



# Instructions for Form 1042

## Annual Withholding Tax Return for U.S. Source Income of Foreign Persons

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Form 1042 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1042](https://www.irs.gov/Form1042).

### What's New

The following clarifications have been made to Form 1042:

- On page 1, a "Note" was inserted immediately below the Record of Tax Liability (lines 1 through 60) that clarifies that the totals from the Record of Tax Liability table are entered on lines 64b through 64d, in the manner indicated in the instructions for those lines.
- On page 2, a heading was inserted before lines 64a through 71 indicating that those lines pertain to Computation of Tax Due or Overpayment.

### Reminders

**Reliance on proposed regulations reducing burden under FATCA and Chapter 3.** On December 18, 2018, the Internal Revenue Service and Department of Treasury issued proposed regulations (83 FR 64757) to reduce taxpayer burden with respect to certain requirements under Chapters 3 and 4 of the Code. The proposed regulations provide that, under section 7805(b)(1)(C), taxpayers may generally rely on the proposed regulations until final regulations are issued. Specifically, for purposes of these instructions, a withholding agent may rely on the following provisions of these proposed regulations in connection with completing Form 1042.

- **Withholding and reporting in a subsequent year.** A partnership or trust that is permitted to withhold in a subsequent year with respect to a foreign partner's or beneficiary's share of income for the prior year may designate the deposit of the withholding as attributable to the preceding year and report the associated amounts on Forms 1042 and 1042-S for the preceding year. See [Foreign partners of U.S. partnerships and foreign beneficiaries of U.S. trusts](#), later.
- **Adjustments to overwithholding under the reimbursement and set-off procedures.** A withholding agent may make adjustments to overwithholding using either the reimbursement or setoff

procedures until the extended due date for filing Form 1042-S (unless the Form 1042-S has already been filed or furnished). Additionally, a withholding agent may use the extended due date for filing a Form 1042 to claim a credit for any adjustments made to overwithholding.

**Centralized partnership audit regime.** Section 1101 of the Bipartisan Budget Act (BBA) of 2015 repealed the TEFRA partnership procedures and the Electing Large Partnership (ELP) provisions and replaced them with a new centralized partnership audit regime effective for partnership tax years beginning on or after January 1, 2018. The new regime provides for determination, assessment, and collection of underpayments at the partnership level unless certain elections are made by the partnership. Under these rules, a partnership (or a pass-through partner) may be required to withhold under chapter 3 or chapter 4 when there has been an adjustment under the centralized partnership audit regime to an item of income or gain allocable to a foreign person (or any other person subject to withholding). If the adjustment is to an amount subject to withholding that is reportable on Form 1042, the partnership (or pass-through partner) should report the withholding on Form 1042 for the year in which it pays the tax required to be withheld. See section 6241(9).

**Qualified derivatives dealers (QDDs).** A withholding agent that is a Qualified Intermediary (QI) acting as a QDD must assume certain withholding and reporting responsibilities with respect to payments made on potential section 871(m) transactions in its QDD capacity. Form 1042 includes Section 4, which a QI that is a QDD (or has a branch that is a QDD) must complete if it made any payments in its QDD capacity that are reportable on this form. For more information on the withholding and reporting requirements of a QDD, see the QI Agreement in [Rev. Proc. 2017-15](#), 2017-03 I.R.B. 437. See also section 871(m) and [Notice 2020-2](#).

These instructions provide guidance to QDDs regarding the proper withholding agent status code to use when filing Form 1042 (and Form 1042-S). See [Chapter 3 and 4 status codes of withholding agent](#), later.

**Potential 871(m) transactions.** Section 3 of Form 1042 applies to payments made by a withholding agent under any potential

section 871(m) transaction (rather than just payments made under notional principal contracts or other derivatives contracts that reference a U.S. stock or underlying security). Any withholding agent making such a payment must complete Section 3.

**Section 871(m) transition.** On December 16, 2019, [Notice 2020-2](#), 2020-3 I.R.B. 327, was issued announcing the Department of the Treasury and the IRS intention to amend the section 871(m) regulations to further delay the effective/applicability date of certain rules in those final regulations and certain requirements of a QDD.

**Schedule Q (Form 1042).** If the taxpayer, or any branch of the taxpayer, is a QDD, the taxpayer must attach to Form 1042 a Schedule Q (Form 1042), Tax Liability of Qualified Derivatives Dealer (QDD), for each QDD. Schedule Q (Form 1042) replaces the previous requirement to attach a statement to the Form 1042 to provide information regarding a QDD's tax liability.

**Line 63c, Adjustments to overwithholding.** Withholding agents that reduce their withholding by repaying a beneficial owner in the year following the calendar year of overwithholding pursuant to the reimbursement or set-off procedures should report such repayments on line 63c(1). Withholding agents that increase their withholding in the year following the calendar year of underwithholding by withholding on future payments made to a beneficial owner or from other property or additional contributions of a beneficial owner that are held in custody or otherwise controlled by the withholding agent should report the additional withholding on line 63c(2). Withholding agents should also report on line 63c(2) any other amounts withheld in the year following the calendar year in which the related payment was made (to the extent permitted under an applicable regulation section in chapter 3 or 4). See the instructions for [Lines 63a through 63e](#), later.

**Lines 65a and 65b.** Withholding agents should use line 65b to report deposits of tax withheld in the year following the calendar year in which the related payment was made. See [Deposit Requirements](#), later, for when a withholding agent should designate a

deposit as being made for the calendar year in which the payment was made.

**Chapter 3 and 4 status codes.** The chapter 3 and 4 status codes of withholding agents are required regardless of the types of payments reported on this form.

**Escrow procedure.** See the instructions for [Lines 1 through 60](#), later, if you are using the escrow procedure under Regulations section 1.1471-2(a)(5)(ii) or 1.1441-3(d) (and are not depositing the amount of tax withheld with the IRS during the year).

**Rounding.** These instructions have been modified to require withholding agents to round amounts so that only whole dollar amounts are reported. See [Rounding off to whole dollars](#), later.

## General Instructions

### Purpose of Form

Use Form 1042 to report the following.

- The tax withheld under chapter 3 (excluding withholding under sections 1445 and 1446 except as indicated below) on certain income of foreign persons, including nonresident aliens, foreign partnerships, foreign corporations, foreign estates, and foreign trusts.
- The tax withheld under chapter 4 on withholdable payments. For the withholding requirements of chapter 4, see Regulations sections 1.1471-2(a), 1.1471-4(b), and 1.1472-1(a).
- The tax withheld pursuant to section 5000C on specified federal procurement payments.
- The tax withheld under section 877A on payments of eligible deferred compensation items or distributions from nongrantor trusts to a covered expatriate.
- Payments that are reported on Form 1042-S under chapter 3 or 4. See Regulations section 1.1474-1(d)(2)(i) for the definition of a chapter 4 reportable amount (which are amounts required to be reported on Form 1042-S for chapter 4 purposes) and Regulations section 1.1461-1(c)(2) for amounts subject to reporting for chapter 3 purposes.

**Certain distributions subject to section 1445 withholding tax.** Publicly traded trusts, real estate investment trusts, and regulated investment companies that are qualified investment entities (as defined under section 897(h)(4)) must withhold section 1445 tax on certain distributions and report such amounts on Form 1042. For more information, see Regulations section 1.1445-8 and the Instructions for Form 1042-S.

