

Operational Tax News

Qualified Intermediary "QI" Update

12 July 2016

Notice 2016-42 issued by the IRS on the proposed Qualified Intermediary Agreement

On July 1, 2016, the IRS released [Notice 2016-42](#) ("Notice"), providing the proposed Qualified Intermediary ("QI") Agreement that certain foreign persons may enter into with the IRS to simplify their withholding agent and payor obligations under chapters 3, 4, 61, and section 3406.

The QI agreement currently in effect, as provided in Revenue Procedure 2014-39, expires on December 31, 2016. The proposed changes to the QI agreement described in this Notice, subject to any modifications included in a revenue procedure containing the final QI agreement (to be issued later in 2016), will apply to QI agreements that are in effect on or after January 1, 2017.

The Notice and proposed QI Agreement also provide substantive guidance and operational procedures for implementing the new Qualified Derivative Dealer ("QDD") regime applicable to dividend equivalent payments under section 871(m) as announced in Temporary Regulations §1.871-15T(q) and §1.1441-1T(e)(6) on September 17, 2015. The QDD regime will apply to all dividend equivalent payments received by an electing QI on its principal transactions only and will replace the Qualified Securities Lender regime provided in Notice 2010-46 that applies only to substitute dividend payments received on stock loans, stock repos and substantially similar transactions. The QDD regime will operate solely within the QI Agreement going forward. The Notice and Proposed QI Agreement also accommodate expansion of primary withholding responsibility for substitute interest payments received by QIs acting as principals to the transactions.

When to renew the QI Agreement?

According to the Proposed QI Agreement, a QI that seeks to renew its QI agreement must renew prior to March 31, 2017, and the renewed QI agreement shall have an effective date of January 1, 2017.

More details

Please find more details in the [alert](#) prepared by our US colleagues.

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