



# Instructions for Form 1042

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

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

### Future Developments

For the latest information about developments related to Form 1042 and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form1042](http://www.irs.gov/form1042).

### What's New

**Foreign Account Tax Compliance Act (FATCA or Chapter 4 of the Code).** The Form 1042 for 2014 has been modified from the Form 1042 used for prior years, primarily for withholding agents to report payments and amounts withheld under chapter 4 of the Code (chapter 4) in addition to those payments and amounts required to be reported under chapter 3 of the Code (chapter 3). Form 1042 adds lines for reporting of the tax liability under chapters 3 and 4, includes separate chapter 3 and 4 status codes for withholding agents, and provides for a reconciliation of U.S. source fixed or determinable annual or periodical (FDAP) income payments that are withholdable payments for chapter 4 purposes. Withholding agents that make nonfinancial payments generally will not be affected by the new requirements under chapter 4. See these instructions for a description of any further changes to Form 1042 for 2014. For the requirement of a withholding agent to file a Form 1042 for chapter 4 purposes and the requirements for the form, see Regulations section 1.1474-1(d).

Publication 515 (cited in these instructions) has not been updated as of the date of publication of these instructions to include the withholding and reporting provisions of chapter 4.

### General Instructions

#### Purpose of Form

Use Form 1042 to report the following.

- The tax withheld under chapter 3 (excluding withholding under section 1445 and under section 1446 only as indicated below) on certain income of foreign persons, including nonresident aliens, foreign partnerships, foreign corporations, foreign estates, and foreign trusts.
- The tax withheld under chapter 4 on withholdable payments. For the withholding requirements of chapter 4, see

Regulations sections 1.1471-2(a), 1.1471-4(b), and 1.1472-1(a).

- The tax withheld pursuant to section 5000C on specified federal procurement payments.
- Payments that are reported on Form 1042-S under chapters 3 or 4. See Regulations section 1.1474-1(d)(2)(i) for the definition of a chapter 4 reportable amount (which are amounts required to be reported on Form 1042-S for chapter 4 purposes) and Regulations section 1.1461-1(c)(2) for amounts subject to reporting for chapter 3 purposes.

**Publicly traded partnerships (section 1446 withholding tax).** For purposes of reporting on Form 1042, a publicly traded partnership (PTP) must withhold section 1446 tax on distributions of effectively connected income (ECI) to its foreign partners. A nominee that receives a distribution of ECI from a PTP and is treated as the withholding agent must use Form 1042 to report the tax withheld. For this purpose, a nominee is a domestic person holding an interest in the PTP on behalf of one or more foreign partners. For more information, see Regulations section 1.1446-4 and Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

#### Who Must File

Every withholding agent or intermediary who receives, controls, has custody of, disposes of, or pays a withholdable payment, including any fixed or determinable annual or periodical income, must file an annual return for the preceding calendar year on Form 1042 unless an exception to filing applies. Also, any PTP or nominee making a distribution of ECI under section 1446 must file Form 1042 for the preceding calendar year. See the Form 1042-S instructions for the definition of a withholdable payment.

You must file Form 1042 if any of the following applies.

- You are required to file or otherwise file Form(s) 1042-S for purposes of either chapter 3 or 4 (whether or not any tax was withheld or was required to be withheld to the extent reporting is required). File Form 1042 even if you file Form(s) 1042-S electronically.
- You file Form(s) 1042-S to report to a recipient tax withheld by your withholding agent.

- You pay gross investment income to foreign private foundations that are subject to tax under section 4948(a).
- You pay any foreign person specified federal procurement payments that are subject to withholding under section 5000C.
- You are a qualified intermediary (QI), withholding foreign partnership (WP), withholding foreign trust (WT), participating foreign financial institution (FFI), or reporting Model 1 FFI making a claim for a collective refund under your respective agreement with the IRS. See Regulations section 1.1471-1(b)(107) for the definition of a reporting Model 1 FFI.

