



Interactive Brokers

presents

U.S. Taxes and Reporting for Non-U.S. Customers

Nancy A. Nelson CPA, Interactive Brokers

nnelson@interactivebrokers.com

Webinar begins @ 10:00 am EDT



webinars@interactivebrokers.com



www.ibkr.com/webinars



Member SIPC www.sipc.org





US Tax reporting for non – US investors

Section 1441 of the Internal Revenue Code

Focus on Chapter 3 not on Chapter 4 (FATCA)

What's covered

What's reportable

What is subject to withholding tax

When do treaties apply

Forms we issue



IRS Circular 230 Notice

The information in this presentation is provided for informational purposes only, and does not constitute tax advice and cannot be used by the recipient or any other taxpayer to avoid penalties under any federal, state, local or other tax statutes or regulations, or to resolve any tax issue.



Why U.S. Tax reporting

U.S. source income subject to withholding tax
When paid to a non-U.S. person



Who is a Non-U.S. Person

A Non-U.S. Person is:

Not a U.S. Citizen

Not a U.S. Green Card holder

Not a legal resident of the U.S.



Who is a U.S. Person

All U. S. Citizens regardless of residence

Dual Citizens – U.S. Citizenship trumps other
country's

All U.S. Green Card holders regardless of residence

Green card trumps any other citizenship



Who is a U.S. Person

U.S. legal residents

A few exceptions

Employees of other Governments

Employees of the U.N. and World Bank

Students, teachers and researchers with
an F-1 Visa (5 years max)



What is U.S. Source Income

Any payment received from revenue generated
In the U.S.

Interest

Dividends

Payments in lieu (PIL)

Rents

Stock loan fees

Business operating income – including distributions from
MLPS and PTPS distributions



Why is there U.S. Withholding Tax?

Important distinction between withholding tax and income tax.

Basic premise is that people earning U.S. income should pay tax on this income.



Why is there U.S. Withholding Tax?

The U.S. is not the only country with withholding tax:

Canada

Netherlands



Do I need to file a tax return in the U.S.

If you just have investment income, generally you do not have to file taxes in the U.S.

If you have rental income or business operating income you may have a filing obligation

If you own a MLP or PTP you may wish to file for a partial refund of tax withheld



What happens to the tax withheld?

IB remits any amounts withheld to the U.S. Government (IRS) weekly.

Once reporting forms are issued (March 15) IB cannot obtain refunds of any tax for the prior year that has been remitted.



What types of income are subject to withholding tax?

Business operating income

Rental income

Partnership income generated in the U.S.

Any other type of “flow through” income

For example trust income



What types of income are subject to withholding tax?

From Investments:

Dividends

PIL

Royalties

Stock loan payments

Distributions from MLPs and PTPs



What types of income are NOT subject to withholding tax?

Investment interest is reportable but not subject to withholding

Long – term and short term capital gain distributions from mutual funds – also reportable but not subject to withholding

Gains (losses) on securities trading – not reportable



Withholding Rates

Investment income:

Statutory rate: 30%

Treaty rates: generally 15%,
however this can vary

Rents and operating income: 39.6%

MLP and PTP distributions: 39.6%



How do I Qualify for a Treaty Rate

Primary residence in a country that has a tax treaty with the U.S.

Complete Form W-8BEN when account is opened and replace expired W-8Ben to remain eligible.

**Form 1042-S**Department of the Treasury
Internal Revenue Service**Foreign Person's U.S. Source Income Subject to Withholding**Information about Form 1042-S and its separate instructions is at www.irs.gov/form1042 **AMENDED** **PRO-RATA BASIS REPORTING****2015**

