



**The Research Foundation for  
The State University of New York**

**Payment Tax and Reporting Handbook  
For Payroll and Accounts Payable Administrators**

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## Introduction

### Purpose

The Payment Tax and Reporting Handbook is designed to provide users (see “Audience,” below) with tax-related procedures and guidance for processing payments at the Research Foundation (RF). In addition, the Handbook provides links to information on the RF web site as well as other sources.

The focus of the document is on the RF’s compliance with internal and external rules. It does not govern the tax status or compliance of the RF’s individual employees, contractors, or sponsors. If a payment recipient requests specific personal tax or filing advice, he or she should be instructed to consult a tax advisor.

### Audience

This handbook is intended to be used by RF administrators, mainly in the AP/PO or payroll functions at campuses or at Central Office. Typically, users of this Handbook have responsibility to collect forms and data from employees and vendors, determine taxation impacts, and make payments to individuals or entities. This Handbook is intended to assist administrators in these responsibilities, as well as in communicating, responding and resolving tax and reporting inquiries for project staff and the entire RF community.

### How to Use the Handbook

Use this Handbook as an on-line resource with direct links to relevant forms, publications, videos and supplemental RF procedures. Use the table of contents to connect with four main areas of the document:

- [Pre-Payment Decisions](#)
- [Rules and Guidance for Different Types of Payees](#)
- [Post-Payment Reporting](#)
- [Payments to Entities](#)

The second section, “Rules and Guidance for Different Types of Payees,” is specific to payee payment classifications and therefore one click away to understanding how to process key steps to taxation and reporting for the particular type of payee. Most payees at the RF fall under US Citizen taxation and reporting rules as either a US Citizen, Permanent Resident or Resident Alien for tax purpose, therefore each payee guidance will cover US Citizen processing first and conclude with a “NONRESIDENT ALIEN RULES” subsection for more specific instructions and tips for NRAs.

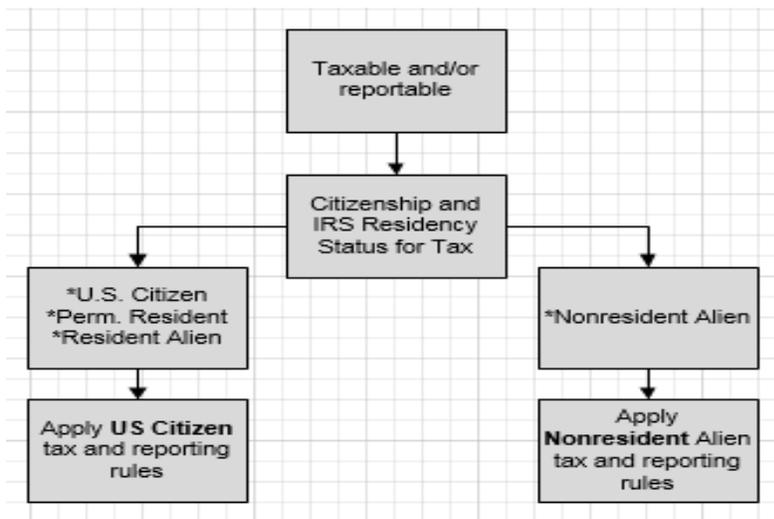
The first three sections are arranged in chronological order of before, during and after the payment. They are focused on, but not limited to, individuals. However, there are some added specific rules for entities; therefore, a fourth “Payments to Entities” section is included with RF information and resources.

## Pre-Payment Decisions

### Understanding Payment Taxation and Reporting

Any amount paid or provided is considered taxable and / or reportable unless there is an IRS rule to exempt or exclude the amount from taxable income. The following preliminary decisions are required for compliant processing:

1. Determine if the payment is a taxable and / or reportable relationship with the RF
2. Determine the citizenship and IRS residency status for tax purposes for the individual or entity
3. Determine and apply the appropriate set of tax and reporting rules



U.S. Citizens, Permanent Resident and Resident Aliens for tax purposes – U.S. tax and reporting rules apply to worldwide payments to the recipient.

Non-Resident Aliens – Tax and reporting rules apply to only “U.S. Source” payments to the recipients.

References:

[Taxation and Reporting Compliance Overview](#) process diagram

Additional Resources:

[Learning Tuesday Videos](#)

Payment Taxation and Reporting – December 3, 2013

## Taxable and / or Reportable relationship with RF?

RF You Tube Video – [Reportable vs. Non-Reportable](#)

Some of the RF's payments create a taxable and / or reportable relationship with the RF, while some payments are excluded from tax or reporting such as payments for goods or supplies. All payments from the payroll system are "Subject to" tax and reporting rules, whereas payments from the RF accounts payable system require further evaluation.

The RF recognizes six (6) main payee relationships for taxation and reporting:

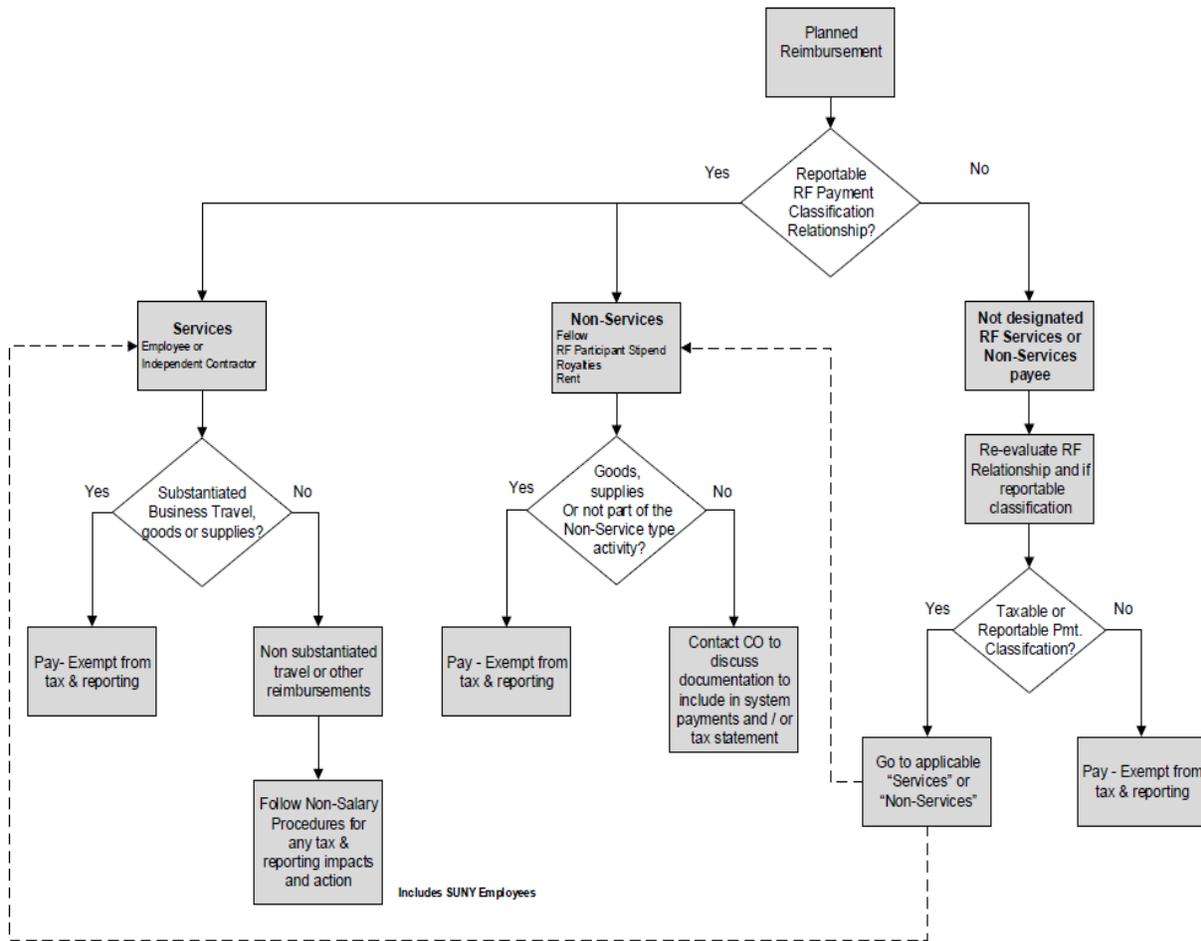
- **Services**
  - Employees
  - Independent Contractors
- **Non-Services**
  - Fellows
  - RF defined Participant Support
  - Licensees (royalties)
  - Landlords / Lessor (rent)

Payees are generally individuals but some payments through accounts payable might be companies or partnerships. Payments to vendors in the RF accounts payable system for goods or supplies are not reportable and therefore not included in this list. In addition, many individuals are paid reimbursements through the accounts payable system. Tax and / or reporting depends upon the nature of the reimbursement and the payee status, facts and circumstance. There are also special IRS tax and reporting rules for some reimbursements such as "Business Travel Reimbursements" that have unique IRS tax and reporting rules. Most of the IRS rules are connected to services, meaning employees or independent contractor payments.

Accurate identification of the payee "payment classification" is critical to tax and reporting compliance. The activity conducted defines the classification. Relabeling a reportable activity will not make it non-reportable. Fines or penalties related to misclassifications are the campus responsibility.

Reimbursements to payees that are **not** a RF reportable payment classification listed above have no tax or reporting impacts and are instead considered normal project expenses paid with standard accounts payable documentation assuming sponsor approval. For guidance, see the following process diagram on paying reimbursements.

Paying Reimbursements



If operating location administrators still have questions or need guidance with payment classification evaluations and decisions, contact the central office HR classification / compensation unit.

**Human Subjects**

Human Subject payments are also subject to tax and reporting rules and require some further clarification. The RF provides some flexibility for the method of payment due to the special nature and confidentiality of human subjects - refer to [Human Subject Payments](#). To ensure it is not a surprise to a human subject, the potential that income could be reported on a tax statement should be disclosed to the subject. Human subject reporting is treated as “Other” income which is similar to processing guidance and instructions of the RF defined Participant Support section within this Handbook. In addition, it is important to ensure that human subject costs are properly budgeted and closed out as subject cost expenditures and not confused with participant support expenditure types.

Project managers can receive funds and then use non-system alternative methods of distribution under the RF procedures. The value of all compensation (i.e. gift cards or value of tangible gifts) to human subjects must be tracked for tax or reporting compliance. Often it is generally assumed that payments

will fall under a reporting threshold and therefore there is no reporting impacts, but this is not always true and operating location administrators need to understand the following about alternative distributions:

- When the payee is a U.S. Citizen or Resident Alien for tax purposes, all amounts of compensation over \$ 600 are reportable. Tracked amounts over the \$600 must be sent to central office at calendar year end for creation of a 1099-MISC
- If the payee is a Non-U.S. Citizen that is a Nonresident Aliens for tax purposes (NRA), all amounts of compensation are subject to withholding and reporting on the 1042-S tax statement, no thresholds apply. Payment processing **must** be through the accounts payable system for NRAs, or through a method approved and monitored by central office, such as Clin Card.

### Taxpayer Identification Number Requirements

RF You Tube Video – [US Taxpayer Identification Numbers](#)

All **employees MUST** have or obtain a Social Security Number (SSN) and provide it to the RF. The SSN is first requested with Employment Eligibility Verification USCIS Form I-9 and the Research Foundation participates in E-Verify reporting. A SSN is a U.S. Taxpayer Identification Number issued by the Social Security Administration (SSA). A SSN contains nine numeric digits (no alpha characters) and is invalid if it begins with “000,” “666” or “900-999.” Employees that work but do not have a U.S. TIN must be paid promptly (within 30 days for most vendors, 15 days for qualified Small Business vendors) per [prompt payment laws](#). Instructions are provided within the Employee section on how to pay an employee that does not yet have a SSN.

Refer to:

- [Employment Eligibility Requirements: The I-9 Process](#)
- [E-Verify: Employee verification Procedure](#)

All other **non-employee** taxable and/or reportable payees must also provide or obtain a valid U.S. Taxpayer Identification Number. This is generally the “Individual Taxpayer Identification Number” (ITIN). The ITIN is issued by the IRS. An ITIN contains nine numeric digits (no alpha characters) and will always begin with the digit “9.”

A U.S. Taxpayer ID number for non-employees can be a SSN ([SS-5](#) from SSA) or Individual Taxpayer Identification Number (ITIN, [IRS W-7](#) from IRS). Many non-U.S. citizens have a SSN due to prior activity in the U.S. If the individual does not have a U.S. TIN, inform them to apply for one and to supply the RF with the number when received to update RF business systems. There are RF requirements to obtain and report a US TIN on any required tax statements issued to recipient and reported to the government. Specific instructions for payments, TINs and reporting are provided within each payee section.

### Solicitation:

Solicit a TIN from all suppliers with potential for taxable and / or reportable payments. Specific instructions to solicit a TIN are different and expressed within each payee section. Request the form from the supplier regardless of any presumed payment amounts. For example, many question if they

have to obtain a TIN if a U.S. Citizen or Resident Alien for tax is expected to be paid less than \$600. The amount paid has no bearing on guidance to request or solicit the TIN.

If an individual obtains a SSN after previously having an ITIN, the SSN supersedes the ITIN. There are offices or options around the globe for noncitizens to start the application for a U.S. TIN.

#### Options for Non-US Citizens and ITINs:

- Non U.S. Citizens that are not an employee, and must obtain an ITIN, may be able to secure an ITIN from outside the U.S. Refer the individual to [Contact My Local Office Internationally for more information](#).
- Non-U.S. Citizens can also apply for an ITIN through an [Authorized Acceptance Agent](#) authorized by the IRS to facilitate the ITIN application process. Refer the individual to [IRS Publication 1915 Understanding your IRS Individual Taxpayer Identification Number \(ITIN\) for more information](#).