### Withholding Agent

Any person required to withhold tax is a withholding agent. A withholding agent may be an individual, trust, estate, partnership, corporation, nominee, government agency, association, or tax-exempt foundation, whether domestic or foreign. For purposes of chapter 4, a withholding agent includes a participating FFI or registered deemed-compliant FFI to the extent such FFI is required to withhold tax. See Regulations section 1.1473-1(d) for the definition of a withholding agent for purposes of chapter 4.

**Liability for tax.** As a withholding agent, you are personally liable for any tax required to be withheld as well as interest and any applicable penalties. A withholding agent acting through an agent is liable for any failure of the agent to deposit any tax required to be withheld and deposited even if the agent is also a withholding agent and is itself separately liable for the failure to comply with the provisions of chapter 3 or 4.

For purposes of chapter 3, if you fail to withhold and the foreign payee fails to satisfy its U.S. tax liability, then both you and the foreign person are liable for tax, as well as interest and any applicable penalties. The applicable tax will be collected only once. If the foreign person satisfies its U.S. tax liability, you are not liable for the tax but remain liable for any interest and penalties for failure to withhold.

### Intermediary

An intermediary is a person who acts as a custodian, broker, 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.** A QI is an intermediary that is a party to a QI agreement with the IRS described in Regulations section 1.1441-1(e)(5)(iii). For information on the QI agreement, see <http://www.irs.gov/Businesses/Corporations/Qualified-Intermediaries-QI>.

**Withholding foreign partnership or withholding foreign trust.** A WP or WT is a foreign partnership or trust that has entered into a withholding agreement with the IRS described in Regulations section 1.1441-5(c)(2) and (e)(5) in which it agrees to assume primary withholding responsibility under chapters 3 and 4 for all payments that are made to it for its partners, beneficiaries, or owners.

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

**Nonwithholding foreign partnership.** A nonwithholding foreign partnership (NWP) is a foreign partnership that is not a withholding foreign partnership.

**Nonwithholding foreign trust.** A nonwithholding foreign trust (NWT) is a foreign trust that is not a withholding foreign trust.

**Qualified securities lender.** A qualified securities lender (QSL) is a foreign financial institution that is a bank, custodian, broker-dealer, or clearing organization subject to regulatory supervision in its home jurisdiction and that is:

1. Regularly engaged in the business of borrowing securities of U.S. corporations and lending such securities to unrelated customers; and
2. Subject to audit by the IRS under section 7602 or, in the case of a QI, an external auditor.

For further information about requirements for QSL status and the withholding requirements for substitute dividend payments, see Notice 2010-46, 2010-24 I.R.B. 757, available at [www.irs.gov/irb/2010-24\\_IRB/ar09.html](http://www.irs.gov/irb/2010-24_IRB/ar09.html).

**Foreign Financial Institution.** A foreign financial institution (FFI) is a foreign entity that is a financial institution, see Regulations section 1.1471-5(e)(1) for the definition of financial institution.

**Registered Deemed-Compliant FFI.** A registered deemed-compliant FFI is a foreign financial institution (as defined in Regulations section 1.1471-5(f)) that is deemed to satisfy the requirements of section 1471(b) of the Code. This includes a reporting Model 1 FFI (see Regulations

section 1.1471-1(b)(107) for the definition of reporting Model 1 FFI).

**Participating FFI.** A participating FFI is a foreign financial institution that has agreed to satisfy the obligations of an FFI agreement under chapter 4. This includes an FFI described in a Model 2 inter-governmental agreement (IGA) that has agreed to comply with the requirements of an FFI agreement (i.e., reporting Model 2 FFI).

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

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

**Passive non-financial foreign entity (NFFE).** A passive NFFE is a nonfinancial foreign entity other than an excepted NFFE, including a WP, WT, QI, or direct reporting NFFE. See Regulations sections 1.1471-1(b)(74) and 1.1472-1(b).



*For chapter 4 purposes an intermediary must provide its chapter 4 status to a withholding agent to determine whether withholding applies to the payment. Thus, a chapter 4 status must be provided for a withholdable payment made to a foreign entity.*

## Where and When To File

Mail Form 1042 by March 16, 2015, to:

Ogden Service Center  
P.O. Box 409101  
Ogden, UT 84409

Use Form 1042-T to transmit paper Forms 1042-S.

