

# Instructions for Form 1042-S

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

# 2026

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Volume 1 of 3



Department of the Treasury  
**Internal Revenue Service**

Instructions for Form 1042-S (Rev 2026) Catalog Number 47746H  
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<b>Contents</b>	<b>Regular Page</b>	<b>Large Print Page</b>
Future Developments	1	4
What's New	1	4
Reminders	1	6
<b>General Instructions</b>	2	12
Purpose of Form	2	12
Who Must File	2	15
Where, When, and How To File	3	18
Definitions	4	29
Requirement To Withhold	12	89
<b>Specific Instructions for Withholding Agents</b>	25	185
Amended Checkbox	25	187
Amended Forms	36	264
<b>Index</b>	37	270

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

## **Future Developments**

For the latest information about developments related to Form 1042-S and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1042S](https://www.irs.gov/Form1042S).

## **What's New**

**Credit forward framework.** After December 31, 2024, withholding agents (including a QSL) may no longer use the credit forward framework set forth in Notice 2010-46, 2010-24 I.R.B. 757, for substitute dividends paid in a series of security loans or stock repurchase agreements. See FAQ 26 under the General compliance section of FATCA - FAQs general, available at [IRS.gov/FATCAFAQsGeneral](https://www.irs.gov/FATCAFAQsGeneral).

**Address fields.** We separated the address fields into individual entry boxes.

**Chapter 3 exemption codes.** A chapter 3 exemption code is now required in all cases where the tax withheld is less than 30%. For example, if you are reporting payments of scholarship or fellowship grants that are subject to a 14% withholding tax under section 1441(a), you must report chapter 3 exemption code 02 (exempt or reduced withholding under IRC) in box 3a. See *Boxes 3a and 4a* for more information.

**Filing Information Returns Electronically (FIRE) system being retired.** FIRE is set to retire for tax year 2026 and will not be available for submissions for filing season 2027 (forms due in 2027). The Information Returns Intake System (IRIS) will be the only intake system for information returns currently received through FIRE. For more information on e-filing or IRIS, go to [IRS.gov/ InfoReturns](https://www.irs.gov/InfoReturns).

## **Information Returns Intake System**

**(IRIS).** The IRS has developed IRIS, an online portal that allows taxpayers to *e-file* information returns and will replace FIRE for e-filing Forms 1042-S. IRIS will also let you file corrections and request automatic extensions. IRIS will be available beginning January 1, 2026, and must be used to *e-file* 2026 Forms 1042-S (due March 15, 2027). Either IRIS or FIRE may be used to *e-file* 2025 Forms 1042-S (due March 15, 2026). For more information, go to [IRS.gov/ IRIS](https://www.irs.gov/IRIS).

## **Reminders**

**Income codes 59, 60, and 61.** The income codes for consent fees, loan syndication fees, and settlement payments will remain optional for 2026.

## **Reliance on proposed regulations reducing burden under FATCA and**

**chapter 3.** On December 18, 2018, the IRS and the Department of the Treasury issued proposed regulations ([REG-132881-17](#)) to reduce taxpayer burden with respect to certain requirements under chapters 3 and 4. The proposed regulations provide that, under section 7805(b)(1)(C), taxpayers may generally rely on the proposed regulations until final regulations are issued. Specifically, for purposes of these instructions, a withholding agent may rely on the following provisions in connection with completing Form 1042-S.

- **Withholding and reporting in a subsequent year.** A partnership or trust that is permitted to withhold in a subsequent year with respect to a foreign partner's or beneficiary's share of income for the prior year may designate the deposit of the withholding as attributable

to the preceding year and in some cases a partnership is provided an extended due date for filing and furnishing Form 1042-S. See the instructions for box 7c, later.

- **Adjustments to overwithholding under the reimbursement and set-off procedures.** A withholding agent may make adjustments to overwithholding using either the reimbursement or set-off procedures until the extended due date for filing Form 1042-S (unless the Form 1042-S has already been filed or furnished). Additionally, a withholding agent may use the extended due date for filing a Form 1042 to claim a credit for any adjustments made to overwithholding. See the instructions for box 9, later.

**Withholding rates.** The rate of withholding under section 1446(a) by a publicly traded partnership (PTP) on a distribution of income



effectively connected to a U.S. trade or business is 21% for corporate partners and 37% for all other partners.

The rate of withholding by a qualified investment entity (QIE) on a distribution to a nonresident alien or foreign corporation that is treated as gain from the sale or exchange of a U.S. real property interest by the shareholder is 21%.

### **Qualified derivatives dealers (QDDs).**

These instructions provide guidance on how to report payments on Form 1042-S that are made to and by QDDs. See *Payments by U.S. Withholding Agents* and *Amounts Paid by QIs*, later. For more information on the withholding and reporting requirements associated with payments made to and by QDDs, see Rev. Proc. 2022-43, 2022-52 I.R.B. 570, available at [IRS.gov/irb/2022-52\\_IRB#RP-2022-43](https://www.irs.gov/irb/2022-52_IRB#RP-2022-43).

See also Notice 2024-44, 2024-25 I.R.B. 1737, available at [IRS.gov/irb/2024-25 IRB#NOT-2024-44](https://www.irs.gov/irb/2024-25_IRB#NOT-2024-44), which extends the phase-in period provided in Notice 2022-37, 2022-37 I.R.B. 234, available at [IRS.gov/irb/2022-37 IRB#NOT-2022-37](https://www.irs.gov/irb/2022-37_IRB#NOT-2022-37), for certain provisions of the section 871(m) regulations for 2 years (including 2026), including for certain requirements of a QDD.

**Foreign Account Tax Compliance Act (FATCA).** Form 1042-S reports payments and amounts withheld under the provisions commonly known as FATCA or chapter 4 of the Internal Revenue Code (chapter 4) in addition to those amounts required to be reported under chapter 3 of the Internal Revenue Code (chapter 3). Form 1042-S requires the reporting of an applicable exemption to the extent withholding under chapter 4 did not apply to a payment of U.S. source fixed or determinable annual or periodical (FDAP) income (including deposit

interest) that is reportable on Form 1042-S. For payments to intermediaries, flow-through entities, and recipients, Form 1042-S requires that the chapter 3 status (or classification) and, when the payment reported is a withholdable payment, the chapter 4 status, be reported on the form according to the codes provided in these instructions. For the requirement of a withholding agent to file a Form 1042-S for chapter 4 purposes, see Regulations section 1.1474-1(d).

**Unique form identifier.** Withholding agents must assign a unique identifying number to each Form 1042-S they file. This identifying number is used, for example, to identify which information return is being corrected or amended when multiple information returns are filed by a withholding agent with respect to the same recipient. The unique identifying number cannot be the recipient's U.S. taxpayer identification number (TIN) or foreign tax identification number (FTIN).

The unique identifying number must be numeric. The length of a given identifying number must be exactly 10 digits. The identifying number must be unique to each original Form 1042-S filed for the current year. The identifying number can be used on a new original form in a subsequent year.

**List of country codes.** Form 1042-S filers must use the same list of country codes used on other IRS forms (for example, Forms 926, 1118, 3520, and 8805). This list of country codes may be found at [IRS.gov/CountryCodes](https://www.irs.gov/CountryCodes).

## **General Instructions**

### **Purpose of Form**

Use Form 1042-S to report income described under *Amounts Subject to Reporting on Form 1042-S*, later, and to report amounts withheld under chapter 3 or chapter 4.

Use Form 1042-S to report specified federal procurement payments paid to foreign persons that are subject to withholding under section 5000C.

Use Form 1042-S to report payments of eligible deferred compensation items or distributions from nongrantor trusts to covered expatriates that are subject to withholding under section 877A.

See Box 1, later.

Use Form 1042-S to report certain distributions that are made by publicly traded trusts and QIEs (as defined under section 897(h)(4)(A)). See Distributions Attributable to Dispositions of U.S. Real Property Interests by Publicly Traded Trusts and Qualified Investment Entities, later.

Use Form 1042-S to report distributions of effectively connected income (ECI) by a PTP or nominee and amounts realized paid on certain transfers of PTP interests.

See Publicly Traded Partnerships (Section 1446(a) and (f) Withholding Tax), later.

**Caution:** Every person required to deduct and withhold any tax under chapter 3 or chapter 4 is liable for such tax.

Do not use Form 1042-S to report an item required to be reported on any of the following forms.

- Form W-2 (wages and other compensation made to employees (other than compensation for dependent personal services for which the beneficial owner is claiming treaty benefits), including wages in the form of group-term life insurance).
- Form 1099 (except if indicated otherwise in these instructions).
- Form 8288-A, Statement of Withholding on Certain Dispositions by Foreign Persons; or Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax. Withholding agents

otherwise required to report a distribution partly on a Form 8288-A or Form 8805 and partly on a Form 1042-S may instead report the entire amount on Form 8288-A or Form 8805.