#### Non-Citizens

If projects or staff are planning to invite a non-U.S. Citizen to the U.S. for RF activity, it is important to plan sufficient time before the activity begins, to gather non-citizen information for important pre-payment decisions to avoid under-withholding. An IRS residency determination for tax purposes is required for non-citizens prior to applying the NRA tax rules. A non-citizen might be exempt from tax if they complete certain IRS forms; otherwise a default withholding rate of 30% applies. Please note, it can take some time for the non-citizen to apply and receive their taxpayer identification number (TIN).

#### Immigration Review / Impact

The RF must evaluate immigration status prior to payment. Non-U.S. Citizens obtain a type of visa defined by U.S. immigration law and related to their visit in the U.S. The visa is explicit in describing the individual's activity allowed and where they can conduct that activity. If the RF activity is not eligible under the terms of the visa, they are not eligible to receive the RF payment. For example - an H-1B visa is for employment only. If operating location administrators still have further questions or need more help determining eligibility contact the central office HR class and compensation unit.

#### Determine Citizenship and IRS Residency Status for Tax Purposes

RF You Tube Video – [Citizenship and IRS Residency for Tax Purpose and Impact](#)

There are four (4) IRS residency classifications for tax purposes. (IRS Reference [Determining Alien Tax Status](#))

- U.S. Citizens

- Permanent Residents (Non-Citizens with Green Card)
- Resident Aliens (Non- Citizens that meet the Substantial Presence Test – SPT)
- Nonresident Aliens

#### RF forms for Residency Determination:

- Payroll [Request for Alien Information](#) – Employees and Fellows Form.
- Accounts Payable [Request for Alien Information](#) – Miscellaneous Income Form

#### IRS Residency Determination Action Steps

When a non-citizen provides services or participates in reportable activity with the RF, additional information must be obtained before payment. Each operating location is responsible to designate appropriate administrators from among its staff to do the following as early as possible:

1. **Review immigration status** - Ensure immigration information has been reviewed as appropriate for the visit to the U.S. Many times, a separate international office on campus has reviewed and verified this information. Refer to [Immigration Review / Impact](#).
2. **Complete Form** -Request the noncitizen or operating location administrators complete the appropriate RF “Request for Alien Information” (links provided above) form with the knowledge of the information available. Page one requests general information on the noncitizen and their visit and page two provides the step by step IRS residency and [SPT test](#) for non U.S. citizens.
3. **Determine residency status** - Review “Request for Alien Information” form and ensure page 2 of the IRS residency for tax purpose tests are completed correctly and identify the IRS tax and reporting status of the non-citizen. Instructions appear after each test as to the status of the individual or if they must continue to the next test. Keys to each test:
  - a. **Test 1** - Permanent Residents (Green Card) are resident aliens for tax purposes.
  - b. **Test 2** – F-01 / J-01 students or J-01 teachers / researchers visas in U.S. conducting the activity intended by their visas are exempt **from the SPT** Test 3 and therefore nonresident aliens for tax purpose with exceptions.
    - i. **Time Limit** - There are time limits for the F-01 and J-01 exemption **from the SPT** test. The time limit for F-01 or J-01 Students is 5 calendar years and for J-01 Teacher / Researchers the limit is 2 of any 6 calendar years. Any part of any year the individual is in the U.S. counts as one full year of **exemption from the SPT test**. Example: An F-01 student enters the U.S. in November of 2013. The first year **exemption from the SPT test** is 2013, and 2014, 2015, 2016 and 2017 are also exempt calendar years from the SPT test. January 2018 the student is **no longer exempt from the SPT test**. Tax impacts are covered later in this section.
  - c. **Test 3** – If neither a Permanent resident, F-01 or J-01 visa noted above, then the SPT “look back” calculations is executed. If the calculation results in 183 or more days, then the individual is a resident alien for tax purposes.
4. **Request TIN** -Inquire if the individual has a U.S. Taxpayer identification Number (TIN) as it can take time to obtain one. Refer to [Taxpayer Identification Number Requirements](#) section.
5. **Monitoring IRS Residency for tax status** –Determine IRS residency when activity starts, and periodically evaluate whether IRS residency status is likely to change during the non-citizen’s

stay in the US (it is reasonable to “estimate” or “project” when or if this may occur). Non-U.S. Citizen amounts paid through Accounts Payable activity is typically short term and therefore no further evaluation is usually required; however, employee and fellow activity is usually longer-term and requires monitoring for status changes. For Non-U.S. Citizens in the U.S. for an extended period of time:

- a. Run RF payroll business system report “RF non-Citizen – Projected Resident Alien Status” to review impending changes in residency status based on data entered into the Noncitizen Visa and Residency Special Info Type in the payroll system.
- b. Collect new RF “Request for Alien Information” forms for on-going employee and fellow assignments when necessary and in January of each calendar year, evaluate changes in IRS residency for tax purposes. If it is known that the individual’s assignment will end soon do not solicit new information.
- c. The RF [Memo – Year End Monitoring for Tax Purposes](#) is available for use as a template and communication to the individual
- d. Update any changes in the payroll system Noncitizen Special Information Types and “Fed Tax Rules” screens as necessary. Refer to [Appendix A](#) of this Handbook.

#### **Non-Citizen Residency status “change date” income tax impact**

During a calendar year a noncitizen’s residency status may change. Typically this would be from a non-resident alien to a Resident Alien either because of issuance of a green card for permanent residents or meeting the SPT test. Some could even become naturalized US Citizens. When this occurs, income tax withholding rules change and must be re-applied based on the “change date.” Reporting to tax statements can require “split reporting.” During the time frame the individual was a nonresident alien, NRA income tax and reporting rules must be applied and during the time frame the individual is a resident alien, U.S. Citizen income tax and reporting rules must be applied. Some key information will be needed in the RF business systems. Do not hesitate to contact Central Office’s Corporate Payment Compliance Manager for guidance.

Payroll system entry – Refer to [Appendix A of this Handbook](#).

Accounts payable entry – Refer to [Appendix B of this Handbook](#).

#### **Residency status and Social Security (SS) and Medicare (employees only)**

For non-citizen employees - SS and Medicare tax exemption is directly tied to the IRS residency test. If residency is projected to change to a “permanent resident” or “resident alien” at any time during the calendar year, the employee is no longer exempt under the “Non-Citizen status” exemption. Unless the non-citizen employee is otherwise exempt under the “student status” exemption, make appropriate payroll system changes to withhold SS and Medicare. Refer to [“Evaluate and code Social Security \(SS\) and Medicare tax withholding.”](#) Example: It is January and it is determined a non-citizen employee is projected to be a resident alien under the SPT test in July. Review finds they do not meet the student status exemption. Make the appropriate payroll system entry to start withholding SS and Medicare immediately.

## Nonresident Alien Taxation and Reporting Basics



It is very important to solicit additional information on NRA's before and during his or her RF activity to ensure they are set up in the payment system properly and to ensure the appropriate tax is withheld when required.

It is first **required** to review [Immigration Review / Impacts](#) to ensure the activity is eligible for payment. Only then are tax and reporting rules considered.

There are three REQUIRED **sequential** steps before **ALL** NRA payments to determine tax, exemption and reporting status. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

1. Evaluate official IRS "Sourcing" status for the type of payment
2. Determine if the payee can and will claim an Income Tax Treaty Exemption
3. If neither 1 or 2 apply - Taxable at default IRS rule of 30%, with following exceptions
  - a. Employees subject to graduated rate tables and special restrictive rules, instead of flat rate (IRS Notice 1392)
  - b. Fellows allowed a further reduced flat rate of 14%

### Step 1 – Evaluate IRS Sourcing

IRS "Sourcing" rules are different with each payee type and explained within the "**NONRESIDENT ALIEN RULES**" in Section II of this Handbook. If the income type is determined to be "Foreign Source," there is no RF *requirement* to withhold or report the income; however, the RF elects to report foreign source income related to employees and provide them with a 1042-S at year end. Some key data must be entered to the payroll or accounts payable system to identify the "foreign source" status. [If services are provided outside of the U.S., refer to the RF policy Employment of Noncitizens Outside the U.S. Policy.](#)

IF "U.S. Source" continue to Step 2 below on treaty claims.

### Step 2 – Does Payee Claim an Income Tax Treaty Exemption?

Not all countries have treaties with the U.S. and of those countries that do have treaties with the U.S., not all income is covered under an income tax treaty article. **ALL** of the following must occur for the RF to extend a treaty article exemption to an individual:

- The individual provides a valid U.S. Taxpayer Identification Number (TIN)
- Country has a treaty with the U.S.
- The treaty has an “article” that covers the activity for payment as well as other stipulation of the treaty and article such as presence in U.S., maximum amount or time or amount the treaty is valid
- The individual completes the appropriate IRS form to “Claim” the treaty exemption from income tax withholding

Treaty exemption does not always mean \$ 0.00 withholding. –For instance, treaties for royalties may only mean a reduced rate of tax withholding. Refer to Section II of this Handbook for [Licensee’s \(Royalty\)](#).

RF operating location administrators are required to review the IRS form submitted by the individual to claim treaty exemption and ensure the information is complete and valid to the best of their knowledge and follows the IRS instructions of the form. **If the amount is “US Source,” the individual does not have an appropriate TIN or does not complete the appropriate IRS form(s) to claim treaty exemption the RF is required to withhold tax on the payment.** The required IRS form(s) and instructions are unique for each payee type eligible to claim income tax treaty exemption. Refer to [Appendix C](#) of this Handbook for tips on using quick reference tables and completing the appropriate IRS treaty claim form. Contact the RF central office Payment Compliance Manager for further assistance.

The official IRS resource for “quick reference” to treaties is [Tax Treaty Tables](#) on the IRS website - [Table 1](#) (royalties) and [Table 2](#) (employees, independent contractors and fellows). Treaty articles are not available for RF-Defined Participant Support. Links to full treaties and language can be found at [IRS United States Income Tax Treaties A-Z](#).

If the individual’s country is not listed, then there is no income tax treaty exemption and taxes must be withheld. One clarification to understand when reviewing countries on the IRS treaty tables – “Commonwealth of Independent States” (CIS) represents the former breakup of the USSR and consists of Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan. These CIS countries are covered by the 1973 U.S. – U.S.S.R. treaty. Additional members of the CIS that have independent treaties and are found on separate rows in the IRS treaty tables and include Kazakhstan, Russia and Ukraine.

If the payee cannot or does not claim income tax treaty exemption, go to Step 3 below for tax withholding.

### **Step 3 –Withhold Appropriate Tax**

Thirty percent (30%) is the default withholding rate on “U.S. Source” income paid to nonresident aliens that cannot or do not claim income tax treaty exemption. If the payee does not have a valid US TIN, 30% withholding is required.

**Employee Exception** – Employees fall under different restrictive “graduated tax withholding table rules” and tax calculations. Special restrictive rules on how the NRA employee must complete the W-4 are covered in [IRS Notice 1392](#). NRA employees cannot claim exempt on the IRS W-4 or NYS IT-2104E. The only available claim for income tax exemption is treaties covered in step 2 above.

### [Apply U.S. Citizen or NRA Tax and Reporting Rules](#)

There are two separate sets of taxation and reporting rules based upon the IRS Residency for Tax Purpose Status. U.S. Citizen or Nonresident Alien taxation rules.

IRS Residency Tests	IRS Tax Rules
U.S. Citizen	U.S. Citizen
Permanent Resident (Green Card) – “Lawful Permanent Resident” (LPR)	
Resident Alien - meeting the Substantial Presence Test (SPT)	
Nonresident Alien – Does not meet Green Card or SPT	Nonresident Alien

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## Rules and Guidance for Different Types of Payees

## Employees

### Employment defined:

A service is provided and the RF controls how, when and where the work is performed.

### Common issues with employment classification:

- **Employee versus Independent Contractors**  
Relabeling employment as contracting is a compliance error and will lead to misclassification of services, bringing significant penalties and fines to the location responsible for the misclassification. The activity and level of RF control over the work defines the payee classification. Operating locations must ensure the services fit the payee classification decision. Refer to [IRS Publication 1779 Independent Contractor or Employee](#) and [Independent Contractor \(Self-Employed\) or Employee?](#) If operating location administrators still have questions on the classification, contact the central office HR classification and compensation unit for further assistance.
- **Business Status Travel Reimbursements**  
Substantiated business travel reimbursements are exempt from taxation and reporting for “service” payment classifications (employees or independent contractors). Travel reimbursements to individuals with no service relationship to the RF do not fall under the RF’s accountable plan. Refer to the [RF Travel Handbook](#) or contact the Corporate Payment Compliance Manager with any questions or circumstances needing additional evaluation.
- **Non-Salary Payments**  
Refer to [Non-Salary Payments](#) below
- **Employee versus Fellowship**  
If any portion of the activity is services, it is not a fellowship. Refer to the payee section on fellows. If operating location administrators still have questions, contact the central office HR classification and compensation unit for further assistance.
- **Employee Tax Withholdings**
  - Governmental Social Security (SS) and Medicare flat tax rate withholding and
  - Federal and State graduated rate table income tax withholding

### Social Security (SS) and Medicare Taxes

Taxes under the Federal Insurance Contributions Act (FICA) are composed of the old-age, survivors, and disability insurance taxes, also known as social security taxes, and the hospital insurance tax, also known as Medicare taxes. Each operating location must have a process in place to evaluate if employees are subject to SS and Medicare withholding. Following are possible reasons and employee could be exempt from the tax.

