

Tax information reporting evaluations for U.S. withholding on payments to foreign persons

Your issue

The IRS's designation of U.S. withholding on payments to foreign persons as a Tier I issue signals to companies across all industries the importance of complying with tax withholding and reporting requirements.

Furthermore, the agency has broadened its focus well beyond financial institutions — the industry attracting most attention in the past — to now include oil and gas, manufacturing, pharmaceuticals, high tech, and all large and medium size business (LMSB) taxpayers that make payments to foreign persons.

While these activities do not appear to be complicated, the end-to-end process is often manual and prone to error, creating exposure for under withheld taxes, interest, and penalties, which can be significant and have a material effect on your bottom line.

Many organizations do not have the tax resources or experience to understand the requirements, the processes to ensure compliance, or the systems to reduce errors and improve efficiencies.

Deloitte can help.

Our approach

Deloitte's national Tax Information Reporting group can assist you in managing the new challenges that may result from the IRS's increased scrutiny of U.S. withholding on payments to foreign persons and information reporting. Through our range of services and the experience of our national team, we can help you assess potential exposure to tax compliance risk and explore ways to address it.

Our Tax Information Reporting services range from tax technical support, process improvement, technology selection and implementation to personnel training and tax information reporting outsourcing, either using your in-house systems or our data centers.

Through a diagnostic analysis, we can help you assess your organization's compliance with the tax withholding and information reporting rules and assist you in addressing any issues.

U.S. withholding on payments to foreign persons is now an IRS Tier I issue. Are you prepared?

If your company pays interest, dividends, royalties, rents, or personal services to foreigners, including payments to affiliates, it is subject to U.S. withholding requirements. Compliance with these rules includes:

- Obtaining documentation to determine domicile of income recipient
- Withholding based on type of income, country of payee, and whether a treaty benefit has been claimed
- Making payments to the IRS
- Reporting on the above activities

Our services are scalable. We can work with you to define the scope of our diagnostic analysis, as you deem appropriate. We can limit our analysis to a specific area of information reporting and withholding, or we can conduct a broader Tax Information Reporting Evaluation Study, which evaluates payments to both U.S. and foreign payees for compliance with both federal and state requirements. (Note that our analysis is not intended to be an audit for financial accounting or other purposes.)

Following are key steps we can take to guide you through the process:

- Conducting an initial “scoping,” working with you to interview select individuals, review relevant sections of your procedure manuals, and sample your withholding statements to help you address potential areas of noncompliance.
- Discussing with you any areas of concern following the scoping phase, and if applicable, exploring additional phases, which generally involve a further analysis of your information reporting and withholding systems.
- Providing recommendations and assisting with any remediation measures that can be utilized prior to the beginning of an IRS examination.
- Conducting training to educate your employees about these rules, helping you develop written guidance and procedures, and assisting in the preparation and filing of the required forms.

The Deloitte difference

Deloitte is especially qualified to help you meet your information reporting needs, given our combination of deep tax technical knowledge and advanced technology. Our national team of highly qualified professionals can draw on their collective experiences, from both the IRS and Deloitte, to help support your needs in the areas of U.S. withholding on payments to foreign persons and information reporting. Our team members include professionals who served as attorneys and accountants with the IRS, as well as other tax professionals with a deep background in IRS practice and procedure.

Contacts

For more information on Deloitte’s Tax Information Reporting services, e-mail us at tcs@deloitte.com or contact your Deloitte adviser or one of the individuals below:

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