8233**, Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual, you received. Also attach copies of any **Forms W-8**, Certificate of Foreign Status, or substitute statements received from beneficial owners of interest on registered obligations not targeted to foreign markets.

Amended Return

If you must make changes to your Form 1042 after you submit it, file an amended Form 1042. Use a Form 1042 for the year you are amending.

For 1996 and later, check the "Amended Return" box at the top of the form. You must complete all of Part I, including all filing information for the calendar year, and sign the return. Attach a statement explaining why you are filing an amended return (for example, you are filing because the tax liability for May was incorrectly reported due to a mathematical error).

If you are also amending Form(s) 1042-S, see **Correcting Paper Forms 1042-S** in the Form 1042-S instructions.

Do not amend Form 1042 to recover taxes overwithheld in the prior year. For more information, see **Adjustment for Overwithholding** in Pub. 515.

Paperwork Reduction Act Notice. We ask for the information on these forms to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file these forms will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 9 hr., 48 min.; **Learning about the law or the form**, 2 hr., 8 min.; **Preparing the form**, 4 hr., 14 min.; and **Copying, assembling, and sending the form to the IRS**, 32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the form to this address. Instead, see **Where and When To File** on page 3.