- **“Student Status” Exemption**– Student employee requirements:
  - Enrolled as a SUNY student and in a RF student title
  - Regularly attending classes and
  - Primarily pursuing a course of study.

Operating location administrators must identify the best mechanism at their SUNY campus to obtain enough student registration information to confirm the student meets the above requirements and ensure coded correctly to the RF payroll system. Each operating location may have a unique definition for enrolled and regularly attending. See “additional recognized scenarios” below. At the end of the Spring Semester RF CO will reach out to payroll contacts about running a process to remove student exemptions during the summer period, and to restart in the start of the fall semester. Campus’ who opt-in to this process remain responsible for evaluating if the students meet the criteria for the student exemption and retaining relevant documentation.

**Important:** To extend the exemption, the student must be engaged predominantly in student employment incidental to and for the purpose of pursuing his or her course of study and cannot be performing key duties like a “regular” employee or receiving regular employee benefits. IRS guidance is that the student is in non-career employment and as example not eligible to participate in benefits such as qualified retirement benefit plans.

**Additional recognized scenarios that meet student status:**

- **Graduate Students** - Graduate students working on a thesis or dissertation might need a certain amount of non-classroom study to obtain their degree and are therefore still considered attending classes and a student under the requirements
- **“Non-Citizen Status” Exemption:** Generally non-citizens that have F-01 or J-01 visas employed in positions related to the purpose for which they were admitted to the United States are exempt from SS and Medicare withholdings. This exemption is tied to IRS “Residency for tax purpose” rules and in general expires after the following time limits:
  - **F-01 and J-01 Students** – 5 calendar years (presence in any part of a year counts as one full year toward the exemption from the SPT test)
  - **J-01 Teacher / Researchers** – 2 of any 6 calendar years (presences in any part of a year counts as one full year toward the exemption from the SPT test)

Refer to “[Determine Citizenship and IRS Residency Status for Tax Purposes](#)” for more details.

## Non-Salary Payments

In some instances, the RF pays amounts or provides benefits other than salary or wages that are taxable and / or reportable. These amounts or benefits are generally paid or provided through accounts payable (AP) or extended indirectly through a third party. Generally, all payments to or on behalf of the employee are taxable and reportable unless there is an Internal Revenue Services (IRS) rule that exempts the payment from taxation or excludes the payment from taxable or reportable income. Payments or benefit which normally would be a cost borne by the employee or a benefit where the employee receives personal gain are payable through payroll and are taxable and reportable. Some common examples:

- Cash or Cash equivalents (i.e. prizes, gift cards, gift certificates)

- Allowances, such as housing

For more information on identifying these amounts and ensure compliant RF processing refer to:

[Non-Salary Payments - Policy](#)

[Taxation and Reporting for Non-Salary Payments - Procedure](#)

[Taxation and Reporting for Non-Salary Payments – Guideline](#)

[Non-Salary Payments Determination – Form](#)

### Moving Expense Reimbursements

There are special IRS tax and reporting requirements when the RF agrees to reimburse employee moving expenses.

- Payments or reimbursement must be an incentive to a new employee
- The move must meet an IRS Time and Distance test and
- The move must meet a business connection / meeting accountable plan rules as substantiated with appropriate documentation, submitted timely

Prior to January 1, 2018, agreed upon moving expenses reimbursed were identified as either qualified (non-taxable) or non-qualified (taxable). “H.R. 1 The Tax Cuts and Jobs Act” signed into law December 22, 2017 suspended “qualified” tax exemption treatment of moving expenses until January 1, 2026. “Qualified” expenses are costs associated to the physical move of personal goods or family from point A to point B (except meals during the trip). Therefore, H.R. 1 changed all moving expense reimbursements to non-qualified and subject to tax withholdings and reporting to the employee on form W-2.

**Important:** A significant impact of the new legislation is that previously (qualified) nontaxable and non-reportable payments to third parties through the accounts payable system, such as moving companies, became taxable and reportable income to the employee. The payroll system is structured with payroll “elements” designated for moving expense payments. Use the [Moving Expenses Reimbursement Request and Authorization Form](#) to document the expenses covered and submit a copy of the form to the payroll department for processing as detailed in the [Taxation and Reporting for Moving Expense Support Procedure](#). The amount is added to the employee payroll record for proper tax withholding and reporting on the W-2.

Special Note on calculating reimbursements–

- Mileage reimbursement rate is less than the normal business mileage rate and [provided on the IRS](#) web site (employee must choose mileage rate **OR** documented costs of trip such as gas).

For more information refer to:

[Moving Expense Reimbursement Policy](#)

## Steps to Taxation and Reporting Compliance – US Citizens and Resident Alien Employees

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES – EMPLOYEES”](#), below)

1. **Obtain U.S. Taxpayer Identification Number (TIN)**

Employees must have a SSN – refer to [“Taxpayer Identification Number Requirements.”](#) Due to prompt payment laws, employees must be paid if they work. The RF payroll business system requires a SSN to process payments. If the employee does not have a SSN, inform them that they must apply for one and provide it to the RF when they receive it. The RF provides a process to pay the employee while waiting for the SSN, but campus administrators must follow up with the employee and obtain the SSN. Refer to RF procedure [Assignment and Monitoring of Temporary Tax Identification Number \(TINs\)](#).

1. **Evaluate and code Social Security (SS) and Medicare tax withholding**

RF staff is responsible for SS and Medicare reviews. Refer to the section earlier [Social Security \(SS\) and Medicare Taxes](#).

The RF payroll system defaults to withhold SS and Medicare at hire – meaning the “Tax Exemption” region - box for “SS” and “Medicare” are “un-checked” to ensure SS and Medicare withholding. Tax is withheld at a current governmental flat tax rate on taxable “SS and Medicare Wages” which is equal to gross pay minus pretax deductions.

If exemption is applicable, “check” the boxes for “Medicare” and “SS” in the “Tax Exemption” region of the payroll system “Fed Tax” screen – so no SS or Medicare taxes are withheld. At times the effective date for SS and Medicare exemption or taxation may fall somewhere within a pay period. Treat the entire pay period as “subject to” or “exempt” from the tax.

Federal Tax Rules

W4 Information

Filing Status: **Single**

Allowances: **1**

Additional Tax: **0.00**

Tax Exemption

FIT  FUTA

**MEDICARE**  **SS**

## 2. Collect Federal and New York State income tax withholding or exemption forms

U.S. Citizens, Permanent Residents and Resident Alien employees complete an IRS and NYS withholding certificate or exemption form to designate their tax status for withholding or exemption. Taxes are calculated on graduated rate tables provided by the IRS, NYS and housed in the RF payroll system. Federal and State Taxable Wages subject to income tax withholdings are gross pay minus both pre-tax and tax defer amounts. The form should be reviewed for:

- **Completeness** - Ensure the forms are complete per the instructions, signed and dated
- **System accuracy** - Ensure the tax status designated on the IRS and / or NYS withholding certificates match the federal and state tax information screens in the RF payroll system
- **Default Settings**- If IRS and / or NYS forms are not provided or incomplete, set the employee tax records to the IRS default withholding rule of Single and 0 allowances signifying the highest withholding rate.

## 3. Monitor tax withholding

### Social Security (SS) and Medicare:

SS and Medicare exemptions require on-going evaluation. U.S. Citizens and Resident Aliens are subject to the tax but might be exempt under the “student status exemption”. Refer to step 2 above – [“Evaluate and code Social Security \(SS\) and Medicare tax withholding.”](#) The Central Office Corporate Payment Compliance Manager sends a message during student status change periods in the spring and end of summer to remind campus administrators to evaluate student employee tax status. The following RF Reports Center queries, located in the /Shared Folders/000 Public by CO reporting/Human Resources (HR) file, should be used to assist monitoring and identify system SS and Medicare tax coding for comparison with employee student status:

- “HR Students SS and Med Taxable”
- “HR Students SS and Med Exempt”

### Income taxes:

Periodically campus administrators should select a small random sample of employee IRS and NYS withholding certificates (i.e. W-4, IT-2104) to review. Audit the forms to verify they are complete (i.e. signed and dated) per the instructions and verify that system data in the payroll system matches the physical form. If the form is not complete or system data does not match, inquire why to resolve

the issue and collect new withholding certificates where applicable. If significant errors are found expand the review and resolution.

Year End Exemption Recertification - Run the RF Report Center query “Year End-Employee Notification to Recertify Income Tax Exemption”

- Send communication to employees that an exemption claim in the prior year will expire and they must complete new exemption claim forms for the new calendar year. Set a date for required receipt of exemption claim form.
- Memo – [Tax Exemption Expiration Memo](#) is available for use as a template and communication to the individual
- “Date Track” within the payroll system to the payroll period after the deadline and set withholdings at default Single 0 allowances
- Make appropriate changes to the payroll system based on any new forms received

### Income Tax Forms and Information:

Exemptions are extended by the RF only if the employee has completed the proper government exemption claim form. Claims for exemption expire at the end of the calendar year or soon thereafter. Some forms have specific expiration dates listed either on the form or in the form’s instructions. If there are no specific dates of expiration, the best practice is to collect a new exemption claim form each calendar year. Refer to the [New Employee Orientation Checklist](#).

**RF form review responsibilities** –RF staff are responsible for reviewing the form and ensure it is complete, signed, dated and valid to the facts and circumstances according to the form instructions.

### Standard Federal and NYS forms for US Citizen, Permanent Residents and Resident Aliens:

- [IRS W-4](#) – Employee completes and provides form for their tax status based on form instructions such as marital status and allowances and that status is used by the RF to enter in the payroll system and calculate federal income tax withholdings. IRS W-4 can also be used to claim income tax exemption.
- [NYS IT-2014](#) – Employee completes and provides form for their tax status based on the form instructions used by the RF to enter in the system and calculate New York State income tax withholdings. **NYS IT-2104 cannot be used to claim NYS income tax exempt.**
- [NYS IT-2104-E](#) - Employee completes and provides form if they wish to claim NYS tax exempt per the form instructions.

### Expatriates – U.S. Citizens that live and work in another country:

- [IRS 673](#) – Expatriate employee have the option to complete and claim IRS exemptions or exclusion from income taxes based on “foreign earned” income or “foreign housing” exclusions. Otherwise withholding is based on “standard” forms mentioned above.

**Work outside of NYS** – Persons living or working at any time in another state – to claim full or partial exemption from NYS income tax withholdings:

- [NYS IT-2104.1](#)– Employee completes and provides declaration of time that will be spent in NYS providing services. If declaration is all outside of NYS, RF extends full exemption from NYS income tax withholding when receiving the completed IT-2104.1. RF nexus is NYS therefore tax withholding and wages are reported as NYS. The individual has the ultimate responsibility to understand their tax and filing responsibilities which typically includes their requirements in filing a Nonresident NYS tax return.

### Tax Adjustments

- **SS and Medicare** – Responsibility for proper withholding and reporting is with the RF therefore there is a reconciliation process with the RF and SSA / IRS. There is a process and forms operating location administrators can submit if SS and Medicare taxes need to be collected from the employee or refunded to the employee. These requests are reviewed at the central office to ensure supporting data exists in the system before approval.
  - **Current Calendar Year** – requested with the [RF current year request form](#) and processed in the next available payroll
  - **Prior Calendar Year** - adjustments are requested with the [RF prior year request form](#) but are processed through a manual corrected W-2c process at the central office.
- **Income taxes** – The employee designates the tax status for the RF to use to withhold income taxes on withholding certificates. It is the employee, not the RF, who is responsible for appropriate income tax withholdings. Therefore, no official RF request form exists. There are some special and rare circumstances that might warrant an income tax refund if the RF has made an administrative error, for example coding the tax status for the employee incorrectly in the system. However, during a current calendar year the employee can adjust their tax status by filing a different withholding certificate to have more or less withheld. ***RF is responsible only to ensure the system matches the W-4 or IT-2104 filed by the employee.***

## NONRESIDENT ALIEN RULES- EMPLOYEES

### Differences from US Citizens, Permanent Residents and Resident Aliens –

- **Services in another country** - Services of a NRA in another country are to be paid as independent contractor or through a third-party employer. Contact RF CO Human Resources with any questions.
- **SS and Medicare** - NRA employees might be eligible for SS and Medicare tax exemption under the “Noncitizen” status exemption and / or the “student” status exemption.
- **Special Withholding Certificate form Rules** - NRA employee **CANNOT** claim exemption from income taxes with IRS form W-4 or NYS form IT-2014E and have restrictive requirements on how they must complete withholding certificates IRS W-4 and NY IT-2104. This is also expressed on the RF online self-service W-4.
- **Special federal graduated rate table calculations** - In addition to the normal federal graduated tax rate withholding tables the RF must also apply another table for NRAs to add designated

taxable wage amounts for additional tax calculation purpose. Refer to [Special Government NRA Employee Tax Calculations](#).

- **Income Tax Exemption Claims** - The only possible income tax exemption an NRA employee can claim is an income tax treaty exemption. Treaty claim requirements are covered below after the steps to Taxation and Reporting Compliance.
- **Reporting** – Treaty exempt income is reported on a 1042-S tax statement instead of the W-2. Refer to [Post Payment Reporting](#). It is possible that an NRA employee might receive a W-2 and / or 1042-S.

### NRA Employee Income Tax Basics

There are restrictive rules on how NRA employees can complete the W-4 and IT-2104 found in [IRS Notice 1392 – Supplement Form W-4 Instructions for Nonresident Aliens](#). Generally Single and 1 allowances, some exceptions for certain countries and certain additional writing on the form such as “NRA” or “Nonresident Alien” on specific lines of the form per the form instructions. In addition, nonresident alien status must also be entered in the payroll system “Fed. Tax Rules” screen, “Residency Det...” section. Refer to [Appendix A](#) of this Handbook.