**Publicly traded partnerships (section 1446 withholding tax).** For purposes of reporting on Form 1042, a publicly traded

partnership (PTP) must withhold section 1446 tax on distributions of effectively connected income (ECI) to its foreign partners. A nominee that receives a distribution of ECI from a PTP and is treated as the withholding agent must use Form 1042 to report the tax withheld. For this purpose, a nominee is a domestic person holding an interest in the PTP on behalf of one or more foreign partners. For more information, see Regulations section 1.1446-4 and Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

### Who Must File

Every withholding agent or intermediary who receives, controls, has custody of, disposes of, or pays a withholdable payment (to which chapter 4 withholding applies) or an amount subject to withholding, must file an annual return for the preceding calendar year on Form 1042 unless an exception to filing applies. Also, any PTP or nominee making a distribution of ECI under section 1446, or any entity required to report a distribution on Form 1042-S that is subject to withholding under section 1445, must file Form 1042 for the preceding calendar year.

You must file Form 1042 if any of the following applies.

- You are required to file or otherwise file Form(s) 1042-S for purposes of either chapter 3 or 4 (whether or not any tax was withheld or was required to be withheld to the extent reporting is required). File Form 1042 even if you file Form(s) 1042-S electronically.
- You file Form(s) 1042-S to report to a recipient tax withheld by your withholding agent.
- You pay gross investment income to foreign private foundations that are subject to tax under section 4948(a).
- You pay any foreign person specified federal procurement payments that are subject to withholding under section 5000C.
- You pay an eligible deferred compensation item to a covered expatriate or you are a trustee making a distribution from a nongrantor trust to a covered expatriate under section 877A.
- You are a qualified intermediary (QI), withholding foreign partnership (WP), withholding foreign trust (WT), participating foreign financial institution (FFI), or reporting Model 1 FFI making a claim for a collective refund under your respective agreement with the IRS. See Regulations section 1.1471-1(b)(114) for the definition of a reporting Model 1 FFI.

### Withholding Agent

Any person required to withhold tax is a withholding agent. A withholding agent may be an individual, trust, estate, partnership, corporation, nominee,

government agency, association, or tax-exempt foundation, whether domestic or foreign. For purposes of chapter 4, a withholding agent includes a participating FFI or registered deemed-compliant FFI to the extent such FFI is required to withhold tax. See Regulations section 1.1473-1(d) for the definition of a withholding agent for purposes of chapter 4.

**Liability for tax.** As a withholding agent, you are personally liable for any tax required to be withheld as well as interest and any applicable penalties. A withholding agent acting through an agent is liable for any failure of the agent to deposit any tax required to be withheld and deposited even if the agent is also a withholding agent and is itself separately liable for the failure to comply with the provisions of chapter 3 or 4.

For purposes of chapter 3, if you fail to withhold and the foreign payee fails to satisfy its U.S. tax liability, then both you and the foreign person are liable for tax, as well as interest and any applicable penalties. The applicable tax will be collected only once. If the foreign person satisfies its U.S. tax liability, you are not liable for the tax but remain liable for any interest and penalties for failure to withhold.

### Intermediary

An intermediary is a person who acts as a custodian, broker, nominee, or otherwise as an agent for another person, regardless of whether that other person is the beneficial owner of the amount paid, a flow-through entity, or another intermediary.

**Qualified intermediary.** A QI is an intermediary (or in the case of a QDD, a principal) that is a party to a QI Agreement with the IRS described in Regulations section 1.1441-1(e)(5)(iii). For information on the QI Agreement, see [IRS.gov/Businesses/Corporations/Qualified-Intermediary-System](#).

**Withholding foreign partnership or withholding foreign trust.** A WP or WT is a foreign partnership or trust that has entered into a withholding agreement with the IRS described in Regulations section 1.1441-5(c)(2) and (e)(5) in which it agrees to assume primary withholding responsibility under chapters 3 and 4 for all payments that are made to it for its partners, beneficiaries, or owners.

**Nonqualified intermediary.** A nonqualified intermediary (NQI) is any intermediary that is not a U.S. person and that is not a QI.

**Nonwithholding foreign partnership.** A nonwithholding foreign partnership (NWP) is a foreign partnership that is not a withholding foreign partnership.

**Nonwithholding foreign trust.** A nonwithholding foreign trust (NWT) is a foreign trust that is not a withholding foreign trust.

**Qualified derivatives dealer (QDD).** A QDD is a qualified intermediary (QI) that is an eligible entity that agrees to assume the requirements of a QDD and the other requirements in the QI Agreement. Any applicable home office or branch that seeks to be a QDD must qualify and be approved for QDD status. A QDD must document itself to a withholding agent with a Form W-8IMY indicating that it is acting as a QDD for payments with respect to potential section 871(m) transactions and underlying securities that it receives in a principal capacity, separately identify the home office or branch as the recipient on a withholding statement (if necessary), and indicate on the form that it will assume primary chapters 3 and 4 withholding responsibilities and primary Form 1099 reporting and backup withholding responsibilities for certain payments it makes and receives as a QDD. See Regulations section 1.1441-1(e)(6) and the QI Agreement in Rev. Proc. 2017-15 for more information. See also [Notice 2020-2](#), described in [Section 871\(m\) transition](#), earlier.

**Qualified securities lender.** A qualified securities lender (QSL) is a foreign financial institution that is a bank, custodian, broker-dealer, or clearing organization subject to regulatory supervision in its home jurisdiction and that is:

1. Regularly engaged in the business of borrowing securities of U.S. corporations and lending such securities to unrelated customers; and
2. Subject to audit by the IRS under section 7602 or, in the case of a QI, an external auditor.

For further information about requirements for QSL status and the withholding requirements for substitute dividend payments, see [Notice 2010-46](#), 2010-24 I.R.B. 757. An entity may claim QSL status and be treated as a recipient for substitute dividend payments made before January 1, 2023. See [Notice 2020-2](#).

**Foreign financial institution.** A foreign financial institution (FFI) is a foreign entity described in Regulations section 1.1471-5(d).

**Registered deemed-compliant FFI.** A registered deemed-compliant FFI (as defined in Regulations section 1.1471-5(f)(1)) is an FFI that is deemed to satisfy the requirements of section 1471(b) of the Code. This includes a reporting Model 1 FFI or branch of an FFI that is a reporting Model 1 FFI (see Regulations section

1.1471-1(b)(114) for the definition of reporting Model 1 FFI).

**Participating FFI.** A participating FFI is an FFI that has agreed to satisfy the obligations of an FFI agreement under chapter 4 with respect to all of its branches of the FFI, other than a branch that is a reporting Model 1 FFI or a U.S. branch. This includes a reporting Model 2 FFI (that has entered into an FFI agreement with respect to a branch) and a QI branch of a U.S. financial institution unless such branch is a reporting Model 1 FFI.

**Nonparticipating FFI.** A nonparticipating FFI is an FFI that is not a participating FFI, deemed-compliant FFI, or exempt beneficial owner.

**Recalcitrant account holder.** Generally, a recalcitrant account holder is an account holder of a participating or deemed-compliant FFI that failed to provide the documentation required under chapter 4 to determine the account holder's status or to enable the FFI to report the account as a U.S. account. See Regulations section 1.1471-5(g).

**Passive nonfinancial foreign entity (NFFE).** A passive NFFE is a nonfinancial foreign entity other than an excepted NFFE, including a WP, WT, QI, or direct reporting NFFE. See Regulations sections 1.1471-1(b)(80) and 1.1472-1(b).