- Form 8966, FATCA Report. Foreign financial institutions (FFIs), sponsoring entities of certain FFIs and other foreign entities, and withholding agents are required to report on Form 8966 certain account holders and payees. An FFI or withholding agent may also be required to file Form 1042-S to report payments of U.S. source FDAP income made to such persons and to report tax deducted and withheld, if any.

## **Who Must File**

Every withholding agent (defined in *Definitions*, later) must file an information return on Form 1042-S to report amounts paid during the preceding calendar year that

are described under *Amounts Subject to Reporting on Form 1042-S*, later. However, withholding agents who are individuals are not required to report a payment on Form 1042-S if they are not making the payment as part of their trade or business and no withholding is required to be made on the payment. For example, an individual making a payment of interest that qualifies for the portfolio interest exception from withholding is not required to report the payment if the portfolio interest is paid on a loan that is not connected to the individual's trade or business. However, an individual who is a withholding agent paying an amount that actually has been subject to withholding is required to report the payment. Also, an individual paying an amount on which withholding is required must report the payment, whether or not the individual actually withholds.



See Multiple Withholding Agent Rule, later, for exceptions to reporting when another person has reported the same payment to the recipient. Note that there may be a payment for tax purposes, even if there is no net payment. For example, see Regulations section 1.871-15(i) for when there is a dividend equivalent.

You must file a Form 1042-S even if you did not withhold tax under chapter 3 because the income was exempt from tax under a U.S. tax treaty or the Internal Revenue Code, including the exemption for income that is effectively connected with the conduct of a trade or business in the United States, or you released the tax withheld to the recipient. For exceptions, see Amounts That Are Not Subject to Reporting on Form 1042-S, later.

Amounts paid to an individual that is a bona fide resident of a U.S. territory are not subject to reporting on Form 1042-S if the beneficial owner of the income is a

U.S. citizen, national, or resident alien  
(such amounts may be subject to  
Form 1099 reporting).

**Caution:** If you file Form 1042-S, you must also file Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons. See [\*Form 1042 and its instructions\*](#) for more information.

## **Where, When, and How To File**

Forms 1042-S, whether filed on paper or electronically, must be filed with the IRS and be furnished to the recipient of the income by March 15 of the following calendar year. If the 15th falls on a Saturday, Sunday, or legal holiday in the District of Columbia or where the return is to be filed, the due date is the next business day.

Copy A is filed with the IRS. Send all paper Forms 1042-S with Form 1042-T, Annual Summary and Transmittal of Forms 1042-S, to the address in the Form 1042-T

instructions. You must use Form 1042-T to transmit paper Forms 1042-S. Use a separate Form 1042-T to transmit each type of Form 1042-S. See *Payments by U.S. Withholding Agents*, later, and the Form 1042-T instructions for more information.

**Electronic filing requirement.**

See *Electronic Reporting*, later, for information on who is required to file Form 1042-S electronically.

**Tip:** Attach only Copy A to Form 1042-T. Provide Copies B, C, and D to the recipient of the income. All copies must match the copy filed with the IRS. Any differences between the copy of the form issued to recipients and the copy filed with the IRS will lead to delays in processing the recipient's tax return. The IRS may disallow claims for refund or credit for amounts withheld reported on Form 1042-S if the form attached to such claims differs from the copy that was filed with the IRS.

With respect to a withholdable payment, the recipient copy should be provided to the intermediary or flow-through entity named as a recipient with respect to a chapter 4 reporting pool, if applicable.

**Extension of time to file.** To request an extension of time to file Forms 1042-S, file Form 8809, Application for Extension of Time To File Information Returns. See the instructions for Form 8809 at [IRS.gov/Form8809](https://www.irs.gov/Form8809) for where to file that form. You should request an extension as soon as you are aware that an extension is necessary, but no later than the due date for filing Form 1042-S. By filing Form 8809, you will get an automatic 30-day extension to file Form 1042-S. If you need more time, you may submit a second Form 8809 before the end of the initial extended due date. See [Form 8809](https://www.irs.gov/Form8809) for more information.

***Recipient copies.*** You may request a one-time 30-day extension to furnish copies of Forms 1042-S to the recipients using [Form 15397, Application for Extension of Time to Furnish Recipient Statements](#). This form must be sent by fax to:

Internal Revenue Service  
Technical Services Operation

**Attn: Extension of Time Coordinator**

Fax: 877-477-0572

(International fax: 304-579-4105)

Your request must be received no later than the date the Forms 1042-S must be furnished to the recipients. If your request for an extension is approved, generally you will be granted a maximum of 30 extra days to furnish the recipient copies. See *Extension to provide statements to recipients* in [Pub. 515](#), Withholding of Tax on Nonresident Aliens and Foreign Entities.

**Electronic Reporting** Forms 1042-S must be e-filed if:

- You are a person (including a corporation, partnership, individual, trust, or estate) that is required to file 10 or more information returns during the year; or
- You are a partnership with more than 100 partners; or
- You are a financial institution (whether U.S. or foreign) regardless of the number of returns required to be filed.

Beginning January 1, 2026, you can use IRIS to *e-file* 2025 Forms 1042-S (due March 15, 2026). Prior year Forms 1042-S would still be required to be e-filed using FIRE until this system is retired, which is expected to happen on December 31, 2026. After December 31, 2026, IRIS will be required to *e-file* Forms 1042-S. For more information, go to [IRS.gov/IRIS](https://www.irs.gov/IRIS).

A withholding agent required to *e-file* its original Form 1042-S returns under the above requirements must also *e-file* any amended Form 1042-S returns during the calendar year.

**Caution:** If you *e-file*, do not file the same returns on paper. Duplicate filing may cause penalty notices to be generated.

**Note:** Regardless of the above requirements, the IRS encourages filers to *e-file*.

**Hardship waiver.** To receive a hardship waiver from e-filing Forms 1042-S, submit Form 8508, Application for a Waiver from Electronic Filing of Information Returns. Waiver requests should be filed at least 45 days before the due date of the returns. See [\*Form 8508\*](#) for more information.

## **Truncation of TIN Rules**

Withholding agents may truncate the recipient's TIN (social security number (SSN), individual taxpayer identification number

(ITIN), or employer identification number (EIN)) on the recipient's copy of Form 1042-S (that is, Copies B, C, and D), including a substitute form.

To truncate the recipient's TIN, only the last four digits of a TIN must be displayed and the remaining digits must be replaced with either asterisks (\*) or Xs. For example, an SSN or ITIN must be truncated on the recipient's copy as XXX-XX-nnnn. An EIN must be truncated as XXXXXnnnn.

Withholding agents may also truncate a recipient's FTIN on the recipient's copy of Form 1042-S (Copies B, C, and D), including a substitute form. The same rules for truncating a recipient's U.S. TIN stated above must be followed if truncating a recipient's FTIN.

**Note:** The recipient's TIN and FTIN must not be truncated on Copy A filed with the IRS. The withholding agent's EIN cannot be truncated on any copy.



**Need assistance?** For additional information and instructions on e-filing Forms 1042-S, extensions of time to file (Form 8809), and hardship waivers (Form 8508), go to [IRS.gov/IRIS](https://www.irs.gov/IRIS). You can also call the IRIS help desk at 866-937-4130 (toll free) or 470-769-5100 (not a toll-free number). Do not call the IRIS help desk for tax law questions.

If you have tax law questions pertaining to Form 1042-S, call 267-941-1000 (not a toll-free number).

## **Additional Information**

For more information on the withholding of tax, see Pub. 515. This publication can only be seen online at [IRS.gov/ Pub. 515](https://www.irs.gov/pub.515).

You can download or print some of the forms and publications you may need at [IRS.gov/Forms](https://www.irs.gov/Forms). Otherwise, you can place an order online at [IRS.gov/OrderForms](https://www.irs.gov/OrderForms) or by calling 800-TAX-FORM (800-829-3676) to have forms and publications mailed to you.

You should receive your order within 10 business days.

## **Record Retention**

Withholding agents should retain a copy of the information returns filed with the IRS, or have the ability to reconstruct the data, for at least 3 years after the reporting due date.

## **Substitute Forms**

The official Form 1042-S is the standard for substitute forms. All substitute forms must comply with the rules set forth in [Pub. 1179](#), General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, and Certain Other Information Returns. A substitute of Form 1042-S that is furnished to the recipient (Copy B, C, or D) must conform in format and size to the official IRS form and must contain the exact same information as the copy filed with the IRS. However, the size of the form may be adjusted if the substitute form is presented on a landscape-oriented

page instead of portrait. Only one Form 1042-S may be submitted per page, regardless of orientation. You may be subject to a penalty for failure to furnish a correct information return. See *Penalties*, later.

**Note:** A withholding agent is required to provide a recipient with a separate substitute Form 1042-S for each type of payment of income (as determined by the income code in box 1).

