

Requirements for Form 1042-S – 2006 Tax Year

Service Request 81763

**University of California
Financial Management
Payroll Coordination
December 20, 2006
Revised January 9, 2007
Revised January 22, 2007**

Service Request 81763
Form 1042-S Requirements for 2006 Tax Year
December 20, 2006

Objective:

The purpose of this document is to request changes to the 1042-S process for the tax year 2006.

Requested by:

Financial Management – Payroll Coordination

Analyst:

Julia Sills

Cycle Date(s):

The Form 1042-S changes must be implemented in time for campuses to produce and distribute to the recipient on or before March 15, 2007.

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Attachments:

1. Data Dictionary
2. Form 1042-S

Overview

The purpose of this document is to request modifications to the Form 1042-S (Foreign Person's U.S. Source Income Subject to Withholding) process for the 2006 tax year. This year's changes include the Form 1042-S, Magnetic Media, edit process, addition of a new tax treaty income value, and changes to the 1042-S reports.

Effective Date

The required changes must be in place in time for the production of the 2006 reporting of Form 1042-S.

Data Element Changes

Currently, the Tax Treaty Income Codes values 15, 18, 19, and 20 are recorded on the Employee Data Base. It is requested that modifications be made to add the value of 17 to the list of valid values for Data Element numbers 1170 and 1171. (Please note that DE 1170 is the Tax Treaty Income Code and DE 1171 is the Tax Treaty Income Code – Alternate). The Tax Treaty Income Codes are required to complete the Form 1042-S processing. This value is being added for students who receive compensation in an amount less than \$10,000. Payroll Offices are responsible for the manual input of the Income Code value and the Tax Treaty Limit.

Attachment 1 contains a draft Data Dictionary definition for both Data Elements. The description for the new Tax Treaty Income Code value should be:

- Compensation for student dependent personal services

On-line EDB Screens

There are no changes to the Online EDB Entry/Update screen EALN. However, the new Tax Treaty Income Code value and description should be reflected in On-line field-level help.

Form 1042-S

The following changes should be made to the laser Form 1042-S:

- The laser printed Form 1042-S should be modified to change the year from 2005 to 2006. The year is displayed at the top and bottom of the Form 1042-S.
- The Form 1042-S should be modified to add the following OMB number above the section says "Copy" OMB No. 1545-0096.
- Currently the laser printed Form 1042-S contains the following three boxes on the top portion of the form under the title:

VOID CORRECTED PRO-RATA BASIS REPORTING

The boxes VOID and CORRECTED should be deleted.

- The following new box AMENDED should be added to the form. The top portion of the form should look similar to the following:

Foreign Person's U.S. Source Income
Subject to Withholding

AMENDED PRO-RATA BASIS REPORTING

Attachment 2 contains a marked-up copy of the 2006 Form 1042-S.

1042-S Reporting Extract File

- The 1042-S Reporting Extract File layout should be modified to add a new field "U.S. Federal Tax Withheld Indicator. The IRS requires that if the U.S. tax amount was either under withheld or over reported or correctly reported a value must be reported on the magnetic media file. The value for the U.S. Federal Tax Withheld Indicator are as follows:
 - 0 (zero) = Correctly Reported,
 - 1 (one) = Over Withheld, or
 - 2 = Under Withheld
- The IRS has provided a formula to determine if the correct amount of Federal tax has been withheld. The 1042-S Reporting Extract File should be modified to use the IRS formula to determine the value for the U.S. Federal Tax Withheld Indicator. The value for the U.S. Federal Tax Withheld Indicator should be derived as follows:

IRS Tax Calculation Formula	
Income Codes (15-19) Formula 1	All other Income Codes¹ Formula 2
Gross Income Paid (DE 5555) -Withholding Allowance ² =Net Income Amount X Tax Rate (System Parameter 193/194) ³ =U.S. Federal Tax Withheld (GTN 636) ⁴	Gross Income Paid X Tax Rate = U.S. Federal Tax Withheld

The calculated U.S. Federal Tax Withheld amount should be rounded up or down to the nearest cent.