The only exemption available for NRA employees and Income taxes is claiming an income tax treaty exemption. Information on the forms required and helpful tips are provided below after the steps to Taxation and Reporting Compliance. Special information must also be entered to “Noncitizen Special Information Types” in the payroll system for both residency status and if an employee claims income tax treaty exemption. Refer to [Appendix A of this Handbook](#).

### Steps to Taxation and Reporting Compliance:

#### 1. **Verify that services are performed in the U.S.**

Refer to [Employment of Noncitizens Outside the U.S. Policy](#)

#### 2. **Obtain U.S. Taxpayer Identification Number (TIN)**

Employees must have a SSN – refer to “[Taxpayer Identification Number Requirements](#).” Due to prompt payment laws, employees must be paid if they work. The RF Oracle payroll system requires a TIN to process payments. If the employee does not have a SSN, inform them that they must apply for one and provide it to the RF when they receive it. The RF provides a process to pay the employee while waiting for the SSN, but campus administrators must follow up with the employee and obtain the SSN. Refer to [Assignment and Monitoring of Temporary Tax Identification Number \(TINs\)](#).

#### 3. **Evaluate and code Social Security (SS) and Medicare tax withholding**

Refer to– “[Evaluate and code Social Security \(SS\) and Medicare tax withholding](#).”

#### 4. **Collect Federal and New York State income tax withholding or exemption forms**

### Two potential options for NRA employee:

- **Withhold** - NRA employee completes withholding certificates under restrictive rules explained in [IRS Notice 1392](#) OR
- **Income Tax Treaty Exemption** claim- NRA employee is eligible for and submits IRS documents to “claim” income tax treaty exemption. IRS Form 8233 and supporting statement from IRS Publication 519. See [Appendix C](#) in this Handbook.

Collect the properly completed IRS W-4 and NYS IT-2104 even if the NRA employee claims a treaty exemption. Treaty claims require completed documentation and may also be limited by time or amount thresholds, then requiring withholding with the completed W-4 and IT-2104 on file.

**Special Government NRA Employee Tax Calculations** - Income taxes are calculated on taxable wages equal to gross minus both pretax and deferred amounts. **In addition**, based on NRA employees designation in the “Fed Tax Rule” form and “Residency Det...” region (See [Appendix A of this Handbook](#)), NRA employees have supplemental amounts added to the taxable base exclusively for further NRA federal income tax calculations. This additional amount is used for tax calculations but removed prior to pay. Depending on the amount the NRA employee earns per pay period, this may or may not increase their federal income tax withholdings. This special tax calculation is only applied for NRA employee federal income tax withholdings.

### Treaty Eligibility and Claim Acceptance:

**ALL** of the following **MUST** occur for the RF to extend treaty exemption:

- The employee has a Social Security Number (SSN)
- The employee is eligible for a treaty exemption and completes and submits an [IRS 8233](#). The IRS form is valid for both federal and state income tax exemption. Refer to [Appendix C](#) in this Handbook.
- The employee completes supporting statement from [IRS publication 519](#) (Appendix A for Students and Appendix B for Teacher/Researchers of IRS publication 519). Additionally– some countries treaties extend to Resident Alien tax status. Refer to [Tax Treaty Eligibility – Resident Alien Status](#).
- RF operating locations staff reviews the claim as valid, completes Part IV “Withholding Agent Acceptance and Certification” on the IRS 8233 and distributes the 8233 per form instructions along with the supporting statement from IRS Pub. 519
- RF operating locations staff stores a copy of all calendar year 8233 treaty claim forms and documentation in a separate calendar year folder for:
  - Easy access upon request
  - Year end for the new-year exemption re-certifications

Not all countries have treaties with the U.S. and even if a country has a treaty with the U.S., a treaty “article” must exist to cover the payment for valid exemption claim. NRA employees must submit IRS 8233 and supporting statement from IRS Pub. 519 to claim income tax treaty exemption. Refer to Appendix C in this Handbook for further specific guidance for NRA employee’s treaty exemption claims including “Tips for a complete IRS 8233” and “Using IRS Quick Reference Treaty Tables.”

**IMPORTANT Income Tax Treaty System Entry**– Refer to [Appendix A of this Handbook](#). Income tax treaty exemption must also be entered within the RF payroll system “Noncitizen Reporting Info Special Information Type” to ensure the income is reported correctly on the 1042-S form.

**RF Form review responsibilities includes:**

- **Ensuring the Forms are Complete**- Ensure the withholding or exemption claim forms are complete per the form instructions, signed and dated
  - **Ensuring Correct Entries to Payroll System** - Ensure the tax status designated on the IRS and / or NYS withholding certificates or treaty exemption forms are entered accurately to the federal and state tax information screens in the payroll system. Refer to [Appendix A of this Handbook](#) for key data entry information.
  - **Following Default Withholding Rules** - If IRS and / or NYS withholding certificates or treaty exemption forms are not provided for withholding or incomplete, set the employee tax records to the IRS default withholding rule of Single and 0 allowances signifying the highest withholding rate.
5. **Enter appropriate information into the payroll system.** Enter the proper status into the “Fed Tax Rules” screen to exempt or taxable “FIT” and enter treaty claim information into the payroll “Noncitizen Reporting Special Info Type” screen. Refer to [Appendix A of this Handbook](#).
6. **Monitor tax withholding:**

**Social Security (SS) and Medicare:**

SS and Medicare is an on-going evaluation. Non-Resident Aliens might be exempt under the “student status exemption” and/or the “Non-Citizen status exemption.” Refer to step 2 above – [“Evaluate and code Social Security \(SS\) and Medicare tax withholding.”](#) The Central Office Corporate Payment Compliance Manager sends a reminder message during student status change periods in spring and end of summer to evaluate student employee tax status. Non-citizen status exemption is tied to the IRS residency for tax purposes. The following queries and report should be used to assist monitoring SS and Medicare withholdings:

- Report Center queries “HR Students SS and Med Taxable” and “HR Students SS and Med Exemp” – To identify system SS and Medicare tax coding for comparison with employee student status.
- Payroll system report “RF Non-US Citizens – Projected Resident Alien Status” – To identify Non-Citizens that will become Resident Aliens and will no longer be exempt under the Non-Citizen status exemption. The report is based on data entered to the payroll system Non-Citizen Special Information Types.
- RF CO will also reach out to campuses at the end of the spring semester and beginning of the fall semester outlining an automated process that will assist with changing the Social

Security and Medicare exemption statuses. Campuses will remain responsible for evaluating student records to determine if they should be exempt or not. Campuses must opt in to the automation process.

### Income taxes:

**Biweekly** – Run RF business system report “RF Non-Citizen Employee Tax Status Exception Report” and review each sub-report and records listed for all potential NRA tax compliance issues. The sub-reports are listed in order of exception importance with the cover page of the report providing explanations of each sub-report. The NRA tax withholding and treaty information can be complicated. Contact the Corporate Payment Compliance Manager for further assistance.

**Periodic** – Select a random sample of NRA employee IRS and NYS withholding certificates (i.e. W-4, IT-2104). Verify that the forms are complete (i.e. signed and dated) per the instructions and that system data in the payroll system matches the physical form. If the form is not complete or system data does not match, inquire why to resolve the issue and collect new withholding certificates if applicable. Remember Nonresident alien employee are subject to restrictive IRS rules.

Year End Exemption Recertification for Income tax treaty claims – Access campus files with IRS 8233 and supporting statements from IRS publication 519 that the employee submitted to claim exemption.

- Send communication to employee that exemption claim in prior year expires and they must complete new exemption claim forms for the new calendar year. Set a date for required receipt of exemption claim form.
- Memo – [Tax information for Nonresident Alien Employees](#) is available for use as a template for communication to the individual
- “Date Track” within the payroll system after the deadline and set withholdings at default Single 0 allowances
- Make appropriate changes to system taxes based on any new valid treaty claims submitted
- Enter treaty claim information to the payroll system in the Noncitizen Reporting Special Information Type (SIT). Refer to [Appendix A of this Handbook](#).
- Use the “View” or “List” option in payroll responsibilities in the system and query the “Noncitizen Reporting Special Info Type” (SIT) data and verify a match to physical treaty claim form 8233 and supporting statement on hand. If the individual has claimed a treaty exemption, they must have appropriate data in the Noncitizen Reporting SIT. If the data is not entered into the Noncitizen Reporting SIT, enter it or make any required changes. To identify NRA Employee records, look for Income codes 18, 19 or 20. Refer to [Appendix C](#) in this Handbook for more details on income codes and quick reference tables.

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## Independent Contractors

### Independent Contractor defined:

Contracted services where the RF does not control or does not have the right to control how the work is performed.

[Learning Tuesday Videos](#) - Independent Contractors – February 11, 2014

### Common issues with independent contractors:

- **Independent Contractors versus Employee**  
Relabeling employment as contracting is a compliance error and will lead to misclassification of services, bringing significant penalties and fines to the location responsible for the misclassification. The activity and level of RF control over the work, defines the payee classification. Operating locations must ensure the services fit the payee classification decision. Refer to [IRS Publication 1779 Independent Contractor or Employee](#) and [Independent Contractor \(Self-Employed\) or Employee?](#) If operating location administrators still have questions on the classification, contact the central office HR classification and compensation unit for further assistance.
- **Honorariums**  
Honorariums for planned events with expected contracts and payments such as fees for speaking engagements are the same as independent contractor services. If the guest will only be reimbursed for expenses to participate or collaborate the payment is not taxable or reportable. RF employees cannot receive honorariums and there are restrictions for SUNY employees because of the employment relationships. Refer to [Honoraria Policy](#).
- **Doing Business As**  
Some suppliers will provide their name but a secondary name they use “Doing Business as” or otherwise referred to as DBA on the IRS W-9. Key is to verify with the supplier that the name and TIN combination provided on the W—9 will match the official name and TIN combination registered with the government. Refer to [Supplier File Reference Guide](#). If there are further questions on how to set up these suppliers contact the central office AP unit for guidance.
- **Business Status Travel Reimbursements**  
Substantiated business travel reimbursements are exempt from taxation and reporting for “service” oriented payments classifications (employees or independent contractors). Payments to individuals with no service relationship with the RF do not fall under the RF’s accountable plan. Contact the Corporate Payment Compliance Manager with any questions or circumstances needing additional evaluation. Refer to the [RF Travel Handbook](#).
- **Tax Withholdings and Reporting**  
RF is not required to withhold taxes for U.S. Citizens, Permanent Resident or Resident Alien 1099-MISC reportable payments. 1099-MISC forms are created when payments meet a \$600 threshold (except for royalties, which have a \$10 threshold). It is the responsibility of the

recipient to plan and pay taxes timely to the appropriate government entities to meet their personal filing liabilities.

## Steps to Taxation and Reporting Compliance – US Citizen and Resident Alien Independent Contractors:

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES – INDEPENDENT CONTRACTORS”](#), below)

### 1. Collect IRS W-9 & U.S. Taxpayer Identification Number (TIN)

Request that the independent contractor complete the [IRS W-9](#) to provide official name, address, tax status and U.S. TIN. For further information refer to [“Taxpayer Identification Number Requirements.”](#) If the contractor does not provide a US TIN on the W-9 – hold payment and inform them that they must apply for one and provide it to the RF when they receive it. 1099-MISC reporting requires a US TIN.

### 2. Review IRS W-9 and determination if reportable payment

The payment may be excluded from 1099-MISC reporting if the entity is incorporated **OR** the payment is not a reportable payment. Refer to [Taxable and / or Reportable relationship with RF?](#)

- a. **Exclusion - incorporated** – When the supplier provides the IRS W-9 and their federal tax status, if the federal tax status indicated on the IRS W-9 is “incorporated” or “corporation,” no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment. Note: Status of “Limited Liability Company” (LLC) cannot be assumed as incorporated; review the W-9 closely.
  - b. **Exclusion – non-reportable** - If the activity of the payment is not reportable such as supplies or goods, no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment.
  - c. **Reportable** - If the W-9 indicates not incorporated and there is reportable activity such as independent contractor services then set the supplier up as a 1099 supplier in the AP system. **If the reportable supplier does not provide a U.S. TIN, hold payment** and inform them that they must apply for a TIN and provide it to the RF before payments. If a 1099 reportable supplier - move to step 3.
- ### 3. Set up 1099 Supplier and review for reporting with each invoice
- Refer to [Appendix B of this Handbook](#) for key data entry tips for full set up a 1099 supplier. The system 1099 “Income Tax Type” and invoice code is MISC7 for Independent Contractors. MISC7 corresponds with form 1099-NEC, Box 1 income “Nonemployee Compensation.” **Caution** should be exercised when paying each invoice to identify payments that are reportable on the 1099-NEC. If the 1099 supplier has been set up correctly the MISC code will pre-populate into ALL invoices. If the particular invoice is not 1099 reportable such as substantiated business travel reimbursements, then the MISC code must be removed from the invoice.
- ### 4. Monitor 1099 supplier data and payments

To ensure accurate 1099 processing do the following at quarter and year end:

