

# TAINA TECHNOLOGY

## COMMON REPORTING ERRORS

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### WHAT ARE SOME OF THE COMMON ERRORS?

1. Incorrect TIN indicator, mismatched TIN type
2. Invalid Recipient name and address information.
3. If a recipient is an "UNKNOWN RECIPIENT" or "WITHHOLDING RATE POOL," with recipient address.
4. Country Codes used must be valid codes taken from the Country Code Table at Form 1042s Country Codes. If a recipient is claiming treaty benefits, the Country Code can never be "OC" or blank to indicate unknown country.
5. If the recipient or entity is a participating FFI, registered deemed-compliant FFI, sponsored FFI, direct reporting NFFE, or sponsored direct reporting NFFE, missing the appropriate entity's GIIN or the GIIN of the sponsoring entity
6. Form 1042-S can only list one of the owners as the recipient. Form 1042-S must not be completed with more than one of the joint owners as the recipient.
7. Incorrect reporting of Tax Rates in the "Q" Recipient Record.
8. Invalid or incorrect income code and exemption code combinations

**"If Chapter 3 Status code 21 is used, the Tax Rate and the U.S. Tax Withheld must always be 30%. For example, exemption Code 04 (treaty exemption) is not allowed when using Recipient's Chapter 3 Status code 21"**

### COMMON CAUSES

Most issues with reporting are traced to two main causes. First is incomplete/incorrectly recorded data from the "W" series form. Second is from mapping the information captured from client relationship management (CRM) systems. Multiple operations teams handle most of the processes when managed by large organizations. The communication and execution needs to be near perfect to prevent any mistakes. There are various classifications on the W-8 that are not a 1 to 1 match to the 1042-S and IDES reporting. Most of the cases result in the incorrect selection of the recipient, FATCA Exemption or Exemption (NRA) Code. An example of this is W-8 Chapter 4 election US Branch is mapped to 2 recipient codes. If the proper sub elections are not captured it would make this mapping imperfect and may result in miss reporting for FI/IGA reporting. Second is common limitation where CRM systems record joint owners as a single entity and reporting on Form 1042-S list all the owners. When FATCA was in its initial stages there was an immediate need to capture the status off the form and the reporting requirements were still pending, delays in reporting details created a disconnect.

**Typically simple data validation rules are required to look for common errors. Looking for the specific combinations highlighted in the common errors in Publication 1187.**

Best way to avoid or cure for some of these errors is to expand upon your documentation processing and to capture the specific elections from form W-8. Additionally proper backwards mapping from the 1042-S to the documentation details will prevent errors. The simple answer to this is having a versatile documentation process is key to ensuring that all downstream processes can be covered even when details are not available till later after the process effective date.



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## COMMON SOLUTIONS

In this section, I would like to outline some of the potential ways to address the errors that you experience. Not all of these concepts will work for all cases but should provide ideas for solving the error. I will identify the common error and provide guidelines for possible modifications.

### Incorrect TIN indicator, mismatched TIN type

**IRS Comments:** If a qualified intermediary (QI), withholding foreign partnership (WP), or withholding foreign trust (WT), as a recipient, the TIN reported must be a QI-EIN, WP-EIN, or WT-EIN and must begin with "98." See the definition of a QI in Part A, Sec. 11, Definition of Terms or in the Instructions for Form 1042-S.

**TAINA Comments:** Basic exception criteria can be implemented where an invalid combination of Chapter 3 classification, Tin Type and Tin is saved to a recorded.

### Invalid Recipient name and address information.

**IRS Comments:** Recipient Street should be used for additional internal information; such as mail stop numbers, or attention information. City should be used to enter the city, town, or other locality name. If applicable, enter APO or FPO. Do not enter Recipient's State, Province Code, Country Code, or foreign postal codes in this field.

**TAINA Comments:** Reportable account addresses can be cross check using most search engine API services.

### Incorrect use of Chapter 3 Recipient Code 21 or Chapter 4 Recipient Code 29 (Unknown Recipient)

**IRS Comments:** Chapter 3 Status Code 21 and Chapter 4 Status Code 29 may be used only if no withholding certification document has been provided to and retained by the withholding agent, or the withholding certification document provided to and retained has been determined by the withholding agent to be incomplete or otherwise unreliable.

**TAINA Comments:** Creating an exception management report where a flag is set when a 1042-S is Unknown Recipient and withholding rate not 30%.

### If a recipient is an "UNKNOWN RECIPIENT" or "WITHHOLDING RATE POOL," with recipient address

**IRS Comments:** No address should be present. These are the only two situations where a street address is not required.

**TAINA Comments:** This is also an exception management item to identify 1042-S with an address and Unknown Recipient or Recalcitrant Withholding Pool.

### Country Codes used must be valid codes taken from the Country Code Table at Form 1042s Country Codes.

**IRS Comments:** If a recipient is claiming treaty benefits, the Country Code can never be "OC" or blank to indicate unknown country.

**TAINA Comments:** The most common issue here is incorrect mapping of the ISO country codes instead of using Pub 515.

### If the recipient or entity is a participating FFI, registered deemed-compliant FFI, sponsored FFI, direct reporting NFFE, or sponsored direct reporting NFFE, missing the appropriate entity's GIIN or the GIIN of sponsoring entity.

**IRS Comments:** Form 1042-S treating the participating FFI or registered deemed-compliant FFI as the recipient and must include the GIIN and chapter 3 status code of the FFI and the applicable chapter 4 reporting pool code as the chapter 4 status code.

**TAINA Comments:** Controls that trigger a validation error when specific classification is captured and the appropriate GIIN(s) are not stored in the database

### Form 1042-S can only list one of the owners as the recipient. Form 1042-S must not be completed with more than one of the joint owners as the recipient.

#### **IRS Comments:**

In the case of foreign joint owners, you may provide a single Form 1042-S made out to the owner whose status you relied upon to determine the applicable rate of withholding

#### **TAINA Comments:**

The one way to execute this concept is by storing forms at an owner level and linking the identified owner to the account.

### Incorrect reporting of Tax Rates in the Recipient Record.

#### **IRS Comments:**

Please refer to the table in Publication 515 and only use the tax rates listed. "Blended rates" are not allowed. If a tax rate for a given recipient changes during the year, two 1042-S forms must be submitted.

**TAINA Comments:** Setup a process validation that identifies 1042-S forms generated with a fractional percentage or a rate not aligned to the country code.

### Invalid or incorrect income code and exemption code combinations

**IRS Comments:** Generally, payments of Dividend Income are not exempt from withholding, however, certain exceptions apply. If income is not specified (Income Code 23 - Other Income), the tax rate must generally be 30%. This type of income is only exempt from withholding at source if the exemption is based on a tax treaty as listed in Publication 515.

**TAINA Comments:** Deployment of control rules that confirm that the Exemption code and Income code combinations are valid will prevent this issue

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