Please note that if the YTD Fellowship gross is greater than 0 (zero) use the Postdoctoral tax rate. If the YTD Fellowship gross is 0 (zero), use the non Postdoctoral tax rate and non Postdoctoral gross in the calculations. Formula 1 of the IRS tax calculation should be used to determine if the taxes are correct.

For income codes 15 – 19 paid through the Accounts Payable System are subject to Formula 1 of the IRS tax calculation.

For all other income codes paid through the Accounts Payable System are subject to Formula 2 of the IRS tax calculation, the gross X (times) the tax rate in the calculation.

- Employees with a Citizenship Status Code of "E" or "F" and no federal withholding should have their indicator set to "0". Employees with a citizenship code of "E" or "F" and federal taxes withheld should have their indicator set to "1". These individuals should be reported on the PPP7309 - 1042-S Error conditions list.
- The 1042-S Reporting File should be modified so that employees with a Citizenship Status code value of "C", "P" or "R" are excluded from the file.

¹ All other income codes are associated with the Accounts Payable System.

² Employees with an income code of 15-19 paid through payroll will not have a withholding allowance or net income value. However, individuals paid through the Accounts Payable System may have a withholding allowance or net income value.

³ The rate of tax for Postdoctoral employees is determined by their visa status. The System Parameter Table, number 193/194 contains the tax rate. If the visa is F or J the tax rate is 14% for all other visas the tax rate is 30%.

⁴ The amount of tax withheld for Postdoctoral Scholars is displayed in GTN number 636.

Reports

- The PPP 7309(1042-S Error Conditions List) report should be modified to add logic to display the value of the new Federal Tax Withheld Indicator. The Federal Tax Withheld Indicator contains the following values:

0 (zero) = Correctly Reported,
1 (one) = Over Withheld, or
2 = Under Withheld

- If the value in the Federal Tax Withheld Indicator is "1" the individual should be displayed on the report with the following message text:

THE FEDERAL TAXES ARE OVER REPORTED

Other error conditions may also exist and they should continue to be reported.

- Employees with a Citizenship Status Code of "E" or "F" and the Federal Tax Withheld Indicator set to "1" should be displayed on the report with the message text:

Tax Treaty Individual and Taxes Withheld

Other error conditions may also exist and they should continue to be reported.

- If the value in the Federal Tax Withheld Indicator is "2" the individual should be displayed on the report with the following message text:

THE FEDERAL TAXES ARE UNDER WITHHELD

Other error conditions may also exist and they should continue to be reported.

- If the value in the Federal Tax Withheld Indicator is "0" the taxes have been correctly withheld and this value does not need to be reported on the PPP7309. However, if other errors exist such as country of residency code is blank, etc; they should continue to be reported.

Locations must review these amounts to determine inconsistencies with the Federal taxes that have been withheld.

Magnetic Media

The Internal Revenue Service Bulletin 2006-38 announced changes for the magnetic media for the tax year 2006. A copy of this announcement will be sent under separate cover. The IRS has not announced changes to Publication 1179 –General Rules and Specifications for Substitute Forms 1042-S.

Record Name: Transmitter “T” Record Changes

- The tax year should be changed from 2005 to 2006.

Record Name: Withholding Agent “W” Record Changes

The following changes should be made to the Withholding Agent “W” record.

1. Type of Return Indicator, position 2, has changed. The acceptable values are:
 0 (zero) = original, and
 1 (one) = amended return

Please note that there is no longer a void return.

2. The tax year in position 269-272 should be changed to 2006
3. A new required field “Withholding Agent Contact Name”, position 273-317, should be added. The campus must supply the information for this field.
4. A required new field “Withholding Agent’s Department Title”, positions 318-362, should be added. The campus must supply the information for this field.
5. The Contact Phone Number and Extension should be moved to positions 363-382 from position 273-292. The campus must supply the information for this field.
6. The Final Return Indicator should be moved to position 383.
7. Positions 384-770 should be labeled reserved.