**Monitoring steps**

Action	Review Guidance
<p><b>Run:</b></p> <ul style="list-style-type: none"> <li>AP system <b>“RF 1099 Payment Report”</b> for calendar year and by <b>“Detail”</b></li> </ul>	<p>This report shows payments coded properly, reaching 1099-MISC reporting thresholds and base report for the review.</p>
<p><b>Run:</b></p> <ul style="list-style-type: none"> <li>RF Report Center analysis <b>“AP 1099 Monitoring - Exp. Types &amp; MISC Codes”</b> This is an exception query, therefore many of these records are not complete and need some data correction. It identifies invoices indicating reportable expenditures but missing 1099 system supplier or invoice data. <b>System adjustments required if 1099 reportable.</b></li> </ul>	<p><b>Review:</b></p> <ul style="list-style-type: none"> <li>The suppliers W-9 - for <b>“federal tax classification”</b> designation. If supplier name or tax class indicates <b>“incorporated”</b> or <b>“corporation”</b> <b>STOP</b> and document for the review. Otherwise continue to next step of the review process. <b>NOTE:</b> <b>“LLC”</b> is not automatically an indicator of incorporation, review the W-9 closely.</li> <li>The activity the Invoice represents and make required corrections. Refer to <a href="#">Appendix B of this Handbook</a> and <b>“Key Minimal entry steps required for 1099-MISC.”</b> Determine if the payment activity is reportable and ensure it is coded in the system correctly. If non-reportable such as reimbursements <b>STOP</b> and document for the review. Otherwise <b>find missing system data items and correct.</b></li> </ul>
<p><b>Run:</b></p> <ul style="list-style-type: none"> <li>RF Report Center analysis <b>“AP 1099 Monitoring – Non 1099 Supplier with MISC Code”</b>- This report identifies invoices with MISC coding present on the invoice but missing supporting 1099 supplier set-up information. <b>System adjustment required if 1099 reportable.</b></li> </ul>	<p><b>Review:</b></p> <ul style="list-style-type: none"> <li>The activity the invoice represents and determine if it is reportable and update supplier coding in the system as needed. If it is not reportable remove MISC coding from invoice.</li> </ul>

<p><b>Run:</b></p> <ul style="list-style-type: none"> <li>RF Report Center analysis “AP 1099 MISC for Travel” –</li> </ul> <p><b>Note</b> - This step is only applicable for independent contractor services. This report identifies invoices coded with MISC7 code which is for independent contractors and travel expenditures.</p>	<p><b>Review:</b></p> <ul style="list-style-type: none"> <li>The activity the invoice represents and determine if it is reportable. Generally, substantiated travel reimbursements are not reportable to independent contractors, however, there may be instances where a contractor does not submit receipts, resulting in a taxable payment.</li> </ul>
<p><b>Run and re-run as needed:</b></p> <ul style="list-style-type: none"> <li>AP system “RF 1099 Payment Report” for calendar year and by detail</li> </ul>	<p>To verify updates to the system and 1099 data. <b>NOTE:</b> 1099-MISC thresholds exist at \$600 (exception - royalties threshold is \$10 or more.)</p>

## NONRESIDENT ALIEN RULES- INDEPENDENT CONTRACTORS

**IMPORTANT** – The following guidance is for payments to NRA individuals. If the payment is to a foreign entity that is not an individual, go to Section IV [Payments to Entities](#)

### Differences from US Citizens, Permanent Residents and Resident Aliens –

- Taxation / Exemption** - Payments for NRAs are subject to a sequential set of NRA taxation / exemption rules. Refer to [Nonresident Alien Taxation and Reporting Basics](#) and [Appendix B](#) of this Handbook for key data entry tips. Some exclusions and exemptions from taxation are available but the general default flat rate withholding rate is 30%.
- Reporting** – There is no reporting threshold like the 1099-MISC. Both exempt and taxable income are reportable as well as any income taxes withheld on a 1042-S tax statement. Refer to [Post Payment Reporting](#).

### NRA Income Tax Basics

There are three REQUIRED sequential steps for **ALL** NRA payments to determine tax, exemption and reporting status. Steps below will provide specific codes for entry to the system. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

- Evaluate IRS “Sourcing” status
- Does Payee Claim an Income Tax Treaty Exemption?
- Taxable at default IRS rule of 30% - **Note** – Tax withholding is a manual identification and set up in the AP System

### Steps to Taxation and Reporting Compliance:

1. **Collect IRS W-8BEN Part I and U.S. Taxpayer Identification Number (TIN)**

Request that the independent contractor complete [IRS W-8BEN](#) Part I only to provide official name, address, and U.S. TIN.

If the supplier does not provide a U.S. TIN, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to IRS [“Taxpayer Identification Number Requirements.”](#)

2. **Set up “Non Citizen – Individual” Supplier**

Refer to [Appendix B of this Handbook](#) for key data entry tips to set up a Noncitizen – Nonresident Alien (NRA) supplier.

3. **Prior to each invoice payment, determine if activity is taxable and / or reportable and identify appropriate “1042-S Tax Rule” code to enter for each invoice in the Descriptive Flexfield (DFF) on invoice distribution “Line.”**

All NRA individual invoices require “1042-S Tax Rule” codes starting with “IC” to designate “independent contractor” and ending with “FS” for foreign source, “TAX” for taxable or “TE” for treaty exempt based on their tax or exemption status. Use [Nonresident Alien Independent Contractor, Landlord / Renter or Licensees \(Royalty\) Tax Determination](#) Form.

a. **Foreign Source (ICFS)**

Services are provided outside the U.S.? If yes – Stop and use ICFS. Ensure no tax “Withholding Groups” are set up on the AP system.

b. **Income tax treaty eligible and submits claim for exemption (ICTE)?**

Must be eligible for treaty, the income is covered and complete IRS 8233 and use ICTE. Refer to [Appendix C](#) in this Handbook for more guidance. Ensure no tax “Withholding Groups” are set up on the AP system. If not treaty exempt, go to next step.

c. **Require 30% withholding (ICTAX)**

Set up 30% tax “Withholding Group” on header and site level to withhold and use ICTAX.

**Note** - tax withholding is not system automated - requires identification that the taxes are required and system set up of “Withholding Group” for each invoice payment

**Non-reportable payments** - If the activity is non-reportable such as non-reportable reimbursements then select “NONRE” “1042-S Tax Rule” code to indicate “non-reportable.”

4. **Review the payment next day for accuracy**

Review system data to ensure the payment processed accurately. **IMPORTANT** – this step is proactive and very important particularly if taxes were required and not withheld. Next day review ensures any payment errors can be timely addressed. If errors are caught and corrected timely (such as retrieving or cancelling the original payment), operating location can avoid tax on tax charge-backs at year end from the central office. There is a tax on tax charge-backs if required taxes were not withheld or under-withheld.

5. **Monitor NRA (1042-S) Noncitizen Individual supplier data and payments**

To ensure accurate 1042-S processing, this monitoring should be done as frequently as daily after a payment or monthly. Unlike 1099-MISC reporting, NRA payments have an inherent potential tax withholding impact of 30%. So accurately carrying out processing steps and monitoring is very important.

**Monitoring steps**

Action	Review Guidance
<p><b>Run:</b></p> <ul style="list-style-type: none"> <li>• AP system <b>“RF NRA Individual or Foreign Entities Report”</b> for calendar year and by “Detail”. This report shows NRA suppliers and system payments. There are no reporting thresholds. All NRA coded payments are displayed on this report. It is key that the supplier is set up properly as “Non Citizen Individual” within “Organizations.” See <a href="#">Appendix B of this Handbook</a>.</li> </ul>	<p><b>Review:</b></p> <ul style="list-style-type: none"> <li>• Each invoice listed on the report to ensure it is coded correctly and to determine if taxes were required and not withheld in error. With each NRA payment, review the sequential processing steps listed in this Handbook. “NONRESIDENT ALIEN RULES” should have been followed for each payee type to <b>1)</b> Identify if the payment to the NRA was exempt and why or whether it was taxable at 30% and <b>2)</b> the matching “1042-S Tax Rule code” was entered to the invoice DFF. Refer to Section II payee information and NONRESIDENT ALIEN RULES “Steps to Taxation and Reporting Compliance” within this Handbook.</li> <li>• To ensure required data for 1042-S reporting is present in the system such as the individual country and the “1042-S Tax Rules” field. Make any required changes. Refer to <a href="#">Appendix B of this Handbook</a> for “Key minimal entry steps for NRA Records.” This information is required to produce a complete and accurate 1042-S. Reviews will help to ensure the information is in the system. Each month end the Corporate Compliance Manager also performs a high-level data and tax review and communicates any potential issues to campuses.</li> </ul>

**Treaty Eligibility and Claim Information**

**ALL** of the following **MUST** occur for the RF to allow treaty exemption:

- The independent contractor has a valid US Taxpayer Identification Number.
- The independent contractor is eligible for a treaty exemption and completes and submits an [IRS 8233](#). Refer to [Appendix C](#) in this Handbook.
- RF operating locations staff reviews the claim as valid, completes Part IV “Withholding Agent Acceptance and Certification” and distributes the original and copies per the 8233 form instructions.

NRA independent contractors must submit claims for income tax treaty exemption. Noncitizen NRA independent contractors may be eligible for an income tax treaty exemption if their country has a tax treaty with the U.S. and their activity is covered under an article in the treaty. Refer [Appendix C](#) in this Handbook for further specific guidance and “Tips for a complete IRS 8233” and “Using IRS Quick Reference Treaty Tables.”

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## Fellows

### Fellow defined:

Nonwage (no-service) payments in support of the recipient's academic study or fellow-initiated research and in recognition of the recipient's promise as a research or teaching scholar. Fellowship awards administered by the Research Foundation on behalf of SUNY are for scholarly study or research by faculty members, postdoctoral scholars, and undergraduate and graduate students at a SUNY campus or at other locations in conjunction with SUNY academic programs.

### Common issues with fellows:

- **Fellows versus RF-Defined Participant Support**

Fellowships are non-service awards tied to an academic endeavor, research or study and RF-Defined Participants Support costs are tied to nonacademic vocational or secondary school education and training programs or events.

- **Qualified Versus Non-Qualified Fellow Payments**

Fellow payments are typically divided into two separate groups:

- Qualified payments - (non-taxable) are typically payments for tuition and fees required to enroll, or fees, books, supplies and equipment required for courses at an educational institution
- Non-qualified payments are typically any other payments, such as payments for room and board.

Under IRS rules the institution paying the individual must be able to substantiate how the payments are used. Educational institutions or schools substantiate the payments within the university or college student account system. The RF pays the fellow payments directly to the individual; therefore, payments cannot be treated as qualified by the RF. The fellow is responsible for identifying any filing or tax liabilities they might have when they file their personal tax returns.

- **Employee versus Fellowship**

If any portion of the activity is a service, it is not a fellowship. Refer to the payee section on fellows. If operating location administrators still have questions, contact the central office HR for further assistance.

- **Business Travel Reimbursement Exemption - Not Applicable. Fellow travel reimbursements where the primary benefit is for the fellow, not the RF, are taxable and reportable.**

- **Tax Withholdings**

RF is not required to withhold taxes on U.S. Citizen, Permanent Resident or Resident Alien fellow payments

## Steps to Taxation and Reporting Compliance – US Citizen and Resident Alien Fellows:

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES –FELLOWS”, below](#))

**1. Obtain U.S. Taxpayer Identification Number (TIN) or collect IRS W-9**

If a U.S. TIN is not immediately apparent on documentation, request that the U.S. Citizen, Permanent Resident or Resident Alien fellow complete the [IRS W-9](#) to obtain a U.S. TIN. If the fellow does not provide a US TIN on the W-9: hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to [“Taxpayer Identification Number Requirements.”](#)

**2. Set up and pay with fellow “element” in the payroll system – “Stip Fel NQual.”**

### Special Notes about fellows and the payroll system

It is possible that a fellow does not yet have a U.S. TIN and must obtain one. The RF Oracle payroll system requires a TIN to process payments. Refer to [Assignment and Monitoring of Temporary Tax Identification Number \(TINs\)](#).

Fellowship awards are paid through a customization within the RF payroll system. Payroll system tax withholdings tables are not applicable, therefore the tax screens and system withholdings mechanism within the payroll business system are not active for fellow assignments.

## NONRESIDENT ALIEN RULES- FELLOWS

### Differences from US Citizens, Permanent Residents and Resident Aliens

- **Taxation / Exemption** – Payments to NRAs are subject to a sequential set of NRA taxation / exemption rules refer to [Nonresident Alien Taxation and Reporting Basics](#) and [Appendix A of this Handbook](#) for key data entry tips. Some exclusions and exemptions from taxation are available but the general special reduced flat rate for NRA Fellows is 14%
- **Reporting** – The RF provides a “RF Payment Reporting Memo” to US Citizen, Permanent Residents and Resident Aliens. But for NRA fellows, both exempt and taxable income are reportable as well as any income taxes withheld on a 1042-S tax statement. Refer to [Post Payment Reporting](#)

## NRA Income Tax Basics

There are three REQUIRED sequential preliminary steps for **ALL** NRA payments to determine tax, exemption and reporting status. Steps below will provide specific codes for entry to the system. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

1. Evaluate IRS “Sourcing” status
2. Does Payee Claim an Income Tax Treaty Exemption?
3. Taxable at default IRS rule of 30% - **Special reduced rate for fellows of 14%**

## Steps to Taxation and Reporting Compliance:

### 1. Collect IRS W-8BEN Part I and U.S. Taxpayer Identification Number (TIN)

Request that the fellow complete [IRS W-8BEN](#) Part I to provide official name, address, and U.S. TIN.

If the fellow does not provide a U.S. TIN, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to “[Taxpayer Identification Number Requirements](#).”

### 2. Determine if activity is taxable and / or reportable

Prior to payment refer to [Nonresident Alien Taxation and Reporting Basics](#) for assistance in determining the tax status for the fellowship payment and [Appendix A](#) of this Handbook for key data entry tips. Use the [Nonresident Alien Academic Fellowship Tax Determination](#) Form. In this order:

#### a. Foreign Source?

Are either the source of the award or the location of study or research outside the U.S.? If yes – Stop and enter data to the “Noncitizen Reporting Special Info Type” form as “foreign source” in the payroll system. If both the award and activity were in the US enter “US Source” and continue to next step.