**Caution:** All of the fields on the substitute form must match the copy filed with the IRS and must comply with IRS standards (see [\*Pub. 1179\*](#)). Any differences between the substitute form issued to recipients and the copy filed with the IRS will lead to delays in processing the recipient's tax return. The IRS may disallow claims for refund or credit for amounts withheld reported on Form 1042-S if the substitute form attached to such claims differs from the copy that was filed with the IRS.

***Penalty for filing incorrect substitute form.*** Privately printed substitute Forms 1042-S must be exact copies of both the format and content of the official Form 1042-S. If you file a substitute for Form 1042-S, Copy A, with the IRS that is not an exact copy of the official Form 1042-S, Copy A, you may be subject to a penalty for failure to file a correct information return.  
See *Penalties*, later.

## **Account-by-Account Reporting by Certain Financial Institutions**

A U.S. financial institution or U.S. branch of an FFI maintaining an account within the United States is required to report payments of the same type of income (as determined by the income code in box 1) made to multiple financial accounts held by the same recipient on a separate Form 1042-S for each account. For this purpose, a financial account is an account described in Regulations section 1.1471-5(b)(1).

See *Box 13o*, later, for information on designating each account with a separate account number.

## **Combined Reporting Procedures**

Rev. Proc. 99-50 provides special procedures for successor entities to use combined information reporting under chapter 3 in certain situations following a merger or acquisition. A withholding agent may also use these procedures for purposes of reporting under chapter 4.

## **Deposit Requirements**

For information and rules concerning federal tax deposits, see *Depositing Withheld Taxes* in [Pub. 515](#) or *Deposit Requirements* in the Instructions for Form 1042.

## **Definitions**

**Withholding agent.** A withholding agent is any person, U.S. or foreign, that has control, receipt, or custody of an amount subject to

withholding under chapter 3 who can disburse or make payments of an amount subject to withholding, or who makes a withholdable payment under chapter 4. The withholding agent may be an individual, a corporation, a partnership, a trust, an association, or any other entity. The term “withholding agent” also includes, but is not limited to, a qualified intermediary (QI), a nonqualified intermediary (NQI), a withholding foreign partnership (WP), a withholding foreign trust (WT), a flow-through entity, a U.S. branch that is treated as a U.S. person under Regulations section 1.1441-1(b)(2)(iv)(A), a territory FI, a nominee under section 1446, and an authorized agent. A person may be a withholding agent even if there is no requirement to withhold from a payment or if another person has already withheld the required amount from a payment.

In most cases, the U.S. person who pays (or causes to be paid) the item of U.S. source income to a foreign person (or to its agent) must withhold. However, other persons may be required to withhold. For example, if a payment is made by a QI (whether or not it assumes primary withholding responsibility) and the QI knows that withholding was not done by the person from which it received the payment, then that QI is required to do the appropriate withholding. In addition, withholding must be done by any QI that assumes primary withholding responsibility under chapters 3 and 4, a WP, a WT, a U.S. branch that agrees to be treated as a U.S. person under Regulations section 1.1441-1(b)(2)(iv)(A), or an authorized agent. Finally, if a payment is made by an NQI or a flow-through entity that knows, or has reason to know, that withholding was not done, that NQI or flow-through entity is required to withhold because it also falls within the definition of a withholding agent.

**Account holder.** Generally, the account holder is the person that holds the account. See Regulations section 1.1471-5(a).

**Amount realized.** An amount realized on the transfer of a PTP interest is the amount of gross proceeds (as defined in Regulations section 1.6045-1(d)(5)) paid or credited to a partner or broker (as applicable) that is a transferor of the interest. The amount realized on a PTP distribution is the amount of the distribution reduced by the portion of the distribution that is attributable to the cumulative net income of the partnership (as determined under Regulations section 1.1446(f)-4(c)(2)(iii)).

**Amount subject to chapter 3**

**withholding.** Generally, an amount subject to chapter 3 withholding is an amount from sources within the United States that is FDAP income. FDAP income is all income included in gross income, including interest (as well as original issue discount (OID)), dividends,



rents, royalties, and compensation. Amounts subject to chapter 3 withholding do not include amounts that are not FDAP, such as most gains from the sale of property (including market discount and option premiums), as well as other specific items of income (such as interest on bank deposits and short-term OID). See Regulations section 1.1441-2.

**Authorized agent.** An agent is an authorized agent for purposes of filing Form 1042 or making tax deposits and payments on behalf of its principal (payer) only if all five of the following conditions apply.

1. There is a written agreement between the payer and the person acting as agent.
2. A Form 8655, Reporting Agent Authorization, is filed with the IRS if the agent is filing Form 1042 (in its own name) on behalf of the payer.

3. The books and records and relevant personnel of the agent are available to the payer.
4. The payer remains fully liable for the acts of its agent and does not assert any of the defenses that may otherwise be available.
5. If the agent is filing Form 1042 (in its own name) on behalf of the payer, the agent is reported as the withholding agent in boxes 12a through 12m and information about the payer is reported in boxes 16a through 16e of the Form 1042-S.

A sponsoring entity is a reporting agent with respect to withholdable payments and must fulfill the above conditions to be an authorized agent.

For more information on these conditions, see Regulations sections 1.1441-7(c) and 1.1474-1(a)(3)(ii).

**Beneficial owner.** For payments other than those for which a reduced rate of withholding is claimed under an income tax treaty, the beneficial owner of income in most cases is the person who is required under U.S. tax principles to include the income in gross income on a tax return. A person is not a beneficial owner of income, however, to the extent that person is receiving the income as a nominee, agent, or custodian, or to the extent the person is a conduit whose participation in a transaction is disregarded. In the case of amounts paid that do not constitute income, beneficial ownership is determined as if the payment were income.

Foreign partnerships, foreign simple trusts, and foreign grantor trusts are not the beneficial owners of income paid to the partnership or trust for chapter 3 purposes. The beneficial owners of income paid to a foreign partnership in most cases are the partners in the partnership, provided that the

partner is not itself a partnership, foreign simple or grantor trust, nominee, or other agent. The beneficial owner of income paid to a foreign simple trust (a foreign trust that is described in section 651(a)) in most cases is the beneficiary of the trust, if the beneficiary is not a foreign partnership, foreign simple or grantor trust, nominee, or other agent. The beneficial owner of a foreign grantor trust (a foreign trust to the extent that all or a part of the income of the trust is treated as owned by the grantor or another person under sections 671 through 679) is the person treated as the owner of the trust. The beneficial owner of income paid to a foreign complex trust (a foreign trust that is not a foreign simple trust or foreign grantor trust) is the trust itself.

The beneficial owner of income paid to a foreign estate is the estate itself.

A payment to a U.S. partnership, trust, or estate is not subject to withholding under chapter 3 or 4. A U.S. partnership, trust, or

estate should provide the withholding agent with a Form W-9, Request for Taxpayer Identification Number and Certification. In most cases, these beneficial owner rules apply for purposes of section 1446; however, there are exceptions.

1. Chapter 3 withholding rate pool. A payment of a single type of income, determined in accordance with the income codes used to file Form 1042-S, that is subject to a single rate of withholding and a single chapter 4 exemption code.
2. Chapter 4 withholding rate pool. A pool of account holders or payees provided on an FFI withholding statement (or a chapter 4 withholding statement) that is described in Regulations section 1.1471-1(b)(20).

**Broker.** A broker is a person described in Regulations section 1.1446(f)-1(b)(1) when referenced in connection with a transfer of a PTP interest.

**Chapter 3.** Chapter 3 (Withholding of Tax on Nonresident Aliens and Foreign Corporations), excluding sections 1445 and 1446.

**Disregarded entity.** A business entity that has a single owner and is not a corporation under Regulations section 301.7701-2(b) is disregarded as an entity separate from its owner.

**Disclosing QI.** For purposes of section 1446(a) or (f), a QI that provides with its withholding statement the specific payee documentation referenced in Regulations section

1.1446(f)-4(a)(7)(iii) (for an amount realized) or Regulations section 1.1446-4(e)(4) (for withholding on a PTP distribution under section 1446(a)) instead of the chapter 3

withholding rate pool information otherwise permitted to be included on the withholding statement. A QI that acts as a disclosing QI for a payment must act as a disclosing QI for the entire payment. See the 2023 QI agreement in [Rev. Proc. 2022-43](#) for further information.

**Dividend equivalent.** To the extent specified in section 871(m) and the regulations thereunder, a dividend equivalent is a payment (within the meaning of Regulations section 1.871-15(i)) that, directly or indirectly, is contingent on, or determined by reference to, the payment of a dividend from U.S. sources, including pursuant to a securities lending, sale-repurchase transaction, a specified notional principal contract, or a specified equity-linked instrument.