*For chapter 4 purposes, an intermediary must provide its chapter 4 status to a withholding agent to determine whether withholding applies to the payment. Thus, a chapter 4 status must be provided for a withholdable payment made to a foreign entity.*

## Where and When To File

Mail Form 1042 by March 15, 2021, to:

Internal Revenue Service  
P.O. Box 409101  
Ogden, UT 84409

**Extension of time to file.** If you need more time to file Form 1042, you may submit Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns.

Form 7004 does not extend the time for payment of tax.

## Additional Information

For details on the withholding of tax, see Pub. 515. You can get Pub. 515 from [IRS.gov](#).

## Need Assistance?

If you need help completing Form 1042, call 267-941-1000 (not a toll-free number)

from 6:00 a.m. to 11:00 p.m. Eastern time or write to:

Internal Revenue Service  
International Section  
Philadelphia, PA 19255-0725

## Income Tax Withholding on Wages, Pensions, Annuities, and Certain Other Deferred Income

Use Form 941, Employer's QUARTERLY Federal Tax Return, to report income tax withheld and social security and Medicare taxes on wages paid to a nonresident alien employee.

Payments of pensions, annuities, and certain other deferred income paid to a foreign person are subject to withholding under section 1441 (rather than section 3405). Report these payments on Forms 1042 and 1042-S.

Use Schedule H (Form 1040), Household Employment Taxes, to report income tax withheld and social security and Medicare taxes on wages paid to a nonresident alien household employee.

## Election To Withhold Under Section 3406

If you are a participating FFI that has made an election to withhold under section 3406 instead of withholding under chapter 4, use Form 945 to report tax withheld on a withholdable payment that is also a reportable payment made to any of your recalcitrant account holders that are also U.S. nonexempt recipients subject to backup withholding. Also, use Form 945 to report tax withheld on a withholdable payment that is also a reportable payment made to recalcitrant account holders of a participating or registered deemed-compliant FFI that is an NQI, NWP, or NWT, or a QI that elects to be withheld upon under section 1471(b)(3), and from whom you received a withholding statement that indicates that such FFI has elected for withholding under section 3406 to apply instead of withholding under chapter 4 with respect to one or more recalcitrant account holders. See Regulations section 1.1471-4(b) and 1.1474-1(d)(4)(i)(B). A withholding QI, WP, or WT that is an FFI should also use Form 945 if it elects to withhold under section 3406 on withholdable payments made to certain recalcitrant account holders.

## Deposit Requirements

You are required to use the Electronic Federal Tax Payment System (EFTPS), discussed later, to deposit the tax withheld and required to be shown on Form 1042 (regardless of whether withholding was



applied under chapter 3 or 4 or with respect to a specified federal procurement payment).



*To avoid a penalty, do not mail your deposits directly to the IRS.*

The amount of tax you are required to withhold determines the frequency of your deposits. The following rules explain how often deposits must be made.

**Note.** If you are requesting an extension of time to file using Form 7004, follow these rules to see if you must make a deposit of any balance due or if you can pay it with Form 7004. See Form 7004 and its instructions for more information.

1. If at the end of any quarter-monthly period the total amount of undeposited taxes is \$2,000 or more, you must deposit the taxes within 3 business days after the end of the quarter-monthly period. (A quarter-monthly period ends on the 7th, 15th, 22nd, and last day of the month.) A business day is any day other than a Saturday, Sunday, or legal holiday in the District of Columbia.

2. If at the end of any month the total amount of undeposited taxes is at least \$200 but less than \$2,000, you must deposit the taxes within 15 days after the end of the month. If you make a deposit of \$2,000 or more during any month except December under rule 1, earlier, carry over any end-of-the-month balance of less than \$2,000 to the next month. If you make a deposit of \$2,000 or more during December, any end-of-December balance of less than \$2,000 should be remitted with your Form 1042 by March 15, 2021.

3. If at the end of a calendar year the total amount of undeposited taxes is less than \$200, you may either pay the taxes with your Form 1042 or deposit the entire amount by March 15, 2021.

**Electronic deposit requirement.** You must make electronic deposits of all depository tax liabilities using EFTPS. If you fail to use EFTPS, you may be subject to a 10% penalty. To enroll in or get more information about EFTPS, call 800-555-4477 or visit [EFTPS.gov](https://www.irs.gov/eftps).

**Depositing on time.** For deposits made by EFTPS to be on time, you must submit the deposit by 8 p.m. Eastern time the day before the date the deposit is due. If you use a third party to make deposits on your behalf, they may have different cut-off times.

**Same-day wire payment option.** If you fail to initiate a deposit transaction on EFTPS by 8 p.m. Eastern time the day before the date a deposit is due, you still can make your deposit on time by using the Federal Tax Collection Service (FTCS). If you ever need the same-day

wire payment method, you will need to make arrangements with your financial institution ahead of time. Check with your financial institution regarding availability, deadlines, and costs. Your financial institution may charge you a fee for payments made this way. To learn more about the information you will need to provide to your financial institution to make a same-day wire payment, visit [EFTPS.gov](https://www.irs.gov/eftps) to download the Same-Day Payment Worksheet.

**Note.** All payments should be made in U.S. dollars.

**Escrow procedure.** See the instructions for [Lines 1 through 60](#), later, if you are using the escrow procedure under Regulations section 1.1471-2(a)(5)(ii) or 1.1441-3(d) (and are not depositing the amount of tax withheld with the IRS during the year). Under Regulations section 1.1471-2(a)(5)(ii) or 1.1441-3(d), if a withholding agent is not able to determine the portion of a payment subject to withholding (for example, because it is unable to determine the source of the income at the time of the payment), a withholding agent can follow the escrow procedures by withholding 30% on the entire payment and depositing the amount withheld in an escrow account instead of depositing such amounts with the IRS. With respect to such payment, the withholding will be due the earlier of the date a determination is made with respect to the amount subject to withholding or 1 year from the date the amount is placed in escrow. To the extent that withholding is not required, the escrowed amount must be repaid to the payee. Note that generally an amount placed in escrow during 1 calendar year will be reported on a Form 1042 the following year. See the instructions for [Lines 1 through 60](#), later, if you are using the escrow procedures and are not depositing the amount of tax withheld with the IRS during the year.

**Deposits made during subsequent year.** If you are making a deposit of tax withheld in the year following the calendar year in which the related payment was made (to the extent permitted under an applicable regulation section in chapter 3 or 4), you must designate the deposit at the time that it is made as attributable to the calendar year in which the payment was made. In such a case, you should report the tax paid on line 65b.

For example, if a real estate investment trust (REIT) declares a dividend to shareholders of record in October, November, or December of 2020, but pays the dividend in January of 2021, under section 857(b)(9), the dividend is treated as having been paid by the REIT and received by each shareholder on December 31, 2020. If the REIT chooses

to withhold when it pays the dividend in January of 2021 (pursuant to the procedures for adjusting underwithholding in Regulations section 1.1461-2(b) or 1.1474-2(b)), it should report the liability with respect to the distribution on its 2020 Form 1042 and should designate the deposit of such tax as being made for 2020 (if the deposit is made by March 15, 2021).

