

Operational Tax News

U.S. Tax Reform: changes to federal withholding tax rules

5 February 2018

The Tax Reform Act

On 22 December 2017, the U.S. President Donald Trump has signed the public law no. 115-97, commonly referred to as the 2017 Tax Reform Act (hereafter called "the Act"). Portions of the new legislation that introduces changes to the withholding tax rates and to the withholding requirements are **effective as of 1 January 2018**.

The main changes concern the following points:

Backup withholding tax rate

A payor is required to deduct withholding tax from withholdable payments (e.g., interest, dividends, etc.) when a U.S. person or someone that is presumed to be a U.S. person fails to provide a U.S. Taxpayer Identification Number (TIN), usually provided on W-9 Forms.

Regarding the backup withholding, the rate has been reduced from **28% to 24%** for payments made on or after 1 of January 2018.

Nonresident Alien (NRA) withholding tax rate

The NRA withholding tax rate remains unchanged (30% or reduced rate under an applicable income tax treaty or under tax code exemptions if the valid documentation is received).

Effectively Connected Income (ECI) withholding

Foreign or domestic partnerships that have income effectively connected with the U.S. trade or business must pay a withholding tax on the effectively connected income that is allocable to its foreign partners. As a result of the act, the rates used for ECI changed as detailed in the [tax alert prepared by our U.S. colleagues](#).

If you have any questions regarding the above, please do not hesitate to contact us.

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