OMB No. 1545-0096

**Copy B
for Recipient**

1 Income code 29	2 Gross income 4.00	3 Chap. 3: 3a Exemption code 05 3b Tax rate 0.0	4 Chap. 4: 4a Exemption code 15 4b Tax rate 0.0	5 Withholding allowance 6 Net income	7 Federal tax withheld	<input type="checkbox"/>
8 Tax withheld by other agents				9 Tax paid by withholding agent		
10 Total withholding credit				11 Amount repaid to recipient		
12a Withholding agent's EIN 13-3863700		12b Ch. 3 status code 01	12c Ch. 4 status code 01	14a Primary Withholding Agent's Name (if applicable)		
12d Withholding agent's name Interactive Brokers LLC				14b Primary Withholding Agent's EIN		
12e Withholding agent's Global Intermediary Identification Number (GIIN)				15a Intermediary or flow-through entity's EIN, if any	15b Ch. 3 status code	15c Ch. 4 status code
12f Country code US				15d Intermediary or flow-through entity's name		
12g Foreign taxpayer identification number, if any				15e Intermediary or flow-through entity's GIIN		
12h Address 8 Greenwich Office Park				15f Country code	15g Foreign taxpayer identification number, if any	
12i City or town, state or province, country, ZIP or foreign postal code Greenwich, CT USA 06831				15h Address		
13a Recipient's U.S. TIN, if any				15i City or town, state or province, country, ZIP or foreign postal code		
13b Ch. 3 status code 16		13c Ch. 4 status code 32		13h Recipient's GIIN		
13d Recipient's name John Doe			13e Country code AS	13i Recipient's foreign tax identification number, if any		
13f Address 100 Main St.				16 Recipient's account number UXXXXX		17 Recipient's date of birth
13g City or town, state or province, country, ZIP or foreign postal code Sassafras, Vic, Australia, 3787				18 Payer's name		19 Payer's TIN
				20 Payer's GIIN		
				21 State income tax withheld		22 Payer's state tax no.
				23 Name of state		

Form 1042-S (2015)

IMPORTANT TAX INFORMATION: This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanctions may be imposed on you if this income is taxable and the IRS determines that it has not been reported.



Reporting

Income codes – Box 1

- 01 Interest paid by U.S. obligors – General
- 29 Deposit Interest (credit balance)
- 30 Original issue discount
- 33 Substitute payment – Interest (PIL interest)
- 06 Dividends paid by U.S. Corporations – General
- 34 Substitute payments – dividends (PIL dividends)
- 40 Other U.S. Source dividend equivalents
- 24 Real estate investment trust (REIT) distribution of capital gain
- 35 Substitute payment – other
- 36 Capital Gain distributions
- 50 Other Income



Reporting

New codes:

If an account does not have either a home country identification number or US Taxpayer ID (ITIN) there are now different codes for reporting the same items if you reside in a treaty country:

Dividends with tax ID	code 06
Dividends without Tax ID	code 52
Dividend PIL with tax ID	code 34
Dividend PIL without tax ID	code 53



Reporting

Each type of income is a separate form

Box 1	Income Type code
Box 2	Gross Income
Box 3a/3b	Exemption code
Box 3b/4b	Withholding Rate
Box 7,8	U.S. Tax withheld



Reporting

Box 10 – total tax withheld

Box 11 – Tax repaid to recipient

NOTE that the actual tax withheld that should be reported is box 10 less box 11.



Reporting

Focus on Box 8 – Tax Withheld by other Agents

US tax withholding at the source of the dividend

Withholding is not done by IB but by the clearing agent for the security

Usually for a security that pays a “blended” dividend part US source income, part another country source



Why did I get a refund for last year's tax in my account?

Focus on Box 11:

Often companies re-categorize payments after the fact. When we learn of these re-categorizations before the issuance of reporting forms we refund any tax withheld to your account.

This often occurs early in the following year.

Once forms are issued in March, we can no longer refund tax withheld to you.



Reporting

Exemption codes are for income, such as investment interest that are reportable, but exempt from withholding

Common codes:

- 04 Exempt under tax treaty
- 05 Portfolio interest exempt under IRS code section.



What do I do if wrong amount withheld?

If you feel that the wrong rate has been withheld or there has been some other type of over withholding you can file with the U.S. for a refund.

File form 1040 NR for individuals

Remember we cannot refund over withholding after forms are issued



When should I file a US return?

If you have any US source business income or rental Income (or Loss)

If you own a PTP or MLP and have 39.6% withheld from distributions you may be entitled to a refund of part of this withholding when a return is filed.

Remember to weigh the cost of preparing and filing a US return to vs. the amount to be gained.



Disclosures

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit [interactivebrokers.com](#).

Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a copy visit [Interactivebrokers.com](#).

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

Interactive Brokers LLC is a member of [NYSE](#) [FINRA](#) [SIPC](#)

Interactive Brokers LLC is registered with HKSFCA and is a participant of the Sydney Futures Exchange (SFE)