Additionally, under proposed regulations (83 FR 64757), a partnership or trust that is permitted to withhold in a subsequent year with respect to a foreign partner's or beneficiary's share of income may designate the deposits of the withholding as attributable to the preceding calendar year. See [Foreign partners of U.S. partnerships and foreign beneficiaries of U.S. trusts](#), later.

## Interest and Penalties

If you file Form 1042 late, or fail to pay or deposit the tax when due, you may be liable for penalties and interest unless you can show that the failure to file or pay was due to reasonable cause and not willful neglect.

**TIP** *You do not have to figure the amount of any interest or penalties you may owe. Because figuring these amounts can be complicated, the IRS will do it for you and send you a bill for any amount due.*

If you include interest or penalties with your payment, identify and enter the amount in the bottom margin of Form 1042. Do not include interest or penalties in the balance due on line 69.

**Interest.** Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, and substantial understatement of tax from the due date (including extensions) to the date of payment. Interest is figured at a rate determined under section 6621.

**Late filing of Form 1042.** The penalty for not filing Form 1042 when due (including extensions) is 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax.

**Late payment of tax.** The penalty for not paying tax when due is usually one-half of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the unpaid tax.

**Other penalties.** Penalties may be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

## Avoid Common Errors

To ensure that your Form 1042 can be correctly processed, be sure that you do the following.

- Carefully read the information provided in Pub. 515 and these instructions.
- Complete all required information for the withholding agent including the withholding agent's name, address, chapter 3 and chapter 4 status codes, and the EIN, QI-EIN, WP-EIN, or WT-EIN.

**Note that you must include the withholding agent's chapter 3 and chapter 4 status codes regardless of the types of payments being reported on Form 1042.**

- Ensure that the correct EIN is provided. If you are filing Form 1042 as a QI, WP, or WT, enter your QI-EIN, WP-EIN, or WT-EIN.
- Lines 1 through 60, Record of Federal Tax Liability, must show the federal tax liability for payments made during the applicable quarter-monthly period. This section reports the tax liability, not the tax deposited by the withholding agent.
- The sum of the monthly totals in Section 1 (lines 5, 10, 15, 20, 25, 30, 35, 40, 45, 50, 55, and 60) must match the amount of total tax liability reported on lines 64b, 64c, and 64d.
- Do not include amounts reported as adjustments on line 64a in the Record of Federal Tax Liability (lines 1 through 60).
- You must designate the tax liability as either a chapter 3 tax liability or a chapter 4 tax liability. Report the portion of the tax liability for the calendar year that is a chapter 3 tax liability on line 64b. Report the portion of the tax liability for the calendar year that is a chapter 4 tax liability on line 64c.
- You must complete Section 2, Reconciliation of Payments of U.S. Source FDAP Income. Section 2 must be completed even if you have not withheld any amounts under chapter 4.

## Specific Instructions



*File only one Form 1042 consolidating all Form 1042-S recipient information for both chapter 3 and 4 purposes regardless of the number of different clients, branches, divisions, or types of income for which you are the withholding agent. However, if you are acting in more than one capacity (for example, you are acting as a QI for certain designated accounts and as an NQI for other accounts), file a separate Form 1042 for each capacity in which you are acting.*

*A U.S. branch of a participating FFI that is required to report amounts under chapter 4 must file a separate Form 1042.*

**Rounding off to whole dollars.** You must round off cents to whole dollars. To round off amounts to the nearest dollar,

drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$1.39 becomes \$1 and \$2.50 becomes \$3. If you have to add two or more amounts to figure the amount to enter on a line, include cents when adding and only round off the total.

**Employer identification number (EIN).** You are required to enter your EIN. If you are filing Form 1042 as a QI, WP, or WT, enter your QI-EIN, WP-EIN, or WT-EIN.

If you are a QSL that is also a QI, enter your QI-EIN. Otherwise, enter the EIN you have been assigned.

If you are for chapter 4 purposes a participating FFI or other financial institution that has been issued a global intermediary identification number (GIIN) for chapter 4 reporting purposes, you must nevertheless get an EIN to file Form 1042 (or use your existing EIN, such as a QI-EIN in the case of a QI if filing in such capacity).

If you are a participating FFI or other financial institution filing this form on behalf of a branch other than your U.S. branch, you cannot use the EIN of the U.S. branch to file this form and you must get a separate EIN to file this form on behalf of all your branches other than your U.S. branch.

If you do not have an EIN, you can apply for one online at [IRS.gov/EIN](https://www.irs.gov/ein). You can apply for an EIN by telephone at 800-829-4933. You can also file Form SS-4, Application for Employer Identification Number, by fax or mail. File amended Forms 1042-S when you receive your EIN.

To get a QI-EIN, WP-EIN, or WT-EIN, submit Form SS-4 with your application for that status. Do not send an application for a QI-EIN, WP-EIN, or WT-EIN to the addresses listed in the Instructions for Form SS-4. Send the application along with Form SS-4 to:

Internal Revenue Service  
LB&I: International: QI Group 1031  
290 Broadway, 12th floor  
New York, NY 10007-1867 USA

**Address.** Include the suite, room, or other unit number after the street address. If your post office does not deliver mail to the street address and you have a P.O. box, show the box number instead of the street address.

**Chapter 3 and 4 status codes of withholding agent.** Enter your chapter 3 and chapter 4 status codes from the list of "Type of Recipient, Withholding Agent, Payer, or Intermediary Code" on Form 1042-S. You must enter both a chapter 3 and a chapter 4 withholding agent status code regardless of the type of payment

being made. See pages 2 and 3 of these Form 1042 instructions for definitions of [intermediary](#), [qualified intermediary \(QI\)](#), [withholding foreign partnership \(WP\)](#), [withholding foreign trust \(WT\)](#), [nonqualified intermediary \(NQI\)](#), [qualified securities lender \(QSL\)](#), [participating FFI](#), and [registered deemed-compliant FFI](#). See the Form 1042-S instructions for definitions of U.S. branch of a participating FFI or registered deemed-compliant FFI treated as a U.S. person, territory financial institution (FI) treated as a U.S. person, and flow-through entity.



*Withholding agents should use the applicable code that is most specific to your status (for example, chapter 3 status code 12 (Qualified Intermediary)).*

*Withholding agents are to use specified chapter 4 status codes on Forms 1042-S for payments made. See the 2020 Instructions for Form 1042-S. A U.S. financial institution should continue to use its own withholding agent chapter 4 status code (code 01) for purposes of completing Form 1042 if there are any payments made by the U.S. home office reflected on the form. Otherwise, use chapter 4 status code 50 (U.S. Withholding Agent-Foreign branch of FI) unless a more specific status code applies (for example, chapter 4 status code 07 (Registered Deemed-Compliant FFI-Reporting Model 1 FFI)).*

A QI that is a QDD should use the withholding agent chapter 3 status code for a QI (code 12) for purposes of filing its Form 1042, regardless of the types of payments it made for the calendar year. However, a QI that is a QDD should use the withholding agent chapter 3 status code for a QDD (code 35) for purposes of reporting on Form 1042-S a payment that it made in its capacity as a QDD.

## Section 1. Record of Federal Tax Liability

**Lines 1 through 60.** Except as otherwise provided in these instructions, include the tax liability for the period in which the income was paid or distributed regardless of whether the liability is under chapter 3 or chapter 4 and regardless of whether the liability was satisfied through withholding or was paid by the withholding agent (see the instructions for box 11 of Form 1042-S). Do not enter any negative amounts on these lines. If you are required to report a reduction to liability on line 59 (because you made a repayment under the reimbursement or set-off procedure), and this results in a negative amount of tax liability for the period corresponding to line 59, you should instead report any negative amount for the next earlier period(s) so that you are not reporting any



negative amounts on lines 1 through 60. See [Adjustment for Overwithholding](#), later.