#### b. Income tax treaty eligible and submits claim for exemption?

If claim is complete with the IRS W-8BEN Part I and Part II and accepted for treaty exemption, ensure there is no “FIT NRA Fel NQual” element on the fellow assignment. Treaty claims are submitted on the IRS form W-8BEN. Refer to later sections for specific NRA titled “Treaty Eligibility and Claim Information.” If not eligible or does not claim treaty exemption continue to the next step. Refer to [Appendix C](#) in this Handbook for more details on treaty exemption and forms.

#### c. Require 14% withholding?

If no treaty claim – add the “FIT NRA Fel NQual” element to the fellow assignment to withhold the 14% tax. Once the tax element is on the assignment, it will automatically withhold 14% of gross payments. Refer to [Special Notes about Fellowships and payroll system](#).

For each instance “a” through “c” enter data to the “Non-Citizen Reporting Special Info Type” (SIT) within the payroll system for NRA fellowship assignments

### **Special Notes about NRA fellowships and tax withholding within the payroll system-**

To withhold the flat rate 14% a payroll element titled "FIT NRA Fel NQual" must be loaded to the fellow record which automatically processes the 14% on gross payments. The "standard" Payroll system tax screens are not active for fellow assignments.

### **Special rules USAID Training Programs Grants**

The RF processes some United States Agency for International Development (USAID) fellowship payments. Under IRC Section 1441 (c)(6), the recipient is exempt from taxation if the payments are a "per diem for subsistence" made in connection with a USAID training program grant. Per Diem for subsistence generally means "food and lodging."

**Note:** Operating locations must examine each USAID grant for tax withholding and reporting requirements, since different grants may have different requirements. If a payment under a grant is found to be exempt because it is a "per diem for subsistence," the applicable contract must be further examined for possible requirements related to all other payments. Use same guidelines provided above on 14% withholding or exemption based on the USAID tax status determination.

#### **3. Enter information into the payroll "Noncitizen Reporting Special Info Type"**

All fellowship tax status determinations above (foreign source, 14%, tax treaty and USAID) require data entered to the Noncitizen Reporting SIT. See [Appendix A of this Handbook](#).

#### **4. Set up and pay with special fellowship element in payroll system – "Stip Fel NQual."**

If 14% required – set up additional tax element - "FIT NRA Fel NQual." If tax is not required, ensure the tax element is not present on the record.

#### **5. Review the payment each biweekly period for accuracy**

Review preliminary payroll runs and verify that NRA fellow payments process accurately.

**IMPORTANT** – this step is proactive and very important particularly if taxes were required and not withheld. Timely review ensures any payment errors can be addressed promptly. If errors are caught and corrected timely, operating locations can avoid tax on tax charge-backs at year end from the central office. There is a tax on tax charge-backs if required NRA taxes were not withheld or under-withheld.

#### **6. Monitor NRA Fellow records**

Income Taxes

**Biweekly** – Review NRA fellow records to identify those NRA fellows that require 14% withholding. Review preliminary payroll run to ensure any NRA fellows that should have 14% withheld is set up properly before payroll runs. Quarterly the Corporate Payment Compliance Manager uses preliminary steps to the RF Customization to identify the NRA fellow records scheduled for year end 1042-S reporting and provides the information to campuses for further review. Campus administrators must:

- Identify if any NRA fellows should have taxes withheld but did not. Contact central office for guidance to collect taxes or year-end tax or tax chargebacks to operating locations for the required taxes.
- Identify tax refunds required if a fellow was incorrectly designated as a resident alien in the system (refunds required because fellows who are US Citizens and resident aliens receive the RF Payment Reporting Memo and no other official tax statement to report the taxes). Contact central Office for guidance.

#### NRA Data entry to the business payroll system

All NRA fellows must have data entered to the payroll business system Noncitizen Reporting Special Information Type (SIT).

- Enter taxation or treaty claim information to the payroll system in the Noncitizen Reporting Special Information Type (SIT). Refer to [Appendix A of this Handbook](#).
- Use the “View” or “List” option in payroll responsibilities in the system to view a list of the “Noncitizen Reporting Special Info Type” (SIT) data. To identify fellow records entered to the system look for income code 16.
  - Treaty - A match to physical treaty claim form W-8BEN and that no taxes were withheld. Refer to [Appendix C](#) of this Handbook.
  - Tax - A match to those fellows that required withholding and gross earning x 14% equal the withholdings recorded in the payroll system.
  - Noncitizen Reporting data - If the data is not entered into the Noncitizen Reporting SIT, enter it or make any required changes.
- Some NRA fellows may have been treaty exempt for a portion of the year and taxable for another portion of the year (split reporting). In those cases, a second calendar year Noncitizen Reporting SIT is required for entry to the Noncitizen Reporting SIT screen.

#### Year End Income Tax Treaty Exemption Claim reviews

Access campus files with IRS W-8BEN forms used to claim income tax treaty exemption.

Reminder: A U.S. TIN must be present to claim income tax treaty.

- If the W-8BEN is complete and the fellowship has not changed – Stop – the treaty exemption claim is valid as long as the fellowship does not change.
- If the W-8BEN is found to be incomplete in the review or fellowship has changed from its original activity, the treaty exemption is not valid and they must complete a new W-8BEN to restore the treaty claim. Refer to [Appendix C](#) of this Handbook.

#### Treaty Eligibility and Claim Information:

**ALL** of the following **MUST** occur for the RF to extend income tax treaty exemption:

- The fellow has a U.S. Taxpayer Identification Number
- The fellow is eligible for a treaty exemption and completes and submits an [IRS W-8BEN](#). Refer [Appendix C](#) of this Handbook.
- RF operating locations staff review the claim as valid and per the instructions.

**NOTE:** The W-8BEN serves a dual purpose as the form should have already been collected for information for official identification in Part I. Part II is used by a fellow to request an income tax treaty exemption for passive income (non-service).

NRA fellows must submit claims for income tax treaty exemption. Noncitizen NRA fellows may be eligible for an income tax treaty exemption if their country has a tax treaty with the U.S. and their activity is covered under an article in the treaty. Refer to [Appendix C](#) in this Handbook for further guidance on “Tips for a complete IRS W-8BEN” and “Using IRS Quick Reference Treaty Tables.”

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## RF-Defined Participant Support

### RF Participant Support defined:

Nonwage (no-service) support payments for a person engaged in a nonacademic vocational or secondary school education and training program administered by the Research Foundation. In many cases, a participant is paid in a summer outreach and enrichment program or event.

### Common issues with RF-Defined Participant Support:

- **RF-Defined Participant Support versus Fellowship**  
Fellows are tied to an academic endeavor, research or study and RF- Defined participant support payments are tied to nonacademic vocational or secondary school education and training program or event.
- **Human Subjects**  
Human Subject tax and reporting should be treated similar to RF participants. The essence of RF activity is research or associated in some way with research, therefore use “**MISC3**” for 1099-MISC box 3 “Other” income when coding human subject payments. RF Participant support payments are also reported as “Other” income on the 1099-MISC.
- **Business Travel Reimbursement Exemption - Not Applicable travel reimbursements where the primary benefit is for the participant, not the RF, are taxable and reportable.**
- **Tax Withholdings**  
RF is not required to withhold taxes for U.S. Citizens, Permanent Resident or Resident Alien 1099-MISC reportable payments. 1099-MISC forms are created when payments meet a \$ 600 threshold. It is the responsibility of the recipient to plan and pay taxes timely to the appropriate government entities to meet their personal filing liabilities.

### Steps to Taxation and Reporting Compliance – US Citizen and Resident Alien “Participants”:

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES – RF-DEFINED PARTICIPANT SUPPORT”, below](#))

#### 1. Collect IRS W-9 & U.S. Taxpayer Identification Number (TIN)

Request that the participant complete the [IRS W-9](#) to obtain official name, address, tax status and U.S. TIN. For further information refer to “[Taxpayer Identification Number Requirements.](#)” If the participant does not provide a US TIN on the W-9 – hold payment and inform them that they must apply for one and provide it to the RF when they receive it. 1099-MISC reporting requires a US TIN.

## 2. Review IRS W-9 and determination if reportable payment

The payment may be excluded from 1099-MISC reporting if the payee is incorporated **OR** the payment is not a reportable payment. Refer to [Taxable and / or Reportable relationship with RF?](#)

- a. **Exclusion - incorporated** – When the supplier provides the IRS W-9 and their federal tax status. If the federal tax status indicated on the IRS W-9 is “incorporated” or “corporation,” no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment. Note- Status of “Limited Liability Company” (LLC) cannot be assumed as incorporated, review the W-9 closely.
- b. **Exclusion – non-reportable** - If the activity of the payment is not reportable such as supplies or goods, no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment
- c. **Reportable** - If the W-9 indicates not incorporated and reportable activity such as RF-Defined Participant Support then set the supplier up as a 1099 supplier in the AP system. **If the reportable supplier does not provide a U.S. TIN, hold payment** and inform them that they must apply for a TIN and provide it to the RF before payments. If a 1099 reportable supplier - move to step 3.

## 3. Set up 1099 Supplier and review for reporting with each invoice

Refer to [Appendix B of this Handbook](#) for key data entry tips for full set up a 1099 supplier.

The system 1099 “Income Tax Type” and invoice code is MISC3 representing “Other” income. MISC3 corresponds with form 1099-MISC, Box 3 “Other.”

**Caution** should be exercised when paying each invoice to identify payments that are reportable on the 1099-MISC. If the 1099 supplier has been set up correctly the MISC code will pre-populate into ALL invoices. If the invoice is not 1099 reportable such as non-reportable reimbursements, then the MISC code must be removed from the invoice.

## 4. Monitor 1099 Supplier Data and Payments

1099 monitoring steps are the same as documented within the independent contractor section. Refer to [Monitor 1099 Supplier Data and Payments](#). Differences - RF Participant Support payments are reportable with MISC3 code and travel reimbursement exemption rules are not applicable because RF Participant activity does not represent services.

## NONRESIDENT ALIEN RULES- RF-DEFINED PARTICIPANT SUPPORT

**IMPORTANT:** The following guidance is on payments to NRA individuals. If the payment is to a foreign entity that is not an individual – Go to Section IV [Payments to Entities](#).

## Differences from US Citizens, Permanent Residents and Resident Aliens

- **Taxation / Exemption** - Payments for NRAs are subject to a sequential set of NRA taxation / exemption rules – refer to [Nonresident Alien Taxation and Reporting Basics](#) and [Appendix B of this Handbook](#) for key data entry tips. Exclusions or exemption are limited for NRA Participant payments and the general default flat withholding rate of 30% is usually applicable.

- **Reporting** – There is no reporting threshold like the 1099-MISC reporting, income as well as the income taxes withheld are reported on a 1042-S tax statement. Refer to [Post Payment Reporting](#)
- **No Treaty Eligibility** – Treaties do not provide articles to cover “Other” income, therefore Participant income is not eligible for income tax treaty exemption benefits.

### NRA Income Tax Basics

There are three REQUIRED sequential preliminary steps for **ALL** NRA payments to determine tax, exemption and reporting status. Steps below will provide specific codes for entry to the system. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

1. Evaluate IRS “Sourcing” status
2. Income Tax Treaty? – **Not Applicable for RF-Defined Participant Support**
3. Taxable at default IRS rule of 30% - **Note** – Tax withholding is a manual identification and set up in the AP System

### Steps to Taxation and Reporting Compliance:

1. **Collect IRS W-8BEN Part I and U.S. Taxpayer Identification Number (TIN)**  
Request that the participant complete [IRS W-8BEN](#) Part I only to provide official name, address U.S. TIN.  
If the participant does not provide a U.S. TIN, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to [“Taxpayer Identification Number Requirements.”](#)
2. **Set up “Non Citizen – Individual” Supplier**  
Refer to [Appendix B of this Handbook](#) for key data entry tips to set up a Noncitizen – Nonresident Alien (NRA) supplier.
3. **Prior to each invoice payment, determine if activity is taxable and / or reportable and identify appropriate “1042-S Tax Rule” code to enter for each invoice in the Descriptive Flexfield (DFF) on invoice distribution “Line”**  
All NRA individual invoices require “1042-S Tax Rule” codes starting with “PS” to designate “participant support” and ending with “FS” for foreign source or “TAX” for taxable based on their status. Use [Nonresident Alien RF-Defined Participant Support Tax Determination](#) form.
  - a. **Foreign Source (PSFS)**  
Funds originated outside the U.S.? If yes – Stop and use PSFS. Ensure no tax “Withholding Groups” are set up on the AP system.
  - b. **Required 30% withholding (PSTAX)**  
Set up 30% Withholding Group on header and site level to withhold and use PSTAX.  
Note: tax withholding is not system automated. It requires identification that the taxes are required and system set up of “Withholding Group” for each invoice payment.

### Non-reportable payments

If the activity is non-reportable such as non-reportable reimbursements then select “**NONRE**” “1042-S Tax Rule” code to indicate “non-reportable.”

**4. Review the payment the next day for accuracy**

Review system data to ensure the payment processed accurately. IMPORTANT – this step is proactive and very important particularly if taxes were required and not withheld. Next day review ensures any payment errors can be timely addressed. If errors are caught and corrected timely (such as retrieving or cancelling the original payment), operating location can avoid tax on tax charge-backs at year end from the central office. There is a tax on tax charge-backs if required taxes were not withheld or under-withheld.

**5. Monitor NRA 1042-S Noncitizen Individual Supplier Data and Payments**

NRA (1042-S) monitoring steps are the same as documented within the independent contractor section. Refer to Monitor NRA 1042-S Noncitizen Individual Supplier Data Payments.

