



# Compliance: Helping you to tick the boxes

## US IRS: Withholding Tax.

**The financial industry is facing many challenges; one of them is compliance with complex international directives and regulations. With its comprehensive, high-quality, global data offering, SIX Financial Information supports financial market players to be compliant.**

### **What do I need to know about the US withholding tax regulation?**

On 1 January 2001, the United States Internal Revenue Service (IRS) introduced new US withholding tax rules regarding the withholding of tax. This was to be imposed on income derived from dividends and interest distributed on US securities. These rules required those foreign financial institutions holding US securities or dealing with US clients to change the way they do business. Under these rules, US custodian banks and other US withholding agents are required to withhold tax at a rate of 30% at source (and in some cases, impose backup withholding at a rate currently set at 31%) unless beneficial owner documentation supporting nil or a lower rate of withholding is provided to them before remittance of payments. Foreign holders of US securities who receive income from dividends or interest are liable to a US withholding tax of 30% which can be refunded in full or in part in cases where there is a double taxation agreement between the US and the country of the foreign investor, e.g. Switzerland.

Procedures allow foreign financial institutions to certify the status of their clients to withholding agents, such as custodian banks, provided the institution becomes a "Qualified Intermediary" by entering into a special agreement with the US Internal Revenue Service (IRS). As a Qualified Intermediary (QI), a foreign institution can certify a reduced rate of withholding at source for payments on US securities while limiting the disclosure of its non-US clients to withholding agents or IRS. However, this advantage comes at the cost of assuming significant responsibilities.

### **Who is affected?**

The US withholding tax rules have a global reach, affecting all customers whose safe custody/custodian accounts include US securities. The following people are subject to this regulation (tax residents):

- US Citizens.
- Citizens of the US and of another country (double or multiple citizenship).
- Holders of a green card.
- US residents over a period of at least 183 days during the last 3 years.

### **What is the goal of the US withholding tax rules?**

On the one hand, the central goal is to ensure that bank customers are entitled to withholding tax-exemption without having to apply for it. On the other hand, the goal is that US-IRS regulations are complied with. IRS generally expects QIs to follow these procedures:

### **US clients**

Holding US securities through an overseas account: The institution must obtain proper documentation from their US clients (Form W-9 with a US tax identification number). In the absence of such documentation, backup withholding is imposed on US dividends and interest income paid to certain categories of US clients, such as individuals. Whether or not backup withholding is imposed, an institution paying US dividends or interest income to US clients must arrange for these payments to be reported annually to the IRS on a Form 1099 prepared for each such client.

An institution prohibited by law or by contract from disclosing its "reportable" US clients' identity to the IRS may no longer purchase US securities for them and must advise them to dispose of any such securities held in their account. Backup withholding is imposed on US dividends and interest income paid to the account of such clients and on any proceeds from the sale or redemption of these US securities.

## Non-US clients

The institution must establish the identity of their non-US clients holding US securities, beneficial ownership, and if applicable, eligibility for reduced rates of withholding under the tax treaty. These clients' US dividend and interest income can be subject to US 30% withholding tax if the required identification and documentation is not obtained. The institution must arrange for these items of income to be reported to the IRS annually on Forms 1042 and 1042-S. Payments to clients holding securities for their own account are reported in the aggregate rather than individually.

## SIX Financial Information Data Offering

### What data does SIX Financial Information offer for the US-IRS withholding tax rules? How do we help you to be compliant?

In order to provide the relevant US-IRS withholding tax rules data, SIX Financial Information – in close collaboration with international tax experts – defined and implemented the required set of rules in its products. You can rest assured that the data we offer always mirrors the current regulatory provisions.

The data offered by SIX Financial Information for US bonds, shares and funds includes the following attributes:

#### – Domicile-Id-Scheme

This scheme is used to determine the scheme in which the following domicile is captured, e.g. Telekurs country code, ISO country code.

#### – Reporting country

The countries in which the instrument holder must report any income derived from the securities

#### – Reporting details

Details regarding the reportability in the reporting country. This attribute reports the actual tax classification for instruments liable to US-IRS taxation (reporting country TKN:333); it can be indicated whether there is a "US-IRS reportability with 1042S or 1099" or if they are "US-IRS non taxable but reportable with 1099 and QI reportable amount".

#### – Tax category

The tax category is used to indicate the origin of the taxable income.

#### – Eligibility of tax exemptions

Exemptions concerning the eligibility of instruments.

### SIX Financial Information supports you to achieve compliance with its high-quality, global data offering:

- Know which data is relevant in terms of regulatory compliance.
- Get a quick and easy overview of the tax categories for the instruments you hold which helps you with advising your clients.
- Base your analyses on consistent, reliable data from SIX Financial Information's high-quality data pool.
- Benefit from more efficiency as using SIX Financial Information data facilitates your working processes.
- Stay up-to-date on all US-IRS regulations relevant for the financial industry.

For more information, please contact your local SIX Financial Information office and a representative will be happy to assist you.

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