*Lines 1 through 60 must show the withholding agent's record of federal tax liability for payments made during the applicable quarter-monthly period. Withholding agents should report the **tax liability** for each period, rather than the amount of tax actually deposited with the IRS. **As such, the sum of lines 5, 10, 15, 20, 25, 30, 35, 40, 45, 50, 55, and 60 should be reported on lines 64b through 64d, as applicable (see instructions for lines 64b through 64d, later).***



*Withholding and depositing of tax is not required under both chapters 3 and 4 for the same payment. In the case of a payment for which withholding is required under chapters 3 and 4, a withholding agent may credit the withholding applied under chapter 4 against its liability for any tax due under section 1441, 1442, or 1443. For a payment subject to withholding under section 1445 or 1446, withholding under chapter 4 does not apply.*

#### **Foreign partners of U.S. partnerships and foreign beneficiaries of U.S. trusts.**

To the extent that a domestic partnership has not distributed a foreign partner's distributive share of income subject to withholding under section 1441, 1442, or 1443, or under chapter 4, it should not include any tax liability on lines 1 through 60 for tax relating to the partner's distributive share in the year the partnership earns the income. For distributive shares not actually distributed, the partnership must include any tax liability on lines 1 through 60 of the Form 1042 for the following year. Include the tax liability on the line that represents the earlier of the following dates.

- The date on which the Schedule K-1 (Form 1065) is sent or otherwise furnished to the foreign partner.
- The due date for furnishing Schedule K-1 (Form 1065) to the partner.

Include such tax liability for the period that includes the date the tax was required to be withheld. See Regulations section 1.1441-5(b)(2)(i)(A).

A domestic trust should report on lines 1 through 60 in the same manner as a U.S. partnership to the extent that it is required to distribute, but has not actually distributed, a foreign beneficiary's share of distributable net income subject to withholding under section 1441, 1442, or 1443, or under chapter 4, before the date (without extensions) on which the income is required to be reported on Form 1042-S. See Regulations section 1.1441-5(b)(2)(ii).

**Example.** In 2020, USP, a U.S. partnership, has foreign partners that are individuals and for which it has obtained valid documentation to establish their foreign status. The withholding tax under section 1441 relating to the distributive shares of the foreign partners was \$120. USP made no distributions in 2020. On the 2020 Form 1042, USP did not enter any amount as tax liability on lines 1 through 60 because it did not distribute any amounts.

USP made a distribution on February 11, 2021, that related to the 2020 distributive shares of the foreign partners. USP withheld \$100 at the time of the distribution. USP sent the 2020 Schedules K-1 (Form 1065) to its partners on April 2, 2021.

On the 2021 Form 1042, USP entered \$100 on line 7. This is the tax liability for the period (February 8 through 15) during which it made a distribution. USP entered \$20 on line 16. This is the tax liability for the period (April 1 through 7) during which it furnished the Schedules K-1 (Form 1065) to the partners.



*Use Form 8804 to report withholding tax liability on the partnership's income effectively connected with a U.S. trade or business.*

**Withholding and reporting in a subsequent year.** Proposed regulations issued on December 18, 2018 (83 FR 64757) would allow partnerships or trusts that are permitted to withhold in a subsequent year with respect to a foreign partner's or beneficiary's share of income for the prior year to designate the deposit of the withholding as attributable to the preceding year. In such a case, the partnership or trust will be required to report the associated amount and tax withheld on Forms 1042 and 1042-S for the preceding year. If a partnership withholds on a foreign partner's share of income after March 15 of the subsequent year, the due date for filing the applicable Form(s) 1042-S is September 15 of the subsequent year. For example, if a partnership withholds on April 1, 2021, with respect to a foreign partner's share of undistributed income for the 2020 calendar year, the partnership may designate the deposit as made for 2020 and report the liability and tax withheld on the 2020 Form 1042 and the 2020 Form 1042-S for the partner. The partnership or trust must also ensure that its chapter 3 status code properly reflects its status as a partnership or trust (including as a Withholding Foreign Partnership (WP) or Withholding Foreign Trust (WT)). The associated liability should be reported on line 59, with the share of income to the partner or beneficiary reported on line 62,

and the amount withheld reported on line 65b.

**Note.** Reporting in the preceding year is also permitted when a partnership or trust allocates a share of income allocable to a partner or beneficiary attributable to the preceding year that was not distributed during that year provided that the partnership meets the previously referenced due date of September 15, 2021, for the applicable Form(s) 1042-S.

**Note.** A U.S. partnership or trust may rely on the proposed regulations for 2020 in lieu of the reporting described earlier, see [Foreign partners of U.S. partnerships and foreign beneficiaries of U.S. trusts](#). The proposed regulations may also be applied by a foreign partnership or trust that itself withholds as described above.

**Note.** For rules that apply for WPs and WTs, see [Rev. Proc. 2017-21](#), 2017-6 I.R.B. 791.

**Corporate distributions.** Do not include on lines 1 through 60 any tax liability caused by adjustments of underwithheld tax on corporate distributions made in calendar year 2020 if the following apply.

- The distributing corporation made a reasonable estimate of accumulated and current earnings and profits under Regulations section 1.1441-3(c)(2)(ii)(A) or 1.1474-6(c)(2)(ii).
- The distributing corporation or intermediary immediately paid over the underwithheld tax by March 15, 2021.

Instead, include these payments of underwithheld tax on line 64a.

**Excise tax on specified federal procurement payments.** Section 5000C imposes a 2% tax on any foreign person that receives a specified federal procurement payment. Include on lines 1 through 60 any withholding obligation under section 5000C with respect to specified federal procurement payments. Report the amount on the line that corresponds with the date the deposit was due.

**Specified federal procurement payment.** A specified federal procurement payment means any payment made pursuant to a contract with the U.S. Government entered into after January 1, 2011, for the provision of goods, if such goods are manufactured or produced in any country which is not a party to an international procurement agreement with the United States, or the provision of services, if such services are provided in any country which is not a party to an international procurement agreement with the United States.

**QIs with no primary chapters 3 and 4 withholding responsibility.** If you are a QI that did not assume primary

withholding responsibility under both chapters 3 and 4, enter the total amount of the tax liability of U.S. withholding agent(s) under both chapters 3 and 4 on line 59. Report all other amounts on the line that corresponds with the date the liability was incurred.

**Note.** Reporting on line 59 as described above also applies to any other entity that reports on Form 1042 to the extent such entity claims a credit on line 67 for amounts withheld by another withholding agent (whether under chapter 3 or 4).

**Adjustments to withholding.** If you used procedures for adjusting overwithholding or underwithholding, see [Adjustment for Overwithholding](#) and [Adjustment for Underwithholding](#), later, for instructions on reporting on lines 1 through 60.

**Escrow procedure.** A withholding agent that withheld tax during calendar year 2020 and that was not required to deposit with the IRS the amount of tax withheld during calendar year 2020 pursuant to the escrow procedure under Regulations section 1.1471-2(a)(5)(ii) or 1.1441-3(d) should not report such amount as a liability on lines 1 through 60 or lines 64a through 64d and should not report such amount as withheld on lines 63a through 63d. An amount held in escrow is required to be reported on the future calendar year return for the year in which the withholding agent is required to deposit the amount of tax with the IRS.