Certain other payments made by the withholding agent to satisfy a tax liability with respect to a dividend equivalent by the party

receiving the dividend equivalent are dividend equivalents. See Regulations section 1.871-15(c) for additional information, including the definitions of specified notional principal contract and specified equity-linked instrument.

Any section 871(m) amount of a QDD is treated as a dividend equivalent. See [Rev. Proc. 2022-43](#) for additional information, including the definition of a section 871(m) amount.

**Exempt beneficial owner.** An exempt beneficial owner means a person that is described in Regulations section 1.1471-6 and includes a foreign government, a political subdivision of a foreign government, a wholly owned instrumentality or agency of a foreign government or governments, an international organization, a wholly owned agency or instrumentality of an international organization, a foreign central bank of issue, a government of a U.S. territory, certain



retirement funds, and certain entities wholly owned by one or more exempt beneficial owners. In addition, an exempt beneficial owner includes any person treated as an exempt beneficial owner under an applicable Model 1 IGA or Model 2 IGA.

**Exempt recipient.** An exempt recipient is any payee that is exempt from the Form 1099 reporting requirements.

**Caution:** Exempt recipients are not exempt from withholding under chapter 3 unless they are U.S. persons or foreign persons entitled to an exemption from withholding under chapter 3.

**Expatriate.** A person is considered an expatriate if they relinquish U.S. citizenship or, in the case of a long-term resident of the United States, cease to be a lawful permanent resident as defined in section 7701(b)(6).

**Fiscally transparent entity.** An entity is treated as fiscally transparent with respect to an item of income for which treaty benefits are claimed to the extent that the interest holders in the entity must, on a current basis, take into account separately their shares of an item of income paid to the entity, whether or not distributed, and must determine the character of the items of income as if they were realized directly from the sources from which realized by the entity. For example, partnerships, common trust funds, and simple trusts or grantor trusts in most cases are considered to be fiscally transparent with respect to items of income received by them.

**Flow-through entity.** For chapter 3 purposes, a flow-through entity is a foreign partnership (other than a WP), a foreign simple or grantor trust (other than a WT), or, for any payments for which a reduced rate of withholding under an income tax treaty is claimed, any entity to the extent the entity is

considered to be fiscally transparent under section 894 with respect to the payment by an interest holder's jurisdiction.

**Financial institution.** A financial institution generally means an entity that is a depository institution, a custodial institution, an investment entity, or an insurance company (or holding company of an insurance company) that issues cash value insurance or annuity contracts. See Regulations section 1.1471-5(e).

**Foreign financial institution (FFI).** An FFI is an entity described in Regulations section 1.1471-5(d) or an entity treated as a financial institution under an Intergovernmental Agreement (IGA).

***Deemed-compliant FFI.*** Under section 1471(b)(2), certain FFIs are deemed to comply with the regulations under chapter 4 without the need to enter into an FFI agreement with the IRS. However, certain deemed-compliant FFIs are required to

register with the IRS and obtain a global intermediary identification number (GIIN). These FFIs are referred to as “**registered deemed-compliant FFIs.**” See Regulations section 1.1471-5(f)(1). Registered deemed-compliant FFIs also include certain FFIs that satisfy the requirements of an applicable IGA.

***Nonparticipating FFI.*** A nonparticipating FFI is an FFI that is not a participating FFI, deemed-compliant FFI, or exempt beneficial owner.

***Participating FFI.*** A participating FFI is an FFI that has agreed to comply with the terms of an FFI agreement with respect to all branches of the FFI, other than a branch that is a reporting Model 1 FFI or a U.S. branch. The term “participating FFI” also includes a reporting Model 2 FFI and a QI branch of a U.S. financial institution, unless such branch is a reporting Model 1 FFI.

**Foreign person.** A foreign person includes a nonresident alien individual, a foreign corporation, a foreign partnership, a foreign trust, a foreign estate, and any other person that is not a U.S. person. The term also includes a foreign branch or office of a U.S. financial institution or U.S. clearing organization if the foreign branch is a QI. A payment to a U.S. branch of a foreign person is treated as a payment to a foreign person for purposes of Form 1042-S.

**Global intermediary identification number (GIIN).**

The GIIN is the identification number that is assigned to a participating FFI (including a reporting Model 2 FFI), a registered deemed-compliant FFI (including a reporting Model 1 FFI), or another entity for chapter 4 reporting purposes.

**Intermediary.** An intermediary is a person that acts as a custodian, broker, or nominee, or otherwise as an agent for another person,

regardless of whether that other person is the beneficial owner of the amount paid, a flow-through entity, or another intermediary.

***Qualified intermediary (QI).*** A QI is an intermediary or eligible entity that is a party to a withholding agreement with the IRS. A QI that is a financial institution must have a chapter 4 status described in Regulations section 1.1441-1(e)(5)(ii). An entity must indicate its status as a QI on a Form W-8IMY submitted to a withholding agent.

A branch of a financial institution may not act as a QI in a country that does not have approved know-your-customer (KYC) rules. Countries having approved KYC rules are listed at [IRS.gov/Businesses/ International-Businesses/List-of-Approved-KYC-Rules](https://www.irs.gov/Businesses/International-Businesses/List-of-Approved-KYC-Rules).

Branches that operate in non-KYC approved jurisdictions as intermediaries are required to act as NQIs. See the [Instructions for Form W-8IMY](#) for more information.

***Nonqualified intermediary (NQI).*** An NQI is any intermediary that is not a U.S. person and that is not a QI.

***Private arrangement intermediary (PAI).***

A QI that is an FFI may enter into a contractual agreement with another intermediary under which the other intermediary generally agrees to perform all of the obligations of the QI with respect to the accounts maintained directly by the other intermediary. See the QI agreement for the requirements of a PAI and a QI's agreement with a PAI.

***Nonfinancial foreign entity (NFFE).*** An NFFE is a foreign entity or an entity incorporated or organized under the laws of any U.S. territory that is not a financial institution.

***Excepted NFFE.*** The term "excepted NFFE" means an NFFE that is described in Regulations section 1.1472-1(c) (1) and generally includes a publicly traded

corporation, certain affiliated entities related to a publicly traded corporation, certain territory entities, active NFFEs, and entities excluded from the definition of FFI (excluded FFIs) described in Regulations section 1.1471-5(e)(5).

**Nominee.** See Regulations section 1.1446-4(b)(3) and Publicly Traded Partnerships (Sections 1446(a) and (f) Withholding Tax), later, for persons that may act as a nominee for a PTP distribution.

**Nonexempt recipient.** A nonexempt recipient is any person who is not an exempt recipient under chapter 61.

**Nonresident alien individual.** Any individual who is not a citizen or resident of the United States is a nonresident alien individual. An alien individual meeting either the green card test or the substantial presence test for the calendar year is a resident alien.



Any person not meeting either test is a nonresident alien individual. Additionally, an alien individual who is treated as a nonresident alien pursuant to Regulations section 301.7701(b)-(7) for purposes of figuring out the individual's U.S. tax liability, or an alien individual who is a bona fide resident of Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, or American Samoa is a nonresident alien individual. An individual will not be treated as a U.S. person for a tax year or any portion of a tax year that the individual is a dual-resident taxpayer who is treated as a nonresident alien for purposes of figuring their U.S. tax liability. See [Pub. 519](#), U.S. Tax Guide for Aliens, for more information on resident and nonresident alien status.

**Caution:** Even though a nonresident alien individual married to a U.S. citizen or resident alien may choose to be treated as a resident

alien for certain purposes (for example, filing a joint income tax return), such individual is still treated as a nonresident alien for withholding tax purposes.

**Payee.** Except as otherwise provided, the payee is the person to whom a payment is made, regardless of whether such person is the beneficial owner of the amount or treated as the recipient of the payment for purposes of reporting on Form 1042-S. See Regulations section 1.1471-3(a).

**Presumption rules.** For withholdable payments and for amounts subject to withholding under chapter 3, the presumption rules are those rules that a withholding agent must follow to determine the status of a beneficial owner or payee (for example, as a U.S. person or a foreign person) when it cannot reliably associate a payment with valid documentation. See, for example, Regulations sections 1.1441-1(b)(3), 1.1441-4(a), 1.1441-5(d) and (e), 1.1441-9(b)(3), 1.1446-

1(c)(3), and 1.6049-5(d). Also see [Pub. 515](#). See Regulations section 1.1446(f)-4(a)(2) and (b)(2) for a broker's requirement to treat a transferor of a PTP interest (or broker acting for the transferor) as a foreign person for section 1446(f) purposes absent the broker's receipt of a certification of non-foreign status. For a withholdable payment (defined in Regulations section 1.1473-1(a)), the withholding agent must also follow the presumption rules under Regulations sections 1.1471-3(f) and, for an FFI, 1.1471-4(c)(4)(i) to determine the chapter 4 status of the payee when it cannot reliably associate a payment with valid documentation.