**Extension of time to file.** If you need more time to file Form 1042, you may submit Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns.

Form 7004 does not extend the time for payment of tax.

## Additional Information

For details on the withholding of tax, see Pub. 515. You can get Pub. 515 by calling 1-800-TAX-FORM (1-800-829-3676) or by downloading it from IRS.gov. Click on "Forms and Pubs" and then on "Publication Number."

## Need Assistance?

If you need help completing Form 1042, call 267-941-1000 (not a toll-free number) from 6:00 a.m. to 11:00 p.m. Eastern time or write to:

Internal Revenue Service  
International Section  
Philadelphia, PA 19255-0725

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

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

## Election To Withhold Under Section 3406

Use Form 945 to report tax withheld on a withholdable payment that is a reportable payment on recalcitrant account holders of a participating or registered deemed-compliant FFI that has elected on its withholding statement for withholding under section 3406 to apply instead of withholding under chapter 4 with respect to one or more recalcitrant account holders. See Regulations section 1.1471-4(b). A withholding QI, WP, or WT that is an FFI should also use Form 945 if it elects to withhold under section 3406 on certain recalcitrant account holders.

## Deposit Requirements

You are required to use the Electronic Federal Tax Payment System (EFTPS), discussed later, to deposit the tax withheld and required to be shown on Form 1042 (regardless of whether withholding was applied under chapter 3 or 4 or with respect to a specified federal procurement payment).



To avoid a penalty, do not mail your deposits directly to the IRS.

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

**Note.** If you are requesting an extension of time to file using Form 7004, follow these rules to see if you must make a deposit of any balance due or if you can pay it with Form 7004. See Form 7004 and its instructions for more information.

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 business 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.) A business day is any day other than a Saturday, Sunday, or legal holiday in the District of Columbia.

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, earlier, 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 remitted with your Form 1042 by March 16, 2015.

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, 2015.

**Electronic deposit requirement.** You must make electronic deposits of all depository tax liabilities using EFTPS. If you fail to use EFTPS, you may be subject to a 10% penalty. To enroll in or get more information about EFTPS, call 1-800-555-4477 or visit [www.eftps.gov/eftps](http://www.eftps.gov/eftps). Information is also available at [www.irs.gov/e-pay](http://www.irs.gov/e-pay).

**Depositing on time.** For deposits made by EFTPS to be on time, you must initiate the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If you use a third party to make deposits on your behalf, they may have different cut-off times.

**Same-day wire payment option.** If you fail to initiate a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, you still can make your deposit on time by using the Federal Tax Application. If you ever need the same-day wire payment method, you will need to make arrangements with your financial institution ahead of time.

Check with your financial institution regarding availability, deadlines, and costs. Your financial institution may charge you a fee for payments made this way. To learn more about the information you will need to provide to your financial institution to make a same-day wire payment, visit [www.eftps.gov](http://www.eftps.gov) to download the *Same-Day Payment Worksheet*.

**Note.** All payments should be made in U.S. dollars.

## 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.



*You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts can be complicated, the IRS will do it for you and send you a bill for any amount due.*

If you include interest or penalties with your payment, identify and enter the amount in the bottom margin of Form 1042. Do not include interest or penalties in the balance due on line 68.

**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.

**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.

**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.

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

## Specific Instructions



*File only one Form 1042 consolidating all Form 1042-S recipient information for both chapter 3 and 4 purposes regardless of the number of different clients, branches, divisions, or types of income for which you are the withholding agent. However, if you are acting in more than one capacity (for*

*example, you are acting as a QI for certain designated accounts and as an NQI for other accounts), file a separate Form 1042 for each capacity in which you are acting.*

*A U.S. branch of a participating FFI that is required to report amounts under chapter 4 must file a separate Form 1042.*

**Rounding off to whole dollars.** You can round off cents to whole dollars. If you do round to whole dollars, you must round all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3. If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

**Employer identification number (EIN).** You are generally required to enter your EIN. However, if you are filing Form 1042 as a QI, WP, or WT, enter your QI-EIN, WP-EIN, or WT-EIN.