**Withholding after the time of payment.** In limited cases, the regulations under chapters 3 and 4 allow you to withhold after the time that a payment has been made. In such a case, you should include the tax liability for the period in which you actually withheld with respect to the payment. If you withheld in the year following the calendar year in which the payment was made, include the tax liability relating to the payment on line 59 for the year you made the payment. For example, if a deemed distribution under section 305(c) is made on August 15, 2020, but you are not required to withhold with respect to the deemed distribution until a subsequent payment of interest is made on February 15, 2021 (see Proposed Regulations section 1.1441-2(d)(4)), report the tax liability related to the deemed distribution on line 59.

You should report on line 63c(2) the amounts you withheld in the following calendar year in which the payment was made. You should also report deposits of amounts withheld in the year following the calendar year in which the payment was made on line 65b.

**Line 61.** Enter the number of Forms 1042-S filed on paper and electronically.

## Total Gross Amounts Reported

**Lines 62a through 62c.** Enter the amounts reported on all Forms 1042-S for the calendar year (regardless of whether the form was filed electronically or on paper) and for all Forms 1000, Ownership Certificate.



*Be sure to reconcile amounts on Form 1042 with amounts on Forms 1042-S (including Forms 1042-S filed electronically) to avoid unnecessary correspondence with the IRS.*

**Line 62a.** The amount on line 62a should equal the sum of all amounts shown on Form 1042-S, box 2, that are payments of U.S. source FDAP income, less the sum of all amounts that are U.S. source substitute payments reported on line 62b.

**Line 62b.** The amount on:

- Line 62b(1) should equal the sum of all amounts shown on Form 1042-S, box 2, that are U.S. source substitute dividend payments; and
- The amount shown on line 62b(2) should equal all amounts shown on Form 1042-S, box 2, that are U.S. source substitute payments other than substitute dividend payments.

See Regulations section 1.1441-2(b)(4) regarding substitute payments.

**Line 62c.** The amount on line 62c should equal the sum of all amounts shown on Forms 1042-S, box 2, and all amounts shown as gross interest paid on Forms 1000.

**Line 62d.** Enter gross amounts reportable on Forms 1000 and Forms 1042-S if different from the total gross amounts actually reported on Forms 1000 and Forms 1042-S (as shown on line 62c).

## Total Tax Reported as Withheld or Paid

**Lines 63a through 63e.** Except as noted directly below, enter for each line the amounts reported for all Forms 1042-S (regardless of whether the form was filed electronically or on paper) and for all Forms 1000.

**Line 63a.** The amounts reported on line 63a should be the amounts actually withheld by the withholding agent before any applicable adjustments reported on lines 63c(1) and 63c(2).

**Line 63c(1).** The amounts reported on line 63c(1) should be amounts you repaid to the beneficial owner or payee in the year following the calendar year of overwithholding pursuant to either the reimbursement or set-off procedures (and should also be reported as a reduction in tax liability on line 59). See [Adjustment for Overwithholding](#), later. See Form 1042-S,

box 9, for reporting these corresponding amounts.

**Line 63c(2).** The amounts reported on line 63c(2) should be amounts that you withheld in the year following the calendar year of underwithholding from future payments made to a beneficial owner or from other property or additional contributions of a beneficial owner that you hold in custody or otherwise control. See [Adjustment for Underwithholding](#), later. Also report on line 63c(2) any other amounts that you withheld in the year following the calendar year in which the related payments were made (to the extent permitted under an applicable regulation section in chapter 3 or 4). See [Withholding after the time of payment](#), earlier, for how to report the tax liability related to such payments.

The total of the amounts reported on lines 63a and 63c(2) should be the amounts withheld by the withholding agent reported on box 7a of the corresponding Forms 1042-S.

The total of the amounts reported on lines 63b(1) and 63b(2) should be the amounts reported on box 8 of the corresponding Forms 1042-S.

**Line 63d.** The amounts reported on line 63d should be the amounts paid by the withholding agent from its own funds rather than through withholding from the payment to the recipient. See Form 1042-S, box 11, for the corresponding amounts.

**Note.** Amounts withheld and held in escrow (and not deposited with the IRS) pursuant to the escrow procedures under Regulations section 1.1471-2(a)(5)(ii) or 1.1441-3(d) are not reported on lines 63a through 63d until the year they are deposited with the IRS. See the instructions for [Lines 1 through 60](#), earlier. Therefore, amounts that are reported as held in escrow (see box 7b of Form 1042-S) are not taken into account for purposes of reconciling lines 63a through 63d with the corresponding Forms 1042-S.

## Total Net Tax Liability

**Line 64a.** Include on line 64a any adjustments to total net tax liability. For example, report any adjustment to liability when:

- A distributing corporation made a reasonable estimate of accumulated and current earnings and profits under Regulations section 1.1441-3(c)(2)(ii)(A) or 1.1474-6(c)(2)(ii), and
- A distributing corporation or intermediary paid over any underwithheld tax with respect to the distribution by March 15, 2021.

**Note.** The amount reported on line 64a must not be included in the Record of Federal Tax Liability (lines 1 through 60).

**Lines 64b and 64c.** Enter the sum of the amounts reported on the Record of Federal Tax Liability (that is, the sum of lines 5, 10, 15, 20, 25, 30, 35, 40, 45, 50, 55, and 60) that are attributable to liability under chapter 3 (on line 64b) and chapter 4 (on line 64c). The amounts shown on lines 64b and 64c should not include any amounts shown on lines 64a and 64d. Do not make any other adjustments to this line.

**Line 64d.** Enter on line 64d amounts reported on the Record of Federal Tax Liability that are attributable to liability for specified federal procurement payments under section 5000C.

**Line 64e.** The amount on line 64e should equal the sum of lines 64a through 64d.

## Reporting of Taxes Paid and Overpayment or Balance Due

**Line 65.** Enter the total tax deposits you made for the year (including amounts paid with an extension of time to file). Enter deposits of tax withheld during the calendar year in which the related payment was made on line 65a. Enter deposits of tax withheld during the year following the calendar year in which the related payment was made (to the extent permitted under an applicable regulation section in chapter 3 or 4) on line 65b. See [Withholding and reporting in a subsequent year](#), earlier.

**Line 66.** Enter any overpayment reported on the 2019 Form 1042 that you are applying as a credit on the 2020 Form 1042. See line 71.

**Line 67.** You are permitted to take a credit for amounts withheld by other withholding agents that relate to the total net tax liability reported on lines 64b and 64c. For example, you are a QI and the amount you entered on line 64b includes amounts withheld by a U.S. withholding agent under chapter 3 with respect to payments made to you as an intermediary on behalf of your account holders. You may take a credit on line 67 for the amounts that were withheld by the U.S. withholding agent. The amount on line 67 should equal the sum of all Forms 1042-S, box 8, that you file for the year.

**Note.** All withholding agents (including QIs, WPs, WTs, NQIs, NWP, and NWTs) must verify entries on lines 67a and 67b by attaching supporting Form(s) 1042-S or 1099 to verify the credit amounts claimed for withholding by other withholding agents. Failure to do so will result in the denial of the refund or credit being claimed. If you are a PTP or a nominee withholding under section 1446, the tax

paid for a payee may only be claimed as a credit by the payee.