**Publicly traded partnership (PTP).** A PTP is an entity that has the same meaning as in section 7704 and Regulations sections 1.7704-1 through 1.7704-4 but does not include a PTP treated as a corporation under that section.

**PTP distribution.** A PTP distribution is a distribution made by a PTP.

**PTP interest.** A PTP interest is an interest in a PTP if the interest is publicly traded on an established securities market or is readily tradable on a secondary market (or the substantial equivalent thereof).

**Qualified derivatives dealer (QDD).** A QDD is a QI that is an eligible entity that agrees to meet the requirements of Regulations section 1.1441-1(e)(6)(i) and the QI agreement. An eligible entity is defined in Regulations section 1.1441-1(e)(6)(ii).

To act as a QDD, the home office or branch, as applicable, must qualify and be approved for QDD status and must represent itself as a QDD on its Form W-8IMY and separately identify the home office or branch as the recipient on a withholding statement (if required). Each home office or branch that obtains QDD status is treated as a separate QDD.

See Regulations section 1.1441-1(e) (6) and [\*Rev. Proc. 2022-43\*](#) for more information.

**Qualified securities lender (QSL).** A QSL is an FFI that satisfies **all** of the following.

- It is a bank, custodian, broker-dealer, or clearing organization that is regulated by the government in its home jurisdiction and that regularly borrows and lends the securities of U.S. corporations to unrelated customers.
- It is subject to audit by the IRS under section 7602 or by an external auditor if it is a QI.
- It provides to the withholding agent an annual certification of its QSL status.
- It meets the requirements to qualify as a QSL provided in Notice 2010-46 for the transition period. See Notice 2010-46 at [\*IRS.gov/irb/2010-24 IRB#NOT-2010-46\*](#). While Notice 2010-46 was obsoleted, [\*Notice 2024-44\*](#) permits withholding

agents to apply the QSL transition rules described in Parts III, C-E of Notice 2010-46, for payments made in 2025 and 2026 that, however, do not include the credit forward provisions of the notice. See the instructions for box 8, later.

**Recalcitrant account holder.** Generally, a recalcitrant account holder is an account holder of a participating or registered deemed-compliant FFI that failed to provide the documentation required under chapter 4 to determine the account holder's status or to report the account as a U.S. account. See Regulations section 1.1471-5(g).

**Recipient.** For chapter 3 purposes (including sections 1445 and 1446), a recipient includes any of the following.

- A beneficial owner of income.
- A QI other than a disclosing QI.
- A WP or WT.

- A U.S. branch that is treated as a U.S. person under Regulations section 1.1441-1(b)(2)(iv)(A) or for section 1446 purposes.
- A foreign partnership or a foreign trust (other than a WP or WT), but only to the extent the income is effectively connected with its conduct of a trade or business in the United States (except as indicated below for a grantor trust).
- A payee who is not known to be the beneficial owner, but who is presumed to be a foreign person under the
- presumption rules.
- A PAI.
- A partner receiving a distribution of ECI from a PTP or nominee.
- A QSL.

For chapter 3 purposes (including sections 1445 and 1446), a recipient does not include any of the following.

- An NQI or disclosing QI.
- A nonwithholding foreign partnership (NWP) if the income is not effectively connected with its conduct of a trade or business in the United States.
- A disregarded entity other than a hybrid entity claiming treaty benefits.
- A foreign trust that is described in section 651(a) (a foreign simple trust) if the income is not effectively connected with the conduct of a trade or business in the United States.
- A foreign trust to the extent that all or a part of the trust is treated as owned by the grantor or other person under sections 671 through 679 (a foreign grantor trust).



- A U.S. branch that is not treated as a U.S. person unless the income is, or is treated as, effectively connected with the conduct of a trade or business in the United States.

For chapter 4 purposes, a recipient also includes any of the following.

- A recalcitrant account holder not included in a chapter 4 reporting pool.
- A QI (other than a disclosing QI).
- A WP or WT.
- A PAI.
- A participating FFI or a registered deemed-compliant FFI that is an NQI, an NWP, or a nonwithholding foreign trust (NWT) and provides chapter 4 withholding rate pool information to the extent permissible.
- A participating FFI or deemed-compliant FFI that is the beneficial owner, including

a nonreporting FFI under a Model 1 or Model 2 IGA.

- A U.S. branch or territory FI treated as a U.S. person under Regulations section 1.1441-1(b)(2)(iv)(A).
- An NFFE that is not a flow-through entity or acting as an intermediary.
- A foreign partnership or a foreign trust (other than a WP or WT), but only to the extent the income is effectively connected with its conduct of a trade or business in the United States.
- A partner or beneficiary of a flow-through entity that is an NFFE (other than a WP or WT).
- A nonparticipating FFI that is a beneficial owner.
- An exempt beneficial owner that is not a flow-through entity or acting as an intermediary.

**Caution:** In the case of a PTP distribution subject to withholding under section 1446(a), if another partnership or a trust (other than a grantor trust) receives the distribution, the partnership or trust is the recipient for chapter 3 purposes.

For chapter 4 purposes, a recipient is generally the same person that is a recipient for chapter 3 purposes.

**Specified notional principal contract (SNPC).** An SNPC is any specified notional principal contract within the meaning of Regulations section 1.871-15(d).

**Specified U.S. person.** A specified U.S. person is any U.S. person other than a person identified in Regulations section 1.1473-1(c).

**Substantial U.S. owner.** A substantial U.S. owner is a specified U.S. person described in Regulations section 1.1473-1(b). For purposes of filing this form, a reporting Model 2 FFI reporting an account held by a passive

NFFE should substitute the term “controlling person that is a specified U.S. person” for “substantial U.S. owner” and refer to the applicable Model 2 IGA for the definition of controlling person. A territory NFFE that is not an excepted NFFE determines its substantial U.S. owners by applying the 10% threshold in Regulations section 1.1473-1(b)(1).

**Territory FI.** A territory FI is a financial institution that is incorporated or organized under the laws of any U.S. territory and is not an investment entity. See Regulations section 1.1471-5(e)(1)(iii) for the definition of investment entity.

**U.S. branch treated as a U.S. person.** A U.S. branch may agree to be treated as a U.S. person if it meets the requirements described in the regulations under chapter 3. See Regulations section 1.1441-1(b)(2)(iv)(A).

A U.S. branch may also agree to be treated as a U.S. person for purposes of a sale subject to section 1446(f) or for a PTP distribution. Additionally, a territory FI may agree to be treated as a U.S. person for any of these purposes.

The U.S. branch or territory FI must provide a Form W-8IMY showing that it is agreeing to be treated as a U.S. person.

**Caution:** A U.S. branch that is treated as a U.S. person is treated as such solely for purposes of determining whether a payment is subject to withholding by the branch. The branch is, for purposes of information reporting, a foreign person, and payments to such a branch must be reported on Form 1042-S.

**Withholdable payment.** A withholdable payment is generally **any** payment of U.S. source FDAP income, subject to certain exceptions.

For exceptions and additional information, see [Pub. 515](#) and Regulations section 1.1473-1(a).

**Withholding certificate.** The term “withholding certificate” refers to Form W-8 or Form W-9 in most cases.

**Note:** Throughout these instructions, a reference to or mention of “Form W-8” is a reference to Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and/or W-8IMY.

**Withholding foreign partnership (WP) or withholding foreign trust (WT).** A WP or WT is a foreign partnership or trust that has entered into a withholding agreement with the IRS in which it agrees to assume primary withholding responsibility for all payments that are made to it for its partners, beneficiaries, or owners under chapter 3 (except for sections 1445 and 1446(a) or (f)) and under chapter 4.

For information on these withholding agreements, see Rev. Proc. 2017-21, available at [IRS.gov/irb/ 2017-06 IRB#RP-2017-21](https://www.irs.gov/irb/2017-06_IRB#RP-2017-21), and Regulations section 1.1441-5.

***Nonwithholding foreign partnership (NWP) or nonwithholding foreign trust (NWT).*** An NWP or NWT is any partnership or trust (other than a complex trust) that is not a U.S. person and that is not a WP or WT.

## **Amounts Subject to Reporting on Form 1042-S**

Amounts subject to reporting on Form 1042-S are amounts from U.S. sources paid to foreign persons (including persons presumed to be foreign) or included in a U.S. payee pool that are reportable under chapters 3 and 4, even if no amount is deducted and withheld from the payment because of a treaty or Internal Revenue Code exception to taxation or if any amount withheld was repaid to the payee.

Amounts subject to reporting are amounts from sources within the United States that constitute (a) FDAP income (including deposit interest); (b) certain gains from the disposal of timber, coal, or domestic iron ore with a retained economic interest; and (c) gains relating to contingent payments received from the sale or exchange of patents, copyrights, and similar intangible property. A payment is also subject to reporting if withholding under chapter 4 is applied (or required to be applied) to the payment.