If you are a QSL that is also a QI, enter your QI-EIN. Otherwise enter the EIN you have been assigned.

If you are for chapter 4 purposes a participating FFI or other financial institution that has been issued a global intermediary identification number (GIIN) for chapter 4 reporting purposes, you must nevertheless obtain an EIN to file Form 1042 (or use your existing EIN such as a QI-EIN in the case of a QI).

If you are a participating FFI or other financial institution filing this form on behalf of a branch other than your U.S. branch, you cannot use the EIN of the U.S. branch to file this form and you must obtain a separate EIN to file this form on behalf of all your branches other than your U.S. branch.

If you do not have an EIN, you can apply for one online at [www.irs.gov](http://www.irs.gov). Click on "Apply for an EIN Online." You can apply for an EIN by telephone at 1-800-829-4933. You also can file Form SS-4, Application for Employer Identification Number, by fax or mail. File amended Forms 1042-S when you receive your EIN.

To get a QI-EIN, WP-EIN, or WT-EIN, submit Form SS-4 with your application for that status. Do not send an application for a QI-EIN, WP-EIN, or WT-EIN to the addresses listed in the Instructions for Form SS-4. Send the application along with Form SS-4 to:

Internal Revenue Service  
LB & I: International: QI Group 1031  
290 Broadway, 12th floor  
New York, NY 10007-1867 USA

**Address.** Include the suite, room, or other unit number after the street address. If your 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.

**Chapter 3 and 4 status codes of withholding agent.** See “Form 1042-S, Explanation of Codes,” for the withholding agent status codes applicable to these boxes. See pages 1 and 2 of these instructions for definitions of codes for intermediary, qualified intermediary (QI), withholding foreign partnership (WP), withholding foreign trust (WT), and nonqualified intermediary (NQI), qualified securities lender (QSL), participating FFI, and registered deemed-compliant FFI. See the Form 1042-S instructions for definitions of U.S. branch of a participating FFI or registered deemed-compliant FFI treated as a U.S. person, territory financial institution (FI) treated as a U.S. person, and flow-through entity.

## Section 1

**Lines 1 through 60.** Except as otherwise provided in these instructions, include the tax liability for the period in which the income was paid or distributed regardless of whether the liability is under chapter 3 or chapter 4 and regardless of whether the liability was satisfied through withholding or was assumed by the withholding agent (see instructions for box 9 of Form 1042-S). Do not enter any negative amounts on these lines.

The liabilities reported should also take into account reductions resulting from application of the reimbursement and set-off procedures. See instructions for line 71.



*Withholding and depositing of tax is not required under both chapters 3 and 4 for the same payment. In the case of a payment for which withholding is required under chapters 3 and 4, a withholding agent may credit the withholding applied under chapter 4 against its liability for any tax due under sections 1441, 1442, or 1443. For a payment subject to withholding under section 1445 or 1446, withholding under chapter 4 does not apply.*

### Foreign partners of U.S. partnerships.

To the extent that a domestic partnership has not distributed a foreign partner's distributive share of income subject to withholding under section 1441, 1442, 1443, or under chapter 4, it should not include any tax liability on lines 1 through 60 for tax relating to the partner's distributive share in the year the partnership earns the income. For distributive shares not actually distributed, the partnership must include any tax liability on lines 1 through 60 of the Form 1042 for the following year. Include the tax liability on the line that represents the earlier of the following dates.

- The date on which the Schedule K-1 (Form 1065) is sent or otherwise furnished to the foreign partner.
- The due date for furnishing Schedule K-1 (Form 1065) to the partner.

Include such tax liability for the period that includes the date the tax was required to be withheld.

**Example.** In 2014, USP, a U.S. partnership, has foreign partners that are individuals and for which it has obtained valid documentation to establish their foreign status. The withholding tax under section 1441 relating to the distributive shares of the foreign partners was \$120. USP made no distributions in 2014. On the 2014 Form 1042, USP did not enter any amount as tax liability on lines 1 through 60 because it did not distribute any amounts.