**QSL claiming a credit forward.** If you are a QSL or other withholding agent claiming a credit forward of prior withholding on substitute dividends on line 67b as determined under Notice 2010-46, you should attach Form(s) 1042-S issued to you to support such credits. If a credit is claimed with respect to any U.S. source substitute dividends paid to you from a withholding agent that has not issued a Form 1042-S to you for such payments, attach a supporting statement to Form 1042 indicating the following to support your credit.

- The withholding agent's name, address, and EIN (if known).
- The amount of U.S. source substitute dividends received from the withholding agent.
- The amount of credit forward you included on line 67b in connection with these substitute dividends.

**Lines 70a and 70b.** Enter on line 70a any overpayment attributable to payments subject to withholding under chapters 3 and 4. Enter on line 70b any overpayment attributable to payments subject to the excise tax on specified federal procurement payments. Do not include on these lines any overpayment attributable to amounts that were actually withheld from the beneficial owner (unless such amounts were repaid pursuant to the reimbursement or set-off procedures).

**Line 71.** You may claim an overpayment (the sum of lines 70a and 70b) as a refund or a credit. Check the applicable box on line 71 to show which one you are claiming. If you claim a credit, it can reduce your required deposits of withheld tax for 2021. Note that if you repaid the recipient overwithheld amounts after year-end 2020 using the reimbursement or set-off procedures, you are not able to claim a refund for such an amount on the 2020 Form 1042. Instead, you must indicate on line 71 that you are claiming a credit to be applied to the 2021 calendar year. See [Adjustment for Overwithholding](#), later.


## Adjustment for Overwithholding

What to do if you overwithheld tax depends on when you discover the overwithholding.

**Overwithholding discovered by March 15 of the following calendar year.** If you discover that you overwithheld tax by March 15 of the following calendar year, you may use any undeposited amount of tax to make any necessary adjustments between you and the recipient of the income before you make a deposit. Repay the recipient and reduce the amount of

your total deposit. Report the reduced tax liability on lines 1 through 60 for the period(s) for which you repaid the overwithheld tax.

If the undeposited amount is not enough to make any adjustments, or if you discover the overwithholding after the entire amount of tax has been deposited, you can use either the reimbursement or the set-off procedure to adjust the overwithholding.

 **TIP** If March 15 is a Saturday, Sunday, or legal holiday, the next business day is the final date for these actions.

**Reimbursement procedure.** Under the reimbursement procedure, you repay the beneficial owner or payee the amount overwithheld. You use your own funds for this repayment and may reimburse yourself for an amount repaid by reducing the amount of any subsequent deposit of tax made during the calendar year or the subsequent calendar year. You must make the repayment by the earlier of:

- The date you actually file Form 1042-S for the calendar year in which the amount was overwithheld, or
- The due date for filing Form 1042-S for the calendar year (generally, March 15 of the year after the calendar year in which the amount is overwithheld).

The reimbursement amount may not be more than the amount you actually repaid. The amount of the reduced tax liability for amounts repaid to the beneficial owner or payee during the calendar year must be reflected on the line for the period you reduced your liability. The amount reported on line 59 for the calendar year for which you overwithheld tax must reflect the amount of the reduced tax liability for amounts you repaid the beneficial owner or payee in the subsequent calendar year, if applicable. Amounts reported on line 63c(1) should be limited to amounts repaid to the beneficial owner or payee in the subsequent calendar year (before the earlier of the filing of the associated Form 1042-S or the due date for such form). On line 71, indicate that you are claiming a credit to be applied in the 2021 calendar year for amounts you repay the beneficial owner or payee in the subsequent calendar year (note, you may not claim a refund for such an amount).

For example, if you overwithhold tax in 2020, you must repay the beneficial owner by March 15, 2021 (or the date on which you filed the associated Form 1042-S with the IRS, if earlier). You must keep a receipt showing the date and amount of the repayment and provide a copy of the receipt to the beneficial owner if you repaid the beneficial owner. If you repaid the beneficial owner after year-end 2020, you must report the repayment on



line 63c(1). You must reduce your federal tax liability on line 59 of your 2020 Form 1042 by the amount of the repayment and claim a credit on line 71 for the difference between your tax liability and your deposits with the IRS. You may reimburse yourself by reducing any subsequent deposits you make before the end of calendar year 2021 (the year after the calendar year in which the amount was overwithheld).

**Set-off procedure.** Under the set-off procedure, you repay the beneficial owner or payee the amount overwithheld by reducing the amount you would have been required to withhold on later payments you make to that person but only if made before the earlier of:

- The date you actually file Form 1042-S for the calendar year in which the amount was overwithheld, or
- The due date for filing Form 1042-S for the calendar year (generally, March 15 of the year after the calendar year in which the amount is overwithheld).

The reductions that you applied pursuant to the set-off procedure during the calendar year must be reflected on the line for the period you reduced your liability. The amount reported on line 59 for the calendar year for which you overwithheld tax must reflect reductions that you applied pursuant to the set-off procedure during the subsequent calendar year, if applicable. Amounts reported on line 63c(1) should be limited to amounts repaid to the beneficial owner or payee (by reducing the withholding on a later payment) in the subsequent calendar year (before the earlier of the filing of the associated Form 1042-S or the due date for such form). On line 71, indicate that you are claiming a credit to be applied to the 2021 calendar year for amounts you set off in the subsequent calendar year (note, you may not claim a refund for such an amount).

For 2020, a withholding agent may rely on proposed regulations (83 FR 64757), which allow adjustments to overwithholding using the reimbursement or set-off procedures until the extended due date for filing Form 1042-S (unless a Form 1042-S has already been filed with the IRS or furnished to the recipient). A withholding agent may also use the extended due date for filing Form 1042 to claim a credit for any adjustments to overwithholding.

**Overwithholding discovered at a later date.** If you discover after March 15 of the following calendar year that you overwithheld tax for the prior year, do not adjust the amount of tax liability reported on Form 1042 or on any deposit or payment for that prior year. Do not repay the beneficial owner or payee the amount overwithheld unless you are a QI, WP,

WT, participating FFI, or reporting Model 1 FFI making a claim for a collective refund under your respective agreement with the IRS. See Regulations section 1.1471-1(b) (114) for the definition of a reporting Model 1 FFI.

In this situation, the recipient will have to file a U.S. income tax return (Form 1040-NR or Form 1120-F) or, if a tax return has already been filed, a claim for refund (Form 1040-X or amended Form 1120-F) to recover the amount overwithheld.

## Adjustment for Underwithholding

Under the procedures for adjusting underwithholding (see Regulations sections 1.1461-2(b) and 1.1474-2(b)), you may withhold from future payments made to a beneficial owner the tax that should have been withheld, or satisfy the tax from property or additional contributions of the beneficial owner that you hold in custody or otherwise control, before the date (without extensions) that the Form 1042 is required to be filed. You should report the liability related to such withholding on lines 1 through 60 for the period during the year in which you adjusted underwithholding by withholding additional tax. If you adjust underwithholding by withholding in the year following the calendar year of underwithholding, you should report the increased liability on line 59 for the year in which the underwithholding occurred. Amounts reported on line 63c(2) should be limited to amounts withheld in the year following the calendar year of underwithholding (before the date that the Form 1042 is required to be filed without extensions). You should report deposits of amounts withheld in the year following the calendar year of underwithholding pursuant to these procedures on line 65b. See [Deposits made during subsequent year](#), earlier, for how to designate such deposits as attributable to the year of underwithholding.