Field Positions	Field Title	Length	Description and Remarks
2	Return Type Indicator	1	Required. Enter the one position to identify whether the record is Original or Amended. 0 (zero) = Original 1 = Amended
269-272	Tax Year	4	Required. Enter the four-digit year of the current tax year.
273-317	Withholding Agent Contact Name	45	Required. Enter the name of the person IRS can contact if questions arise concerning this filing. Left-justify and blank fill the remaining positions. Location Specific.
318-362	Withholding Agent’s Department Title	45	Required. Enter the title of the contact person or the dept. which can handle inquiries concerning this filing. Location Specific.
363-382	Contact Phone	20	Enter the telephone number of a person to contact

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	Number and Extension		regarding electronic or magnetic files. Please note that this information was formally in position 273-292. Location Specific.
383	Final Return Indicator	1	Required. Enter the one position value below to indicate whether you will be filing Forms 1042-S in the future. 0 (zero) = will be filing 1 = will not be filing Location Specific.

Withholding Agent "W" Record Layout						
Record Type	Return Type Indicator	Pro Rata Basis Reporting	Withholding Agent's EIN	Withholding Agent's EIN Indicator	Withholding Agent's Name Line-1	Withholding Agent's Name Line-2
1	2	3	4-12	13	14-53	54-93
Withholding Agent's Name Line-3	Withholding Agent's Street Line-1	Withholding Agent's Street Line-2	Withholding Agent's City	Withholding Agent's State Code	Withholding Agent's Province Code	Withholding Agent's Country Code
94-133	134-173	174-213	214-253	254-255	256-257	258-259
Postal or ZIP Code	Tax Year	Withholding Agent Contact Name	Withholding Agent's Department Title	Contact Phone Number and Extension	Final Return Indicator	
260-268	269-272	273-317	318-362	363-382	383	
Reserved	Record Sequence Number	Blank or Carriage Return Line Feed				
384-770	771-778	779-780				

Record Name: Recipient "Q" Record Changes

The following changes should be made to the Recipient "Q" Record.

1. Type of Return Indicator, position 2, has changed. There are now two values to select from:

- 0 (zero) = original return, and
- 1 (one) = amended return.

There is no longer a void return. The campus will continue to determine the value of this field.

2. A new required field "U.S. Tax Withheld Indicator", position 761 has been added to the magnetic media record layout. The IRS requires that if the Federal tax was either under or over reported or correctly reported it should be reported in a new field (position 761) on the "Q" record. This new field on the "Q" record "U.S. Tax Withheld Indicator" requires that we display one of the following values:

- 0 (zero) = Correctly Reported,
- 1 (one) = Over Withheld, or
- 2 = Under Withheld

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The value for this new field will be part of the values coming from the 1042-S Reporting Extract File.