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## Licensee (Royalty)

### Royalties defined:

The portion of the payment to an individual, for negotiated agreements for Industrial Equipment, Industrial Know-How, Film & TV, Copyright or Patent royalties.

### Common issues with Licensees (Royalty):

- **Types of Royalties**  
There are a variety of different types of royalties such as Industrial, patents or copyright. For reporting purposes with U.S. Citizens Permanent Residents and Resident Aliens, all are reported in box 2 on the 1099-MISC.
- **Doing Business As**  
Some suppliers will provide their name but a secondary name they use “Doing Business as” or otherwise referred to as DBA on the IRS W-9. Key is to verify with the supplier that the name that will be reported on the 1099 and the TIN are the official name and TIN combination the supplier has registered with the government. Refer to [Supplier File Reference Guide](#). If there are further questions on how to set up these suppliers, contact the central office AP unit for guidance.
- **Business Travel Reimbursement Exemption – Not Applicable.**  
Travel reimbursements where the primary benefit is not to the RF are taxable and reportable.
- **Tax Withholdings**  
RF is not required to withhold taxes for U.S. Citizens, Permanent Resident or Resident Alien 1099-MISC reportable payments. 1099-MISC forms are created when payments meet a \$10 threshold. The \$10 threshold is unique to royalties. It is the responsibility of the recipient to plan and pay taxes timely to the appropriate government entities to meet their personal filing liabilities.

### Steps to Taxation and Reporting Compliance – U.S Citizens and Resident Alien Licensees (Royalties):

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES –LICENSEES \(ROYALTY\)”](#), below)

1. **Collect IRS W-9 & U.S. Taxpayer Identification Number (TIN)**  
Request that the licensee complete the [IRS W-9](#) to provide official name, address, tax status and U.S. TIN. For further information refer to [“Taxpayer Identification Number Requirements.”](#) If the licensee does not provide a US TIN on the W-9 – hold payment and inform them that they must

apply for one and provide it to the RF when they receive it. 1099-MISC reporting requires a US TIN.

2. **Review IRS W-9 and determination if reportable payment**

The payment may be excluded from 1099-MISC reporting if the entity is incorporated **OR** the payment is not a reportable payment. Refer to [Taxable and / or Reportable relationship with RF?](#)

- a. **Exclusion - incorporated** - When the supplier provides the IRS W-9 and their federal tax status. If the federal tax status indicated on the IRS W-9 is “incorporated” or “corporation,” no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment. Note- Status of “Limited Liability Company” (LLC) cannot be assumed as incorporated, review the W-9 closely.
- b. **Exclusion – non-reportable** - If the activity of the payment is not reportable such as supplies or goods, no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment.
- c. **Reportable** - If the W-9 indicates not incorporated and there is reportable activity such as a royalty then set the supplier up as a 1099 supplier in the AP system. **If the reportable supplier does not provide a U.S. TIN, hold payment** and inform them that they must apply for a TIN and provide it to the RF before payments. If a 1099 reportable supplier - move to step 3.

3. **Set up 1099 Supplier and review for reporting with each invoice**

Refer to [Appendix B](#) of this Handbook for key data entry tips for full set up a 1099 supplier.

The system 1099 “Income Tax Type” and invoice code is MISC2 for Royalty. MISC2 corresponds with form 1099-MISC, Box 2 “Royalty.”

Caution should be exercised when paying each invoice to identify payments that are reportable on the 1099-MISC. If the 1099 supplier has been set up correctly the MISC code will pre-populate into ALL invoices. If the particular invoice is not 1099 reportable such as non-reportable reimbursements, then the MISC code must be removed from the invoice.

4. **Monitor 1099 Supplier Data and Payments**

1099 monitoring steps are the same as documented within the independent contractor section. Refer to [Monitor 1099 Supplier Data and Payments](#). Differences: Licensee are reportable with MISC2 code and travel reimbursement exemptions rules are not applicable because royalties are not services.

## NONRESIDENT ALIEN RULES- LICENSEES (ROYALTY)

**IMPORTANT** - Following is guidance on payments to NRA individuals. If the payment is to a foreign entity that is not an individual – Go to Section IV [Payments to Entities](#).

## Differences from US Citizens, Permanent Residents and Resident Aliens

- **Taxation / Exemption** - Payments for NRAs are subject to a sequential set of NRA taxation / exemption rules – refer to [Nonresident Alien Taxation and Reporting Basics](#) and [Appendix B](#) of

this Handbook for key data entry tips. Some exclusions and exemptions from taxation are available but the general flat default withholding rate is 30%.

- **Reporting** – There is no reporting threshold like the 1099-MISC. Both exempt and taxable income are reportable as well as any income taxes withheld on a 1042-S tax statement. Refer to [Post Payment Reporting](#).

### NRA Income Tax Basics

There are three REQUIRED sequential preliminary steps for **ALL** NRA payments to determine tax, exemption and reporting status. Steps below will provide specific codes for entry to the system. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

1. Evaluate IRS “Sourcing”
2. Does Payee Claim an Income Tax Treaty Exemption? (Generally - Reduced tax rates apply)
3. Taxable at default IRS rule of 30% - **Note** – Tax withholding is a manual identification and set up in the AP System

### Steps to Taxation and Reporting Compliance:

1. **Collect IRS W-8BEN Part I and U.S. Taxpayer Identification Number (TIN)-**  
Request that the licensee complete [IRS W-8BEN](#) Part I only to provide official name, address, and U.S. TIN.  
If the licensee does not provide a U.S. TIN, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to “[Taxpayer Identification Number Requirements](#).”
2. **Set up “Non Citizen – Individual” Supplier –**  
Refer to [Appendix B of this Handbook](#) for key data entry tips to set up a Noncitizen – Nonresident Alien (NRA) supplier.
3. **Prior to each invoice payment, determine if activity is taxable and / or reportable and identify appropriate “1042-S Tax Rule” code to enter for each invoice in the Descriptive Flexfield (DFF) on invoice distribution “Line.”**  
All NRA individual invoices require “1042-S Tax Rule” codes. There are multiple types of royalties and there are distinct codes established for each. Each royalty code ending with “FS” for foreign source, “TAX” for taxable or “TE” for treaty exempt based on their tax or exemption status. Use [Nonresident Alien Independent Contractor, Landlord / Renter or Licensees \(Royalty\) Tax Determination](#) Form.

#### a. Foreign Source-

License or royalty is exercised outside the U.S.? If yes – Stop and use the appropriate code for the royalty and ensure no “Withholding Groups” are set up on the AP system

CRFS – Copyright Royalty- Foreign Source

FTVRFS – Film & TV Royalty- Foreign Source

IERFS – Industrial Equipment Royalty- Foreign Source

IKHRFS – Industrial Know-How Royalty- Foreign Source

PRFS – Patent Royalty- Foreign Source

**b. Income tax treaty eligible and submits claim for exemption?**

Must be eligible and complete IRS W-8BEN Parts I and II. Refer to [Appendix C](#) of this Handbook for tips on using quick reference tables for royalties and completing the IRS W-8BEN. Ensure no tax “Withholding Groups” are set up on the AP system. Use one of the following appropriate codes. If not treaty exempt, go to next step. Special reduced rates applicable based on country, type or royalty and the treaty. See treaty information later.

CRTE – Copyright Royalty – Treaty Exempt

FTVRTE – Film & TV Royalty – Treaty Exempt

IERTE – Industrial Equipment Royalty – Treaty Exempt

IKHTE – Industrial Know-How Royalty – Treaty Exempt

PRTE – Patent Royalty – Treaty Exempt

**c. Require 30% withholding**

Set up 30% Withholding Group on header and site level to withhold and use one of the appropriate codes. Note: tax withholding is not system automated. It requires identification that the taxes are required and system set up of “Withholding Group” for each invoice payment.

CRTAX – Copyright Royalty – Taxable

FTVRTAX – Film & TV Royalty – Taxable

ERTAX – Industrial Equipment Royalty – Taxable

IKHTAX – Industrial Know-How Royalty – Taxable

PRTAX – Patent Royalty – Taxable

**Non-reportable payments** - If the activity is non-reportable such as non-reportable reimbursements then select “**NONRE**” “1042-S Tax Rule” code to indicate “non-reportable.”

**4. Review the payment next day for accuracy**

Review system data to ensure the payment processed accurately. IMPORTANT: this step is proactive and very important particularly if taxes were required and not withheld. Next day review ensures any payment errors can be timely addressed. If errors are caught and corrected timely (such as retrieving or cancelling the original payment), operating location can avoid tax on tax charge-backs at year end from the central office. There is tax on tax charge-backs if required taxes were not withheld or under-withheld.

**5. Monitor NRA 1042-S Noncitizen Individual Supplier Data Payments**

NRA (1042-S) monitoring steps are the same as documented within the independent contractor section. [Refer to Monitor NRA 1042-S Noncitizen Individual Supplier Data Payments.](#)

**Treaty Eligibility and Claim Information:**

**ALL** of the following **MUST** occur for the RF to extend treaty exemption:

- The licensee has a US Tax Payer Identification Number
- The licensee is eligible for a treaty exemption and completes and submits an [IRS W-8BEN](#). Refer to [Appendix C](#) in this Handbook.
- RF operating locations staff review the claim as valid per the form instructions

NRA licensee must submit claims for income tax treaty exemption. Noncitizen NRA licensee may be eligible for an income tax treaty exemption if their country has a tax treaty with the U.S. and their activity is covered under an article in the treaty. Refer to Appendix C in this Handbook for further specific guidance with “Tips for a complete IRS W-8BEN” and “Using IRS Quick Reference Treaty Tables.”

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## Landlords / Lessor

### Rent defined:

Payment, usually on an amount fixed by contract, paid to an individual at specified intervals in return for right to occupy or use their property.

### Common clarifications discussed within rent classification:

- **Use of Property**  
The type of property and activity must be examined for proper RF use and reporting. Property could be equipment as well space used for research. If machine rental is part of a contract that includes both the use of the machine and the operator services, proration is required to identify the rental versus service and reporting.
- **Doing Business As**  
Some suppliers will provide their name but a secondary name they use “Doing Business as” or otherwise referred to as DBA on the IRS W-9. Key is to verify with the supplier that the name that will be reported on the 1099 and the TIN are the official name and TIN combination the supplier has registered with the government. Refer to [Supplier File Reference Guide](#). If there are further questions on how to set up these suppliers contact the central office AP unit for guidance.
- **Business Travel Reimbursement Exemption - Not Applicable**
- **Tax Withholdings**  
RF is not required to withhold taxes for U.S. Citizens, Permanent Resident or Resident Alien 1099-MISC Rent payments. 1099-MISC forms are created when payments meet a \$600 threshold. It is the responsibility of the recipient to plan and pay taxes timely to the appropriate government entities to meet their personal filing liabilities.

## Steps to Taxation and Reporting Compliance – U.S. Citizens and Resident Alien Landlords / Lessors:

(For Non-Resident Aliens – See [“NONRESIDENT ALIEN RULES –LANDLORDS / LESSORS”](#), below)

1. **Collect IRS W-9 & U.S. Taxpayer Identification Number (TIN)**  
Request that the landlord complete the [IRS W-9](#) to obtain official name, address, tax status and U.S. TIN. For further information refer to [“Taxpayer Identification Number Requirements.”](#) If the Lessor does not provide a US TIN on the W-9, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. 1099-MISC reporting requires a US TIN.

## 2. Review IRS W-9 and determination if reportable payment

The payment may be excluded from 1099-MISC reporting if the entity is incorporated **OR** the payment is not a reportable payment. Refer to [Taxable and / or Reportable relationship with RF?](#)

- a. **Exclusion - incorporated** - When the supplier provides the IRS W-9 and their federal tax status, if the federal tax status indicated on the IRS W-9 is “incorporated” or “corporation,” no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment. Note: Status of “Limited Liability Company” (LLC) cannot be assumed as incorporated, review the W-9 closely.
- b. **Exclusion – non-reportable** - If the activity of the payment is not reportable such as supplies or goods, no 1099 set up is required in the AP system and pay the invoice as a normal supplier payment.
- c. **Reportable** - If the W-9 indicates not incorporated and reportable activity such as rent then set the supplier up as a 1099 supplier in the AP system. **If the reportable supplier does not provide a U.S. TIN, hold payment** and inform them that they must apply for a TIN and provide it to the RF before payments. If a 1099 reportable supplier - move to step 3.

## 3. Set up 1099 Supplier and review for reporting with each invoice

Refer to [Appendix B of this Handbook](#) for key data entry tips for full set up a 1099 supplier.

The system 1099 “Income Tax Type” and invoice code is MISC1 for Rent. MISC1 corresponds with form 1099-MISC, Box 1 “Rent.”

Caution should be exercised when paying each invoice to identify payments that are reportable on the 1099-MISC. If the 1099 supplier has been set up correctly the MISC code will pre-populate into ALL invoices. If the particular invoice is not 1099 reportable such non-reportable reimbursements, then the MISC code must be removed from the invoice.

## 4. Monitor 1099 Supplier Data and Payments

1099 monitoring steps are the same as documented within the independent contractor section. Refer to [Monitor 1099 Supplier Data and Payments. Differences](#) - Landlords / Lessor (rent) are reportable with MISC1 code and travel reimbursement exemptions rules are not applicable because rent payments do not represent services.