## Section 2. Reconciliation of U.S. Source FDAP Income

This section is used by the withholding agent to reconcile the amount of U.S. source FDAP income reportable under chapter 4 and paid by the withholding agent during the calendar year with the total amount of U.S. source FDAP income reported on all Forms 1042-S filed by the withholding agent for the calendar year (including amounts reported under both chapter 3 and chapter 4). You must complete this section even if you did not make any payments subject to chapter 4 withholding during the calendar year. This section also allows reporting of the

amounts of U.S. source FDAP income for which chapter 4 withholding is required and reporting of the amounts for which withholding is not required according to the exemption from chapter 4 withholding applicable to each such amount.

**Note.** The amounts of U.S. source FDAP income reportable for chapter 4 are:

- Payments of U.S. source FDAP income for which withholding under chapter 4 was applied to the payment, plus
- Payments of U.S. source FDAP income for which withholding under chapter 4 was not required but that are subject to reporting for chapter 3 purposes on Forms 1042-S.

**Line 1.** Enter the amounts of U.S. source FDAP income required to be withheld upon under chapter 4, including amounts withheld upon but for which no deposit has been made under an escrow procedure.

**Line 2.** Enter amounts of U.S. source FDAP income not required to be withheld upon under chapter 4 on lines 2a through 2d according to the exception to withholding that applied to each payment reportable on Form 1042-S. The amount on line 2e should equal the sum of lines 2a through 2d.

**Line 2a.** Enter the amounts of U.S. source FDAP income that are withholdable payments, but for which the withholding agent has obtained documentation that establishes a chapter 4 status that does not require withholding under chapter 4 (for example, participating FFI). The amount reported on this line should generally equal the aggregate amount reported in box 2 on all of the Forms 1042-S you filed for the calendar year for which exemption code 15, Payee not subject to chapter 4 withholding, was included in box 4a.

**Line 2b.** Enter the amounts of U.S. source FDAP income that are not withholdable payments because they are nonfinancial type payments (for example, royalties, services, rents). The amount reported on this line should generally equal the aggregate amount reported in box 2 on all of the Forms 1042-S you filed for the calendar year for which the exemption code 16, Excluded nonfinancial payment, was included in box 4a.

**Line 2c.** Enter the amounts of U.S. source FDAP income that are not withholdable payments because they are payments related to grandfathered obligations (for example, obligations outstanding on July 1, 2014). See Regulations section 1.1471-2(b). The amount reported on this line should generally equal the aggregate amount reported in box 2 on all of the

Forms 1042-S you filed for the calendar year for which the exemption code 13, Grandfathered payment, was included in box 4a.

**Line 2d.** Enter the amounts of U.S. source FDAP income that are not withholdable payments because they are payments of effectively connected income. The amount reported on this line should generally equal the aggregate amount reported in box 2 on all of the Forms 1042-S you filed for the calendar year for which the exemption code 14, Effectively connected income, was included in box 4a.

**Line 2e.** Enter the sum of all amounts of U.S. source FDAP income required to be reported on Form 1042, but that are not required to be withheld upon under chapter 4 (sum of lines 2a through 2d).

**Line 4.** Enter the sum of all amounts shown on Form 1042-S, box 2, that are payments of U.S. source FDAP income (including amounts reported under both chapter 3 and chapter 4). The amount on line 4 should equal the total gross amounts reported on line 62c.

**Line 5.** The amount on line 5 should be the total reported on line 4 (total amount reported on all Forms 1042-S) less the total reported on line 3 (total U.S. source FDAP reportable under chapter 4).

**Line 6.** If the amount reported on line 5 is other than zero, use this line to provide an explanation for the variance. If additional space is needed, attach a sheet to Form 1042 explaining the difference noted on line 5.

### Section 3. Potential Section 871(m) Transactions

Check the box if you are a withholding agent that makes any payment under a potential section 871(m) transaction during the year, including a notional principal contract or other derivative contract that references, in whole or in part, a U.S. stock or underlying security. See Regulations section 1.871-15(a)(12) for the definition of a potential section 871(m) transaction.

### Section 4. Dividend Equivalent Payments by a Qualified Derivatives Dealer (QDD)

If a QI (whether the home office or any branch) was a QDD during the tax year, check the box, enter the regular EIN (if any) of the QDD (not the QI-EIN) in the field provided, and attach a Schedule Q (Form 1042) for each QDD. You must complete and attach Schedule Q (Form

1042) even if the QDD has zero tax liability.

**Note.** In addition to filing a separate Schedule Q (Form 1042) for each QDD, if the taxpayer has a tax year other than the calendar year, the taxpayer must file separate Schedules Q (Form 1042) — one for the portion of the calendar year in the first tax year and a second one for the portion in the second tax year.

### Third Party Designee

If you want to allow any individual, corporation, firm, organization, or partnership to discuss your 2020 Form 1042 with the IRS, check the “Yes” box in the Third Party Designee section of the return. Also, enter the designee’s name, phone number, and any five digits the designee chooses as his or her personal identification number (PIN). The authorization applies only to the tax form upon which it appears.

If you check the “Yes” box, you are authorizing the IRS to call the designee to answer any questions relating to the information reported on your tax return. You are also authorizing the designee to:

- Exchange information concerning your tax return with the IRS; and
- Request and receive written tax return information relating to your tax return, including copies of specific notices, correspondence, and account transcripts.

You are not authorizing the designee to receive any refund check, bind you to anything (including additional tax liability), or otherwise represent you before the IRS. If you want to expand the designee’s authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization automatically expires 1 year from the due date (without any extensions) for filing your 2020 Form 1042. If you or your designee desires to terminate the authorization, a written statement conveying your wish to revoke the authorization should be submitted to the IRS service center where the return was processed.

### Amended Return

If you have to make changes to your Form 1042 after you submit it, file an amended Form 1042. Use a Form 1042 for the year you are amending. Check the “Amended Return” box at the top of the form. You must complete the entire form, including all filing information for the calendar year, and sign the return. Attach a statement explaining why you are filing an amended return (for example, you are filing because the tax liability for May was incorrectly reported due to a mathematical error).

If you are also amending Form(s) 1042-S, see *Amended Return* in the Form 1042-S instructions.

Do not amend Form 1042 to recover taxes overwithheld in the prior year. For more information, see [Adjustment for Overwithholding](#), earlier.

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### Privacy Act and Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. Sections 1441, 1442, 1446 (for PTPs), and 1471–1474 require withholding agents to report and pay over to the IRS taxes withheld from certain U.S. source income of foreign persons. Form 1042 is used to report the amount of withholding that must be paid over. Form 1042-S is used to report the amount of income and withholding to the payee. Section 6109 requires you to provide your identifying number on the return. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty or tax information exchange agreement, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. If you fail to provide this information in a timely manner, you may be liable for penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123. The estimated burden for all other taxpayers who file this form is:

**Recordkeeping**, 10 hr., 31 min.; **Learning about the law or the form**, 2 hr., 25 min.; **Preparing the form**, 4 hr., 34 min.; and **Copying, assembling, and sending the form to the IRS**, 32 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can send us comments from [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can write to the Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not

send the form to this address. Instead, see [Where and When To File](#), earlier.

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