Recipient "Q" Record Layout								
Record Type	Return Type Indicator	Pro Rata Basis Reporting	Income Code	Gross Income	Withholding Allowance	Net Income	Tax Rate	Exemption Code
1	2	3	4-5	6-17	18-29	30-41	42-45	46-47
U.S. Tax Withheld	Amount Repaid	Recipient's Account Number	Recipient Code	Recipient's Name Line - 1	Recipient's Name Line - 2	Recipient's Name Line - 3	Recipient's Street Line - 1	
48-59	60-71	72-91	92-93	94-133	134-173	174-213	217-253	
Recipient's Street Line - 2	Recipient's City	Recipient's State	Recipients Province Code	Recipient's Country Code	Postal or Zip Code	Recipient's U.S. TIN	Recipient's U.S. TIN Type	
254-293	294-333	334-335	336-337	338-339	340-348	349-357	358	
Recipient's Country of Residence for Tax Purposes	Recipient's Country of Residence Code for Tax Purposes	NQI/FLW-THR Name Line-1	NQI/FLW-THR Name Line-2	NQI/FLW-THR Name Line-3	Reserved			
359-398	399-400	401-440	441-480	481-520	521-522			
NQI/FLW-THR Street Line-1	NQI/FLW-THR Street Line - 2	NQI/FLW-THR City	Reserved	NQI/FLW-THR Province Code				
523-562	563-602	603-642	643-644	645-646				
NQI/FLW-THR Country Code	NQI/FLW-THR Postal Code	NQI/FLW-THR U.S. TIN	Payer's Name	Payer's U.S. TIN	State Income Tax Withheld	Payer's State Tax Number		
647-648	649-657	658-666	667-706	707-715	716-727	728-737		
State Code	Special Data Entries	U.S. Tax Withheld Indicator	Reserved	Record Sequence Number	Blank or Carriage Return Line Feed			
738-739	740-760	761	762-770	771-778	779-780			

Record Name: Reconciliation "C" Record Layout

There are no changes to the Reconciliation "C" record layout.

Record Name: End of Transmission "F" Record Layout

There are no changes to the End of Transmission "F" record layout.

Implementation

The due date for filing Forms 1042-S, whether filed on paper, electronically, or on magnetic media, with the IRS must be postmarked on or before March 15, 2007. We are required to furnish Form 1042-S to the recipient on or before March 15, 2007.

Attachment 1

The tax treaty income code 17 has been added to the list of existing values for DE 1170 and 1171.

System Number: EDB1170

User Access Name: 1170-3

Programming Name: TT_INCOME_CODE IN PPPPAY

Revision Date: 10/07/04

Comments

Location(s): N/A

Name: TAX TREATY INCOME CODE

Type: ALPHANUMERIC

Length: 2

Format

N/A

General Description

Code indicating a type of income the employee is receiving and claiming as exempt from federal tax under the provisions of a tax treaty.

Code Interpretation

15 - Scholarship and Fellowship Grants given to an individual for study, training, or research, and which does not constitute compensation for personal services.

17 - Compensation for student dependent personal services

- 18 - Compensation for teaching
- 19 - Compensation during training
- 20 - Earnings as an artist or athlete

System Number: EDB1171

User Access Name: 1171-4

Programming Name: ALT_TT_CODE IN PPPPAY

Revision Date: 10/01/04

Comments

Location(s): N/A

Name: TAX TREATY INCOME CODE-ALTERNATE

Type: ALPHANUMERIC

Length: 2

Format

N/A

General Description

Code indicating an additional type of income the employee is receiving and claiming as exempt from federal tax under the provisions of a tax treaty.

Code Interpretation

15 - Scholarship and Fellowship Grants given to an individual for study, training, or research, and which does not constitute compensation for personal services.

☞ 17 - Compensation for student dependent personal services

18 - Compensation for teaching
19 - Compensation during training
20 - Earnings as an artist or athlete

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 December 8, 2006

Attachment 2

** delete void and corrected boxes + add amend box*

Form 1042-S Foreign Person's U.S. Source Income Subject to Withholding **2005** *6*

Copy B Recipient

VOID CORRECTED AMENDED *6*

Line	Code	U.S. Source Income	Withholding	Year	U.S. Source Income	U.S. Source Tax	U.S. Source Tax
1	IS	42,575.00		14.00	00	4,506.90	
2							
3	Total	42,575.00				4,506.90	

10 Recipient's EIN: 94-5082125

11 Recipient's EIN: 501-55-5005

12 Recipient's Name: UC OFFICE OF THE PRESIDENT
 1111 FRANKLIN ST, 8TH FLOOR
 OAKLAND CA 94607-5281

13 Recipient's Address: NAN O. BDT
 1919 STAGE ROAD
 AUBA DULCE CA 91358

14 Recipient's Country: AA

15 Recipient's Country Code: CA

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