USP made a distribution on February 10, 2015, that related to the 2014 distributive shares of the foreign partners. USP withheld \$100 at the time of the distribution. USP sent the 2014 Schedules K-1 (Form 1065) to its partners on April 2, 2015.

On the 2015 Form 1042, USP entered \$100 on line 7. This is the tax liability for the period (February 8 through 15) during which it made a distribution. USP entered \$20 on line 16. This is the tax liability for the period (April 1 through 7) during which it furnished the Schedules K-1 (Form 1065) to the partners.



*Use Form 8804 to report withholding tax liability on the partnership's income effectively connected with a U.S. trade or business.*

**Corporate distributions.** Do not include on lines 1 through 60 any tax liability caused by adjustments of underwithheld tax on corporate distributions made in calendar year 2014 if the following apply.

- The distributing corporation made a reasonable estimate of accumulated and current earnings and profits under Regulations section 1.1441-3(c)(2)(ii)(A) or 1.1474-6(c)(2)(ii); and
- The distributing corporation or intermediary immediately paid over the underwithheld tax by March 16, 2015.

Instead, include these payments of underwithheld tax on line 64a.

**Excise tax on specified federal procurement payments.** Include on lines 1 through 60 any withholding obligation under section 5000C with respect to specified federal procurement payments. Report the amount on the line that corresponds with the date the deposit was due.

**Specified federal procurement payment.** A specified federal procurement payment means any payment made pursuant to a contract with

the United States Government entered into after January 1, 2011, for the provision of goods, if such goods are manufactured or produced in any country which is not a party to an international procurement agreement with the United States, or the provision of services, if such services are provided in any country which is not a party to an international procurement agreement with the United States.

**Qualified intermediaries with no primary chapter 3 and 4 withholding responsibility.** If you are a QI that did not assume primary withholding responsibility, under both chapters 3 and 4, enter the total amount of the tax liability of U.S. withholding agent(s) under both chapters 3 and 4 on line 59. Report all other amounts on the line that corresponds with the date the liability was incurred.

**Note.** Reporting on line 59 as described above also applies to any other entity that reports on Form 1042 to the extent such entity claims a credit on line 67 for amounts withheld by another withholding agent (whether under chapter 3 or 4).

**Overwithholding.** If you repaid the recipient for an amount overwithheld by reducing the amount withheld on a later payment, report the reduced amount on these lines. If you used the reimbursement procedure for overwithheld amounts for either chapter 3 or 4 purposes, see *Adjustment for Overwithholding*, later.

**Line 61.** Enter the number of Forms 1042-S filed on paper and electronically.



*If you are a financial institution or you file 250 or more Forms 1042-S, you must submit them electronically.*

## Total Gross Amounts Reported

**Lines 62a through 62c.** Enter the amounts reported on all Forms 1042-S for the calendar year (regardless of whether the form was filed electronically or on paper) and for all Forms 1000, Ownership Certificate.



*Be sure to reconcile amounts on Form 1042 with amounts on Forms 1042-S (including Forms 1042-S filed electronically), to avoid unnecessary correspondence with the IRS.*

**Line 62a.** The amount on line 62a should equal: The sum of all amounts shown on Form 1042-S, box 2 that are payments of U.S. source FDAP income, less the sum of all amounts that are U.S. source substitute payments reported on line 62b.

**Line 62b.** The amount on:

- Line 62b(1) should equal the sum of all amounts shown on Form 1042-S, box 2

that are U.S. source substitute dividend payments, and

- The amount shown on line 62b(2) should equal all amounts shown on Form 1042-S, box 2 that are U.S. source substitute payments other than substitute dividend payments.

See Regulations section 1.1441-2(b)(4) regarding substitute payments.

**Line 62c.** The amount on line 62c should equal the sum of all amounts shown on Forms 1042-S, box 2, and all amounts shown as gross interest paid on Forms 1000.