Amounts subject to reporting on Form 1042-S include, but are not limited to, the following amounts to the extent they are from U.S. sources.

- **Interest on deposits paid to certain nonresident aliens.** Withholding agents must report certain interest described in section 871(i)(2)(A) aggregating \$10 or more paid with respect to a deposit maintained at an office within the United



States if such interest is paid to a nonresident alien individual who is a resident of a country identified in Rev. Proc. 2024-42, 2024-52 I.R.B. 1433, available at [IRS.gov/irb/2024-52\\_IRB#REVPROC-2024-42](https://www.irs.gov/irb/2024-52_IRB#REVPROC-2024-42) (or any superseding revenue procedure that is effective as of January 1, 2026). A payer may elect to report interest described above paid to any nonresident alien individual by reporting all such interest.

When completing Form 1042-S, use income code 29 in box 1 and exemption code 02 in box 3a for chapter 3 purposes, and the applicable chapter 4 exemption code in box 4a (see the instructions for boxes 3a and 4a, later).

- **Interest on deposits subject to chapter 4 withholding.** Interest on deposits from U.S. sources are withholdable payments and, therefore, may be subject to withholding under

chapter 4. If payers withhold tax, they must report the interest and tax on Form 1042-S.

- **Corporate distributions.** The entire amount of a corporate distribution (whether actual or deemed) must be reported, regardless of any estimate of the part of the distribution that represents a taxable dividend. Any distribution, however, that is treated as gain from the redemption of stock is not an amount subject to withholding. For information on distributions from the disposition of a U.S. real property interest paid by a publicly traded trust or a QIE, see *Distributions Attributable to Dispositions of U.S. Real Property Interests by Publicly Traded Trusts and Qualified Investment Entities*, later.

- **Interest.** Interest subject to reporting includes the part of a notional principal contract payment that is characterized as interest.
- Rents.
- Royalties.
- Compensation for independent personal services performed in the United States.
- Compensation for dependent personal services performed in the United States (but only if the beneficial owner is claiming treaty benefits).
- Annuities.
- Pension distributions and other deferred income.
- Most gambling winnings. Proceeds from a wager placed in blackjack, baccarat, craps, roulette, or big-6 wheel are not amounts subject to reporting.

- **Cancellation of indebtedness.** Agents must report income from the cancellation of indebtedness unless the withholding agent is unrelated to the debtor and does not have knowledge of the facts that give rise to the payment.
- **Effectively connected income (ECI).** ECI includes amounts that are (or are presumed to be) effectively connected with the conduct of a trade or business in the United States even if no withholding certificate is required. Note that bank deposit interest is subject to Form 1042-S reporting if it is ECI or otherwise reportable on Form 1042-S (see *Interest on deposits paid to certain nonresident aliens* in this bullet list, earlier). ECI of a PTP distributed to a foreign partner or an amount realized subject to reporting under Regulations section 1.1461-1(c)(2)(i)(Q) must be reported on Form 1042-S.

- **Notional principal contract income.**

Income from notional principal contracts that the payer knows, or must presume, is effectively connected with the conduct of a U.S. trade or business is subject to reporting using income code 32. The amount to be reported is the amount of cash paid on the contract during the calendar year. Any amount of interest determined under the provisions of Regulations section 1.446-3(g)(4) (dealing with interest in the case of a significant nonperiodic payment) is reportable as interest and not as notional principal contract income. See, however, the separate reporting for dividend equivalents, later.

- **Insurance premiums.** Insurance premiums from U.S. sources that have cash value (as defined in Regulations section 1.1471-5(b)(3)(vii)(B)) are withholdable payments under chapter 4,

regardless of whether the premium payments are subject to the section 4371 excise tax. Withholding agents may treat premiums for insurance contracts that do not have cash value as excluded nonfinancial payments under chapter 4 and, therefore, not as withholdable payments under regulations proposed in REG-132881-17. If the payment is actually withheld upon or should have been withheld upon (but the withholding agent failed to withhold), such amount must be reported on Form 1042-S. Insurance premiums from U.S. sources are amounts subject to chapter 3 withholding that must be reported on Form 1042-S (excluding amounts subject to the section 4371 excise tax that must be reported on Form 1042-S).

- **Real estate mortgage investment conduit (REMIC) excess inclusions.** Excess inclusions from REMICs (income

code 02) and withheld tax must be reported on Form 1042-S. A domestic partnership must separately state a partner's allocable share of REMIC taxable income or net loss and the excess inclusion amount on Schedule K-1 (Form 1065). If the partnership allocates all or some part of its allocable share of REMIC taxable income to a foreign partner, the partner must include the partner's allocated amount in income as if that amount was received on the earliest to occur of (1) the date of distribution by the partnership, (2) the date the foreign partner disposes of its indirect interest in the REMIC residual interest, or (3) the last day of the partnership's tax year.

The partnership must withhold tax on the part of the REMIC amount that is an excess inclusion.

An excess inclusion allocated to the following foreign persons must be included in that person's income at the same time as other income from the entity is included in income.

- Shareholder of a real estate investment trust (REIT).
- Shareholder of a regulated investment company (RIC).
- Participant in a common trust fund.
- Patron of a subchapter T cooperative organization.
- **Students, teachers, and researchers.**  
Amounts paid to foreign students, trainees, teachers, or researchers as scholarship or fellowship income, and compensation for personal services (whether or not exempt from tax under an income tax treaty) must be reported. However, amounts that are exempt from tax under section 117 are not subject to reporting.



- **Amounts paid to foreign governments, foreign central banks of issue, and international organizations.** These amounts are subject to reporting even if they are exempt from chapter 3 withholding under section 892 or 895.
- **Foreign targeted registered obligations.** Interest paid on registered obligations targeted to foreign markets paid by a U.S. person to a foreign person other than a financial institution or a member of a clearing organization is an amount subject to reporting.
- **OID from the redemption of an OID obligation.** The amount subject to reporting is the amount of OID actually includible in the gross income of the foreign beneficial owner of the income, if known. Otherwise, the withholding agent should report the entire amount of OID as if the recipient held the instrument from

the date of original issuance. See [Pub. 1212](#), Guide to Original Issue Discount (OID) Instruments.

- **Certain distributions attributable to dispositions of U.S. real property interests.** See Distributions Attributable to Dispositions of U.S. Real Property Interests by Publicly Traded Trusts and Qualified Investment Entities, later.
- **Dividend equivalents.** Dividend equivalents have been divided into the following three income code reporting categories.
  1. Substitute dividends that are dividend equivalents (income code 34 or 53).
  2. Dividend equivalents with respect to transactions that are section 871(m) transactions as a result of combining transactions under Regulations section 1.871-15(n) (income code 56).

3. All other dividend equivalents (income code 40). **Note:** In the case of a dividend equivalent, because the dividend equivalent is determined on a gross basis, there may be a payment for reporting purposes even when there is no transfer of funds. See Regulations section 1.871-15(i).

- **Guarantee of indebtedness.** This includes amounts paid, directly or indirectly, for the provision of a guarantee of indebtedness issued after September 27, 2010. They must be paid by a noncorporate resident or U.S. corporation or by any foreign person if the amounts are effectively connected with the conduct of a U.S. trade or business. Report these amounts using income code 41.

- **Specified federal procurement payments.** Report specified federal procurement payments subject to withholding under section 5000C.

- **PTPs.** Certain payments of ECI attributable to PTP interests (described earlier) are subject to reporting on Form 1042-S. See Publicly Traded Partnerships (Sections 1446(a) and (f) Withholding Tax), later, for additional information.

## **Amounts That Are Not Subject to Reporting on Form 1042-S**

**Interest and OID from short-term obligations.** Interest and OID from any obligation payable 183 days or less from the date of original issue are generally not required to be reported on Form 1042-S. See, however, the reporting requirements for deposit interest described in *Interest on deposits paid to certain nonresident aliens* in the bullet list under Amounts Subject to Reporting on Form 1042-S, earlier.

**Registered obligations targeted to foreign markets.** Interest on a registered obligation that is targeted to foreign markets

and that qualifies as portfolio interest is not subject to reporting if it is paid to a registered owner that is a financial institution or member of a clearing organization and you have received the required certifications.

**Caution:** Reporting will be required on interest paid on any registered obligation (regardless of whether targeted to foreign markets) if the registered obligation is issued after December 31, 2015.

**Bearer obligations targeted to foreign markets.** Do not file Form 1042-S to report interest not subject to withholding on bearer obligations if a Form W-8 is not required.

**Caution:** Withholding is required on interest paid on any bearer obligations targeted to foreign markets if the obligation is issued after March 18, 2012. You must file Form 1042-S to report this interest paid on an obligation issued after that date.

