

Lesson 1: What is reporting?

Hello, and welcome to our lesson where we will talk about the basics of U.S. federal tax information reporting. Here we will provide a quick overview of reporting and in our next sets of lessons, we will talk about reporting under each regime. Let's start with what Form 1099 reporting is.

Generally, any person that makes certain payments as part of a trade or business may be required to file an information report or a tax return with the Internal Revenue Service or IRS. For purposes of Form 1099, we look to the payments made in the course of a trade or business that we have been talking about when we think about chapter 61.

These payments include:

- Nonemployee compensation, prizes, awards, rents, royalties, backup withholding or federal income tax withheld, and other payments, on Form 1099-MISC or miscellaneous
- Dividends on Form 1099-DIV
- Gross proceeds of \$600 or more paid to an attorney on Form 1099-MISC
- Interest on a business debt to someone on Form 1099-INT
- Dividends or other distributions to a company shareholder, on Form 1099-DIV
- Distribution from a retirement or profit plan or from an Individual Retirement Account or insurance contract on Form 1099-R
- Payments to merchants or other entities in settlement of reportable payment transactions that is, any payment card or third party network transaction, on Form 1099-K

There are instances where as part of a trade or business, a payor may receive payments then other types of reporting could be required, such as

- Mortgage interest on Form 1098
- Sale or exchange of real estate on Form 1099-S

- For brokers that sold a covered security that belongs to a customer, they would report on Form 1099-B
- Persons who released someone from paying a debt secured by property or someone who abandoned property that was subject to debt would be reported on Form 1099-A, or if that person forgave the debt to you, then reporting would be on Form 1099-C

All of this is what we call Form 1099 reporting and is governed generally by chapter 61.

Moving on to chapter 3, we look to Form 1042 and 1042-S reporting. Remember those forms?

Now, under chapter 3, every U.S. or non-U.S. withholding agent must file Forms 1042 and 1042-S to report amounts subject to chapter 3 withholding if those amounts are paid to non-U.S. persons. This is true even if the withholding agent does not deduct or withhold any amounts under chapter 3. You remember these amounts too – U.S. source fixed, determinable annual, or periodical income, FDAP income. Similar to our Form 1099 reporting, we would report payments of U.S. source interest, dividends, rents, royalties, nonemployee compensation, prizes, commissions, and more, except, here – we do not have a different flavor of Form 1042-S for each type of income. Instead, this form includes codes, so that the withholding agent is able to distinguish the various income types subject to reporting. The withholding agent reports one type of income per Form 1042-S per person. So, if I receive interest and dividend income from a withholding agent, and of course, I am not a U.S. person, I might expect to see two Forms 1042-S – one for interest and one for dividends. All of this information is aggregated, or totaled on a Form 1042 for the year and submitted to the IRS. This form reports the total amount of U.S. source FDAP income paid to non-U.S. persons for the calendar year and the amounts required to be withheld and the related deposits. Along the same lines, with respect to chapter 4 we also look to Form 1042 and 1042-S reporting. Here we would report on the Form 1042-S to the beneficial owner, the chapter 4 withholdable amounts or if you remember it is generally just the interest and dividends subject to chapter 4. The aggregate of this information, payments and amounts withheld, are also reported on Form 1042 submitted to the IRS.

The other type of reporting under chapter 4 is on Form 8966, or the FATCA report. This is where withholding agents, payors, and financial institutions that agree to be compliant with chapter 4 will report any U.S. persons holding non-U.S. financial accounts with those financial institutions. This is how the financial institutions will let the United States know about the specified U.S. persons and any income that they should be reporting back to the United States IRS for the year.

Similarly, we will see reporting under the Intergovernmental Agreements, or IGAs, that will align for the most part with Form 8966. Then we will see the reports that are similar to the IGA reports, but are governed by the Common Reporting Standard or the CRS. These forms do not have a name other than CRS reports, and we will discuss them in more detail when we get to the lesson on CRS reporting.

And with that, we hope you have enjoyed this overview of reporting. In our next lesson, we will take a deeper dive into chapter 61 and Form 1099 reporting – remember that is reporting U.S. reportable amounts to U.S. persons. See you then!