**Line 62d.** Enter gross amounts reportable on Forms 1000 and Forms 1042-S if different from the total gross amounts actually reported on Forms 1000 and Forms 1042-S (as shown on line 62c).

### Total Tax Reported as Withheld or Assumed

**Lines 63a through 63d.** Except as noted directly below, enter for each line the amounts reported for all Forms 1042-S (regardless of whether the form was filed electronically or on paper) and for all Forms 1000. The amounts reported on line 63c should be the amounts repaid to account holders under the reimbursement procedures described below for line 71. See Form 1042-S, box 11 for reporting these corresponding amounts. The amounts reported on line 63d should be the amounts assumed by the withholding agent (paid by the withholding agent rather than through withholding). See Form 1042-S, box 9 for the corresponding amounts.

**Line 63e.** The amount on line 63e should equal the sum of lines 63a through 63d. The amount on line 63e should also equal:

- The sum of all amounts shown on Forms 1042-S, box 10, less
- The sum of all amounts shown on Forms 1042-S, box 11, plus
- The tax assumed on Forms 1000.

If it does not, attach a statement to Form 1042 explaining the difference.

### Total Net Tax Liability

**Line 64a.** Include on line 64a any tax liability resulting from adjustments of underwithheld tax on corporate distributions made in calendar year 2014 if:

- The distributing corporation made a reasonable estimate of accumulated and current earnings and profits under Regulations sections 1.1441-3(c)(2)(ii)(A) or 1.1474-6(c)(2)(ii), and
- The distributing corporation or intermediary paid over the underwithheld tax by March 16, 2015.

If you are a regulated investment company (RIC), real estate investment trust (REIT), or personal holding company (PHC) that paid a dividend subject to section 852(b)(7), section 857(b)(9), or section 563(b) (relating to certain dividends declared in the preceding October, November, or December), enter your additional tax liability on those dividends declared in 2014 but paid no later than March 16, 2015, less any additional tax liability on those dividends declared in 2013 but paid no later than March 17, 2014. Show any negative amount in brackets. Attach a statement showing your calculation.

**Lines 64b and 64c.** The amount on lines 64b and 64c must equal the sum of the monthly totals as listed on the Record of Federal Tax Liability (lines 1-60). You must designate the amounts as withheld either under chapter 3 on line 64b or under chapter 4 on line 64c. The amounts shown on lines 64b and 64c should not include any amounts shown on lines 64a and 64d. Do not make any other adjustments to this line.

**Line 64d.** Enter on line 64d the total amount of specified federal procurement payments multiplied by 2% (.02).

**Line 64e.** The amount on line 64e should equal the sum of lines 64a through 64d.

**Note.** The amount of line 64e should equal the amount reported on line 63e plus any amounts reported on line 64a.

### Reporting of Taxes Paid and Overpayment or Balance Due

**Line 65.** Enter the total tax deposits you made for the year (including amounts paid with an extension of time to file).

**Line 66.** Enter any overpayment reported on the 2013 Form 1042 that you are applying as a credit on the 2014 Form 1042. See line 71.

**Line 67.** You are permitted to take a credit for amounts withheld by other withholding agents that relate to the total net tax liability reported on lines 64b and 64c. For example, you are a QI and the amount you entered on line 64b includes amounts withheld by a U.S. withholding agent under chapter 3 with respect to payments made to you as an intermediary on behalf of your account holders. You may take a credit on line 67 for the amounts that were withheld by the U.S. withholding agent. The amount on line 67 should equal the sum of all Forms 1042-S, box 8, that you file for the year.

**Note.** All withholding agents (including QIs, WPs, WTs, NQIs, NWPs, and NWTs) must verify entries on lines 67a and 67b by attaching supporting Form(s) 1042-S, issued to you, to verify the credit amounts

claimed for withholding by other withholding agents. Failure to do so will result in the denial of the refund or credit being claimed. If you are a PTP or a nominee withholding under section 1446, the tax paid for a payee may only be claimed as a credit by the payee.