**Notional principal contract payments that are not ECI or dividend equivalents.**

Do not report on Form 1042-S amounts paid on a notional principal contract, other than an SNPC, if the amounts are not effectively connected with the conduct of a trade or business in the United States. All amounts paid on an SNPC that are treated as dividend equivalents should be reported as such on Form 1042-S.

**Accrued interest and OID.** Interest paid on obligations sold between interest payment dates and the part of the purchase price of an OID obligation that is sold or exchanged in a transaction other than a redemption is not subject to reporting unless the sale or exchange is part of a plan, the principal purpose of which is to avoid tax, and the withholding agent has actual knowledge or reason to know of such plan.

### **Certain withholdable payments.**

Withholdable payments not subject to reporting for chapter 3 purposes (other than bank deposit interest paid to certain nonresident aliens) are not required to be reported if withholding is not applied (or required to be applied) under chapter 4.

**Certain amounts realized.** An amount realized that is excepted from withholding under Regulations section 1.1446(f)-4(b)(3) (less than 10% effectively connected gain by partnership).

### **Distributions Attributable to Dispositions of U.S. Real Property Interests by Publicly Traded Trusts and Qualified Investment Entities**

**Publicly traded trusts.** In general, when a publicly traded trust makes a distribution to a foreign person attributable to the disposition of a U.S. real property interest, it must withhold tax under section 1445.

However, this withholding liability is shifted to the person who pays the distribution to a foreign person (or to the account of

requirement of Regulations section 1.1445-8(f) and other requirements of Regulations section 1.1445-8(b)(1) are satisfied.

The amount subject to withholding for a distribution by a publicly traded trust is determined under the rules of Regulations section 1.1445-5(c)(3).

**QIEs.** Special rules apply to QIEs. A QIE is one of the following.

- A REIT.
- A RIC that is treated as a U.S. real property holding corporation (after applying certain rules in section 897(h)(4)(A)(ii)).

**Look-through rule for QIEs.** In most cases, any distribution from a QIE to a nonresident alien, foreign corporation,



or other QIE that is attributable to the QIE's gain from the sale or exchange of a U.S. real property interest is treated as gain recognized by the nonresident alien, foreign corporation, or other QIE from the sale or exchange of a U.S. real property interest.

A distribution by a QIE to a nonresident alien or foreign corporation that is treated as gain from the sale or exchange of a U.S. real property interest by the shareholder is subject to withholding at 21%.

Certain exceptions apply to the look-through rule for distributions by QIEs. Any distribution by a QIE with respect to stock regularly traded on an established securities market in the United States is not treated as gain from the sale or exchange of a U.S. real property interest if the shareholder did not own more than 5% of that stock (or 10% of that stock in the case of REITs) at any time during the 1-year period ending on the date of the distribution.

A distribution by a REIT is generally not treated as gain from the sale or exchange of a U.S. real property interest if the shareholder is a qualified shareholder (as described in section 897(k)(3)). These distributions may be included in the shareholder's gross income as a dividend (income code 06) from the QIE, not as long-term capital gain.

In addition, a qualified foreign pension fund or an entity all of the interests of which are held by a qualified foreign pension fund is generally not subject to the look-through rule for distributions by QIEs for purposes of section 897(h).

Use Forms 1042-S and 1042 to report and pay over the withheld amounts. All other withholding required under section 1445 is reported and paid over using Form 8288, U.S. Withholding Tax Return for Certain Dispositions by Foreign Persons, and Form 8288-A.

For more information on reporting income from real property interests, see *U.S. Real Property Interest* in [Pub. 515](#).

## **Publicly Traded Partnerships (Sections 1446(a) and (f) Withholding Tax)**

Although a PTP is a withholding agent for a distribution it makes to its partners, an entity receiving the distribution and acting as a nominee for the distribution is also treated as a withholding agent for the distribution and is required to withhold and report on Form 1042-S with respect to the amounts subject to withholding attributable to the distribution paid to foreign partners of the PTP. A nominee for this purpose is a person holding a PTP interest on behalf of a foreign person and that is a domestic person, a U.S. branch of a foreign corporation treated as a U.S. person for the distribution, or a QI assuming primary withholding responsibility for the distribution.

See Regulations section 1.1446-4(b)(3). If you are the nominee for a PTP distribution, enter the PTP's name and other required information in boxes 16a through 16e with respect to the PTP on a Form 1042-S to report the amount of a distribution subject to section 1446(a) (income code 27), to report an amount realized on the distribution under section 1446(f) (income code 57), or when income code 58 applies to the distribution (for income not determinable by the nominee on the distribution), including when the 30% withholding rate under chapter 3 applies under Regulations section 1.1446-4(d). For a payment reported with income code 27 or 57, or income code 58 when withholding is at the rate under section 1446(a), report chapter 4 exemption code 14 (effectively connected income). If withholding is instead applied at a 30% rate on a payment reported with income code 58, report chapter 4 exemption code 21 (other payment not subject to chapter 4 withholding).

See Regulations section 1.1446-4(d)(1). For income attributable to the distribution that is subject to withholding under chapter 3 or 4, report using the income code that would otherwise apply to report the payment to the recipient on a Form 1042-S for the year. Thus, unlike for other payments described in this paragraph, you need not associate the income subject to chapter 3 or 4 withholding with the PTP making the distribution for purposes of reporting on an additional Form 1042-S. These reporting requirements apply to a PTP distribution paid to a QI except that you need not associate any income attributable to a PTP distribution with the PTP making the distribution for reporting on Form 1042-S when you report to the QI as the recipient with respect to a withholding rate pool.

**Tip:** As a result of the above reporting for PTP distributions, in certain cases a nominee may need to issue several Forms 1042-S with

respect to a foreign partner based on the income codes associated with PTP distributions paid to the partner during the year and (in certain cases) the PTP making the distribution.

For purposes of section 1446(f), a broker is generally required to report on Form 1042-S an amount realized from the transfer of a PTP interest that is paid to a foreign partner that is the transferor of the interest or to an NQI (other than when the broker agrees to report the NQI's account holders on Form 1042-S), a QI (other than a disclosing QI), or a U.S. branch or territory FI that is treated as a U.S. person for the payment. A broker should report the aggregate of the amounts realized from sales of PTP interests paid to each of these recipients using income code 57 and chapter 4 exemption code 14 (effectively connected income). For the reporting of amounts attributable to PTP distributions (including distributions subject to section

1446(f) withholding), see boxes 16a through 16e, later. For further information on reporting of amounts realized and PTP distributions paid to QIs, see *Payment to QI of PTP distributions or amounts realized*, later. For further information on reporting of amounts realized and PTP distributions paid to nonqualified intermediaries, see *Amounts paid to an NQI or a flow-through entity of amounts realized and PTP distributions*, later. For when an amount realized is reportable on Form 1042-S for section 1446(f) purposes, see Regulations section 1.1461-1(c)(2)(i).

**Tip:** In a case in which a partner that is a U.S. person was treated as a foreign partner for purposes of withholding under section 1446(a) or (f) (including an allocation of a payment to the person made on a withholding statement), a Form 1042-S may be used to report the payment (and withholding) with respect to the U.S. person.

The applicable Form 1099 must also be furnished when otherwise required of the withholding agent with respect to the payment but should not report the withholding that was applied under section 1446(a) or (f). For reporting requirements for Form 1099, see the General Instructions for Certain Information Returns.

Partnerships (other than PTPs) that have effectively connected gross income allocable to foreign partners must file Form 8804, Annual Return for Partnership Withholding Tax (Section 1446). If these partnerships have effectively connected taxable income allocable to foreign partners, they must also pay a withholding tax under section 1446 and report these amounts on Form 8804 and the partners' allocable shares of these amounts on Form 8805.



# Requirement To Withhold

**Chapter 3 withholding.** For purposes of sections 1441 and 1442, a withholding agent must withhold 30% of any payment of an amount subject to withholding under chapter 3 (defined earlier) made to a payee that is a foreign person (or is presumed to be a foreign person) unless it can associate the payment with documentation to treat the payment as made to a foreign person entitled to a reduced rate of or exemption from withholding. For more information, see *Chapter 3 Responsibilities* under *Responsibilities of a Withholding Agent To Obtain Form W-8* in the [Instructions for the Requester of Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and W-8IMY](#). Also see [Pub. 515](#).

**Chapter 4 withholding.** For purposes of chapter 4, a withholding agent must withhold 30% of a withholdable payment (defined earlier) made to an FFI that is or is presumed

to be a nonparticipating FFI (defined earlier). It also applies to withholdable payments made to certain NFFEs that fail to identify their substantial U.S. owners (or to certify that they have none) under Regulations section 1.1472-1(b). For more information, see *Chapter 4*

*Responsibilities under Responsibilities of a Withholding Agent To Obtain Form W-8 in the [Instructions for the Requester of Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and W-8IMY](#). Also see [Pub. 515](#).*

A payment will be subject to withholding under either chapter 3 or chapter 4 but not both. If the payment is of an amount subject to both chapter 3 and chapter 4 withholding, chapter 4 withholding takes precedence.

## **Before Completing Form 1042-S**

You must complete the following steps before completing Form 1042-S.

**Step 1.** Determine if you have a Form 1042-S filing obligation. If you make a payment described under *Amounts Subject to Reporting on Form 1042-S*, earlier, you are required to file Form 1042-S for that payment. Note that you may have a Form 1042-S reporting obligation even if withholding is not required. **Step 2.** Determine whether the payment is:

- A “withholdable payment” under chapter 4,
- An “amount subject to withholding under chapter 3,”
- Both a withholdable payment and an amount subject to withholding under chapter 3, or
- Neither a withholdable payment nor an amount subject to withholding under chapter 3.

Be sure to carefully read through the exceptions to “withholdable payment” and the exemptions from withholding or taxation provided under chapter 3 that are included in Pub. 515. Note that reporting and withholding are done either under chapter 3 or chapter 4, not both. However, even if reporting is done under chapter 3, you may be required to provide certain chapter 4 information.

**Step 3.** Determine the chapter indicator to be entered in box 3. The chapter indicator is generally based on whether amounts were withheld (or paid by the withholding agent) under chapter 3 or chapter 4. For example, if the payment is a withholdable payment and it is subject to chapter 4 withholding (see *Requirement To Withhold*, earlier), enter “4” in box 3. If no withholding was required on the payment, enter “3” in box 3. For additional information, see the instructions for box 3, later.

**Note:** You must always complete boxes 4a (chapter 4 exemption code) and 4b (chapter 4 withholding tax rate) regardless of the chapter indicator entered in box 3.

**Note:** If a payment is a withholdable payment under chapter 4, you must complete boxes 4a (chapter 4 exemption code), 4b (chapter 4 withholding tax rate), and 13k (recipient chapter 4 status code), even if the payment is properly classified with a chapter 3 indicator in box 3. Be sure to complete a separate Form 1042-S for:

- Each recipient of income,
- Each income type paid to the same recipient, and
- Each amount to which a separate tax rate was applied (if you withheld at more than one tax rate for a specific type of income that you paid to the same recipient).

## **Payments by U.S. Withholding Agents**

**In general.** U.S. withholding agents making payments described under *Amounts Subject to Reporting on Form 1042-S*, earlier, must file a separate Form 1042-S for each recipient who receives the income. Furthermore, withholding agents are not permitted to report multiple types of income on a single Form 1042-S (or substitute Form 1042-S) furnished to a recipient or on Copy A filed with the IRS. These filers must use a separate Form 1042-S (or substitute form) for information reportable on a single type of income.

See *Payments Made to Persons Who Are Not Recipients*, later, if the payment is made to a foreign person that is not a recipient.

## **Payments to Recipients**

**Payments directly to beneficial owners or partners.** A U.S. withholding agent making a payment subject to withholding under chapter

3 or 4 directly to a beneficial owner must complete Form 1042-S and treat the beneficial owner as the recipient. Boxes 15a through 15m should be left blank. The Form 1042-S must also include the appropriate chapter 3 and chapter 4 exemption codes, if applicable, in boxes 3a and 4a, as well as the appropriate recipient codes for the chapter 3 and chapter 4 status codes for a payment that is a withholdable payment and an amount subject to chapter 3 withholding. A U.S. withholding agent should complete boxes 16a through 16e only if it is completing Form 1042-S as a paying agent acting pursuant to an agreement to act as an authorized agent for filing and reporting Forms 1042 and 1042-S.

In the case of foreign joint owners, you may provide a single Form 1042-S made out to the owner whose status you relied upon to determine the applicable rate of withholding (the owner subject to the highest rate of

withholding). If, however, any one of the owners requests its own Form 1042-S, you must furnish a Form 1042-S to the person who requests it. If the request is made after a Form 1042-S was filed reporting the payment and tax withheld to only one of the joint owners, you should amend the originally filed Form 1042-S to allocate the payment and tax withheld among the joint owners accordingly and provide copies of the amended forms to each recipient. If more than one Form 1042-S is issued for a single payment, the aggregate amount paid and tax withheld that is reported on all Forms 1042-S cannot exceed the total amounts paid to joint owners and the tax withheld on those payments. In any event, each Form 1042-S can only include the recipient information (boxes 13a through 13h) for one of the beneficial owners. Form 1042-S must not be completed with more than one of the joint owners as the recipient.



**Caution:** In the case of joint owners, Form 1042-S can only list one of the owners as the recipient in box 13a.

**Example 1.** WA, a U.S. withholding agent, makes a withholdable payment of U.S. source dividends to A, a foreign individual from whom it has received a Form W-8BEN and who is not eligible for a reduced rate of chapter 3 withholding under a treaty. WA must file a Form 1042-S for A, enter "3" in box 3, "06" in box 1 (income code), "00" in box 3a (chapter 3 exemption code), "30.00" in box 3b (chapter 3 tax rate), "15" in box 4a (payee not subject to chapter 4 withholding), "00.00" in box 4b (chapter 4 tax rate), "16" in box 13j (individual), and "23" in box 13k (individual).

**Tip:** See Appendix C for a comprehensive analysis of this Example 1 fact pattern, including a step-by-step guide on how to complete Form 1042-S in its entirety.

A U.S. withholding agent making a payment directly to a foreign partner in a PTP and that is either acting as a nominee for a PTP distribution subject to withholding under section 1446(a) or as a broker paying an amount realized subject to reporting on Form 1042-S for section 1446(f) purposes must complete a Form 1042-S and treat the partner as a recipient. Thus, the withholding agent must treat a foreign upper-tier partnership in the PTP or a foreign simple trust as a recipient for reporting of these payments on Form 1042-S. With respect to an upper-tier partnership, the reporting described in the preceding sentence applies regardless of whether the withholding agent determines its withholding on the payment based on the statuses of the partners in the upper-tier partnership (when permitted under applicable regulations to section 1446(a) or (f) for determining the rate of withholding).

**Payments to a QI (including a QDD), WP, or WT under chapter 3 or 4.** A U.S.

withholding agent that makes payments to a QI subject to withholding under chapter 3 or 4 (whether or not the QI assumes primary withholding responsibility), a QI acting as a QDD with respect to a payment, a WP, or a WT should complete Form 1042-S in most cases, treating the QI, QDD, WP, or WT as the recipient.

If a payment is being made to a QI that is acting as a QDD with respect to the payment, a U.S. withholding agent should report the QDD as the recipient showing the QDD as the recipient in box 13a (identifying the QDD by the name used for the QDD on the Form W-8IMY it provides, which should include a branch identifier, if applicable) and using recipient code 35 (qualified derivatives dealer) as the chapter 3 status code.

See Payments allocated, or presumed made, to U.S. nonexempt recipients, later, for exceptions.

A QI that does not assume primary withholding responsibility for chapters 3 and 4 purposes is required to provide information regarding the allocations of income subject to a particular withholding rate to the withholding agent on the withholding statement associated with its Form W-8IMY. In such a case, the U.S. withholding agent must complete a separate Form 1042-S for each withholding rate pool associated with the QI. For purposes of chapter 4, a QI may provide a single pool of recalcitrant account holders (rather than separate pools for each class). In such a case, the withholding agent may use chapter 4 pooled reporting code 49 (QI-recalcitrant pool—general). A QI that assumes primary withholding responsibility,

a WP, or a WT is not required to provide withholding rate pool information to a withholding agent but will report such information directly to the IRS.

A U.S. withholding agent making a withholdable payment to an FFI that is a QI (that assumes primary withholding responsibility and is not acting as a QDD with respect to the payment), a WP, or a WT must use recipient code 12 (qualified intermediary), 09 (withholding foreign partnership), or 11 (withholding foreign trust) as the chapter 3 status code and must use recipient code 05 (participating FFI—other), 06 (participating FFI—reporting Model 2 FFI), 07 (registered deemed-compliant FFI—reporting Model 1 FFI), 09 (registered deemed-compliant FFI—other) for an FFI treated as deemed-compliant under an IGA, 31 (nonreporting IGA FFI), or, for a payment to a QI, 27 (exempt beneficial owner) as the chapter 4 status code.

A U.S. withholding agent must use chapter 4 recipient code 48 (U.S. payees pool) when reporting a reportable amount allocated to a chapter 4 withholding rate pool of U.S. payees of a QI and report the chapter 3 recipient code 12 (qualified intermediary). A U.S. withholding agent must not use any chapter 3 pooled reporting code (codes 27 through 32), as such codes are only to be used by a withholding agent that is a QI, WP, or WT. See *Amounts Paid by QIs*, later, and the instructions for boxes 13j and 13k, later. Use of an inappropriate recipient code may cause a notice to be generated.