**QSL claiming a credit forward.** If you are a QSL or other withholding agent claiming a credit forward of prior withholding on substitute dividends on line 67b as determined under Notice 2010-46, you should attach Form(s) 1042-S issued to you to support such credits. If a credit is claimed with respect to any U.S. source substitute dividends paid to you from a withholding agent that has not issued a Form 1042-S to you for such payments, attach a supporting statement to Form 1042 indicating the following to support your credit.

- The withholding agent's name, address, and EIN (if known).
- The amount of U.S. source substitute dividends received from the withholding agent.
- The amount of credit forward you included on line 66 in connection with these substitute dividends.

**Lines 70a and 70b.** Enter on line 70a any overpayment attributable to overwithholding under chapters 3 and 4. Enter on line 70b any overpayment attributable to excise tax on specified federal procurement payments.

**Line 71.** You may claim an overpayment (the sum of lines 70a and 70b) as a refund or a credit. Check the applicable box on line 71 to show which one you are claiming. If you claim a credit, it can reduce your required deposits of withheld tax for 2015.

### Adjustment For Overwithholding

What to do if you overwithheld tax depends on when you discover the overwithholding.

**Overwithholding discovered by March 15 of the following calendar year.** If you discover that you overwithheld tax by March 15 of the following calendar year, you may use any undeposited amount of tax to make any necessary adjustments between you and the recipient of the income. Repay the recipient and reduce the amount of your total deposit. Report the reduced tax liability on lines 1 through 60 for the period(s) for which you repaid the overwithheld tax.

If the undeposited amount is not enough to make any adjustments, or if you discover the overwithholding after the entire amount of tax has been deposited, you can use either the reimbursement or the set-off procedure to adjust the overwithholding.



If March 15 is a Saturday, Sunday, or legal holiday, the next business day is the final date for these actions.

**Reimbursement procedure.** Under the reimbursement procedure, you repay the beneficial owner or payee the amount overwithheld. You use your own funds for this repayment. You must make the repayment by the earlier of:

- The date you actually file Form 1042-S for the calendar year in which the amount was overwithheld, or
- The due date for filing Form 1042-S for the calendar year (generally March 15 of the year after the calendar year in which the amount is overwithheld). For example, if you overwithhold tax in 2014, you must repay the beneficial owner by March 16, 2015.

You must keep a receipt showing the date and amount of the repayment and provide a copy of the receipt to the beneficial owner.

You may reimburse yourself by reducing any subsequent deposits you make before the end of the year after the calendar year in which the amount was overwithheld. The reduction cannot be more than the amount you actually repaid.

Report the reduced tax liability on lines 1 through 60 for the period for which you reimbursed the overwithheld tax. Report the total tax withheld as your total deposits. Indicate on line 71 whether you want a refund or a credit.

**Set-off procedure.** Under the set-off procedure, you repay the beneficial owner or payee the amount overwithheld by reducing the amount you would have been required to withhold on later payments you make to that person but only if made before the earlier of:

- The date you actually file Form 1042-S for the calendar year in which the amount was overwithheld, or
- The due date for filing Form 1042-S for the calendar year (generally March 15 of the year after the calendar year in which the amount is overwithheld).

Report the reduced tax liability on lines 1 through 60 for the period you reduced your required withholding.

**Overwithholding discovered at a later date.** If you discover after March 15 of the following calendar year that you overwithheld tax for the prior year, do not adjust the amount of tax liability reported on Form 1042 or on any deposit or payment for that prior year. Do not repay the beneficial owner or payee the amount overwithheld unless you are a QI, WP, WT, participating FFI, or reporting Model 1 FFI making a claim for a collective refund under your respective agreement with the IRS. See Regulations section 1.1471-1(b)

(107) for the definition of a reporting Model 1 FFI.

In this situation, the recipient will have to file a U.S. income tax return (Form 1040NR, Form 1040NR-EZ, or Form 1120-F) or, if a tax return has already been filed, a claim for refund (Form 1040X or amended Form 1120-F) to recover the amount overwithheld.

## Section 2. Reconciliation of U.S. Source FDAP Income



For 2014, this section is optional. In future years, a withholding agent will be required to complete this section.

This section is used by the withholding agent to reconcile the amount of U.S. source FDAP income reportable under chapter 4 and paid by the withholding agent during the calendar year with the total amount of U.S. source FDAP income reported on all Forms 1042-S filed by the withholding agent for the calendar year. This section also allows reporting of the amounts of U.S. source FDAP income for which chapter 4 withholding is required and reporting of the amounts for which withholding is not required according to the exemption from chapter 4 withholding applicable to each such amount.

**Note.** The amounts of U.S. source FDAP income reportable for chapter 4 are:

- Payments of U.S. source FDAP income for which withholding under chapter 4 was applied to the payment, plus
- Payments of U.S. source FDAP income for which withholding under chapter 4 was not required but that are subject to reporting for chapter 3 purposes on Forms 1042-S.

**Line 1.** Enter the amounts of U.S. source FDAP income required to be withheld under chapter 4 including amounts withheld but not deposited under an escrow procedure.

**Line 2.** Enter amounts of U.S. source FDAP income not required to be withheld under chapter 4 on lines 2a through 2e according to the exception to withholding that applied to each payment reportable on Form 1042-S. The amount on line 2f should equal the sum of lines 2a through 2e.

**Line 3.** The amount on line 3 should equal:

- The sum of line 1, plus
- The sum of line 2.

**Line 4.** Enter the sum of all amounts shown on Form 1042-S, box 2 that are payments of U.S. source FDAP income. The amount on line 4 should equal the sum of line 62a through 62b(2).

**Line 5.** The amount on line 5 should equal:

- The sum of line 3, less
- The sum of line 4.

If the amount on line 5 is other than 0, provide an explanation for the variance on line 6.

**Line 6.** If applicable, provide an explanation for the variance reported on line 5. If additional space is needed, attach a sheet to Form 1042 explaining the difference.

## Section 3

Check the box if you are a dealer or trader in notional principal contracts or other derivative contracts that reference in whole or in part one or more U.S. securities and that made payments on such contracts during the calendar year.

## Third Party Designee

If you want to allow any individual, corporation, firm, organization, or partnership to discuss your 2014 Form 1042 with the IRS, check the “Yes” box in the Third Party Designee section of the return. Also, enter the designee’s name, phone number, and any five digits the designee chooses as his or her personal identification number (PIN). The authorization applies only to the tax form upon which it appears.

If you check the “Yes” box, you are authorizing the IRS to call the designee to answer any questions relating to the information reported on your tax return. You also are authorizing the designee to:

- Exchange information concerning your tax return with the IRS, and
- Request and receive written tax return information relating to your tax return, including copies of specific notices, correspondence, and account transcripts.

You are not authorizing the designee to receive any refund check, bind you to anything (including additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee’s authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization automatically expires one year from the due date (without any extensions) for filing your 2014 Form 1042. If you or your designee desires to terminate the authorization, a written statement conveying your wish to revoke the authorization should be submitted to the IRS service center where the return was processed.

## Amended Return

If you have to 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. Check the “Amended Return” box at the top of the form. You must complete the entire form, 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 also are amending Form(s) 1042-S, see *Amended Return* 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*, earlier.

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**Privacy Act and Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. Sections 1441, 1442, and 1446 (for PTPs) require withholding agents to report and pay over to the IRS taxes withheld from certain U.S. source income of foreign persons. Form 1042 is used to report the amount of withholding that must be paid over. Form 1042-S is used to report the amount of income and withholding to the payee. Section 6109 requires you to provide your

identifying number on the return. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. If you fail to provide this information in a timely manner, you may be liable for penalties.

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**, 10 hr., 31 min.; **Learning about the law or the form**, 2 hr., 25 min.; **Preparing the form**, 4 hr., 34 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 send us comments from [www.irs.gov/formspubs/](http://www.irs.gov/formspubs/). Click on "More Information" and then on "Give us feedback." You can write to the Internal Revenue Service, Tax Forms and Publications, SE:W:CAR:MP:TFP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address. Instead, see [Where and When To File](#), earlier.

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