## NONRESIDENT ALIEN RULES- LANDLORDS / LESSORS

**IMPORTANT** - Following is guidance on payments to NRA individuals. If the payment is to a foreign entity that is not an individual – Go to Section IV [Payments to Entities](#)

## Differences from US Citizens, Permanent Residents and Resident Aliens

- **Taxation / Exemption** - Payments for NRAs are subject to a sequential set of NRA taxation / exemption rules. Refer to [Nonresident Alien Taxation and Reporting Basics](#) and [Appendix B](#) of

this Handbook for key data entry tips. Exclusions or exemptions are very limited for rent payments and the general default flat withholding rate of 30% is usually applicable.

- **Reporting** – There is no reporting threshold like the 1099-MISC. Income as well as the income taxes withheld are reported on a 1042-S tax statement. Refer to [Post Payment Reporting](#)
- **Treaty Eligibility** – Treaties do provide articles to cover real property activity, but the articles do not provide a tax benefit, therefore Rent payments are taxable at 30% unless determined to be “foreign source.”

### NRA Income Tax Basics

There are three REQUIRED sequential preliminary steps for **ALL** NRA payments to determine tax, exemption and reporting status. Steps below will provide specific codes for entry to the system. Refer to RF You Tube Video – [Non-resident Alien Payment Steps](#):

1. Evaluate IRS “Sourcing”
2. Does Payee Claim an Income Tax Treaty Exemption?
3. Taxable at default IRS rule of 30% - **Note** – Tax withholding is a manual identification and set up in the AP System

### Steps to Taxation and Reporting Compliance:

1. **Collect IRS W-8BEN Part I and U.S. Taxpayer Identification Number (TIN)**

Request that the landlord complete [IRS W-8BEN](#) Part I only to provide official name, address U.S. TIN.

If the Lessor does not provide a U.S. TIN, hold payment and inform them that they must apply for one and provide it to the RF when they receive it. For further information refer to “[Taxpayer Identification Number Requirements](#).”

2. **Set up “Non Citizen – Individual” Supplier**

Refer to [Appendix B](#) of this Handbook for key data entry tips to set up a Noncitizen – Nonresident Alien (NRA) supplier.

3. **Prior to each invoice payment, determine if activity is taxable and / or reportable and identify appropriate “1042-S Tax Rule” code to enter for each invoice in the Descriptive Flexfield (DFF) on invoice distribution “Line.”**

All NRA individual invoices require “1042-S Tax Rule” codes starting with “R” to designate “Rent” and ending with “FS” for foreign source or “TAX” for taxable based on their status. Use [Nonresident Alien Independent Contractor, Landlord / Renter or Licensees \(Royalty\) Tax Determination](#) Form.

- a. **Foreign Source (RFS)**

The property is located outside the U.S.? If yes – Stop and use RFS. Ensure no tax “Withholding Groups” are set up on the AP system.

- b. **Required 30% withholding (RTAX)**

Set up 30% “Withholding Group” on header and site level to withhold and use RTAX.

Note: tax withholding is not system automated. It requires identification that the taxes are required and system set up of “Withholding Group” for each invoice payment.

**Non-reportable payments** - If the activity is non-reportable such as non-reportable reimbursements then select “**NONRE**” “1042-S Tax Rule” code to indicate “non-reportable.”

**4. Review the payment next day for accuracy**

Review system data to ensure the payment processed accurately. IMPORTANT: this step is proactive and very important particularly if taxes were required and not withheld. Next day review ensures any payment errors can be timely addressed. If errors are caught and corrected timely (such as retrieving or cancelling the original payment), operating location can avoid tax on tax charge-backs at year end from the central office. There is a tax on tax charge-backs if required taxes were not withheld or under-withheld.

**5. Monitor NRA 1042-S Noncitizen Individual Supplier Data and Payment**

NRA (1042-S) monitoring steps are the same as documented within the independent contractor section. Refer to Monitor NRA 1042-S Noncitizen Individual Supplier Data Payments.

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### III Post-Payment Reporting

RF You Tube Video – [Calendar Year End Tax Statement](#)

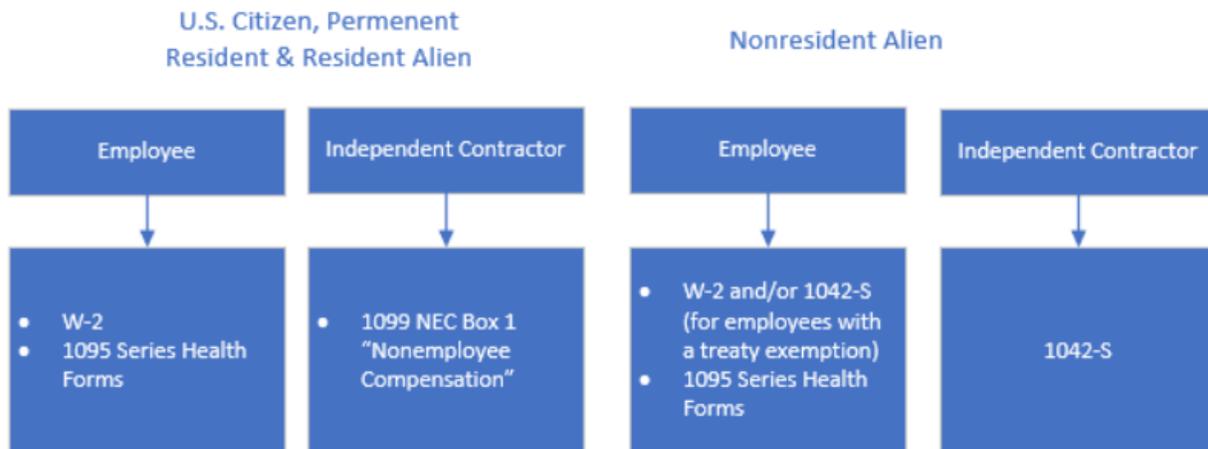
RF Payroll and Accounts Payable systems track and accumulate payments, taxes withheld and data balances that must be reported on a year-end tax statement. Reviewing and monitoring this data throughout the year is important to ensure accurate tax statements are produced at year end. Refer to section II - Rules and Guidance for Different Types of Payees and each appropriate payee section for monitoring information.

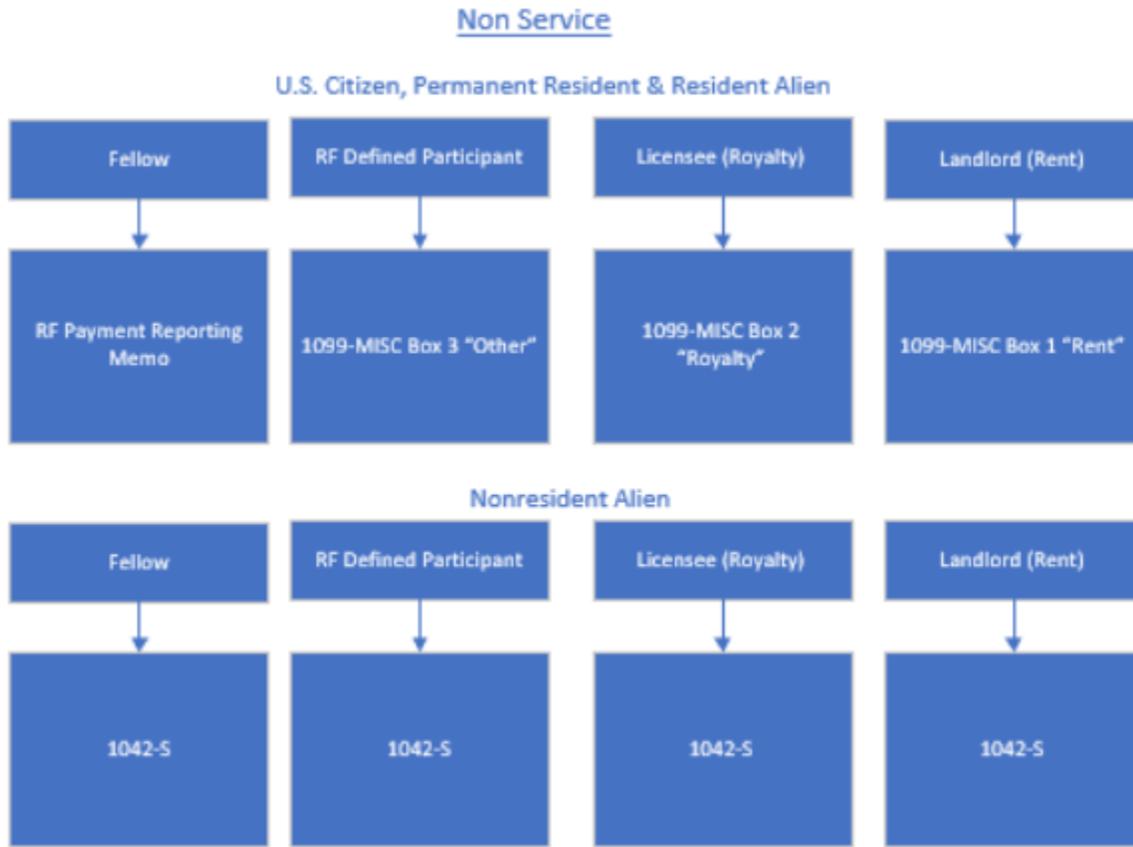
Issues or adjustments that may occur after the tax statements are created and distributed:

- Corrections
- Undeliverable Statements
- Requests for Copies

#### Payees Tax Statements

#### Services





## Tax Statement Information

### Corrections

Once the tax statements are created and distributed, it ends the calendar year tax statement cycle. Tax statement creation, distribution to recipients and submission of data to the appropriate government agency is a RF corporate responsibility and performed at the central office. Any corrections required must be communicated from the operating locations to the central office for processing.

Corrections are required for “critical” reporting errors. Critical errors are those that render the tax statement or media file sent to the government as inaccurate in amounts or key identification information. The following errors constitute a corrected tax statement:

- **Amounts** – Gross or taxes are incorrect. Examples: W-2 and employee SS and Medicare refund crossing calendar years or overpayment adjustment requests
- **Data** – Errors with Name, U.S. TIN (SSN or ITIN). 1042-S tax statements – any code errors such as the two-character country code, income or exemption codes

An incorrect address is NOT a critical data error.

### Requests for corrections submitted by Operating Locations:

- **W-2** – Request is sent from operating locations to central office in the form of “Prior Calendar Year SS and Medicare refunds” request or overpayment adjustment forms
- **1099-MISC and 1042-S** – Request form is sent from operating location to central office

#### [Request for Correction 1099-MISC or 1042-S Tax Statement](#)

#### [RF prior year SS and Medicare Tax Adjustment Request form](#)

### Undeliverable Statements

Tax Statements mailed but returned to the RF central office by the U.S. Postal Service are “undeliverable” statements. For those statements returned to RF central office and forwarded on to an operating location, a determination should be made by each location as to amount of follow up with the intended recipient. If no action taken, file the statement with employee or supplier file. There is a 4-year retention requirement.

- **W-2** – forms are available to employees on-line through self-service, therefore central office does not return undeliverable W-2s to the operating location
- **1099-MISC** – central office AP forwards to operating location AP administrators
- **1042-S** – central office identifies if origin is payroll or AP system data and forwards to appropriate operating location administrator
- **U.S. Citizen and Resident Alien Fellow “Payment Reporting Memo”** – This is an RF memo and not an officially required government tax statement. Therefore, those returned are not forwarded to operating locations.

### Request for Copy

Requests commonly result from recipients losing their tax statement or statements were destroyed. Additionally, recipients may request a copy of a tax statement because they claim they never received the original.

The individual requesting a copy MUST complete a [RF Request for Copy of Tax Statement](#) before the RF can produce a copy to mail. For confidentiality reasons, all copies are mailed.

- **W-2** – forms are available to employees on-line through self-service
- **1099-MISC** – Operating locations ask recipient to complete the request form and sign and send copy to central office for processing
- **1042-S** – Operating locations ask recipient to complete the request form and sign and send copy to central office for processing
- **U.S. Citizen and Resident Alien Fellow “RF Payment Reporting Memo”** – Since not an official tax statement, no copy require

**Prior years copy requests-** Operating locations can determine their service level dependent upon the records available but the standard statute of limitation in filling requests is 3 years.

The IRS provides alternative guidance for individuals to request tax return transcript, Form W-2 information, or a copy of a tax forms from prior years. Requests can be made directly to the IRS by filing [IRS Form 4506, Request for Copy of Tax Return](#) or [IRS Form 4506-T Request for Transcript of Tax Return](#).

## Annual IRS TIN and Name Mismatch Notice – Solicitation Process

Each calendar year end (October or November) the IRS sends RF a list (Notice CP2100) of Name and TIN combination mismatches. The government compares 1099 data submitted by the RF for the prior calendar year to the government database. The RF is required to review the records and conduct a “B Notice” and W-9 solicitation process.

Central Office Responsibilities:

1. Organize the records on the IRS list by operating location and review the supplier and TIN on the IRS list with the AP business system
2. Eliminate any records from the list where name or TIN status has changed since last year end
3. Prepare all appropriate 1<sup>st</sup> or 2<sup>nd</sup> B Notices
4. Send B Notice, blank IRS W-9 and instructions to operating locations for action
5. Place holds on the suppliers in question

Operating Locations Responsibilities:

1. Complete the process by the designated deadline and instructions sent by the central office, which includes:
  - a. Reviewing the W-9 on hand to verify the W-9 matches the data in the AP business system. If an input error, correct the AP system, file the results and notify Central Office AP office to release the hold on the supplier record
  - b. If there is no input error and the IRS data on the notice matches the W-9 on file, document and send the appropriate B Notice and W-9 to the supplier with a self-addressed stamped envelope to complete the requirements. The process is complete at this stage. RF must only prove the solicitation occurred.

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## IV Payments to Entities

### Foreign Entity defined:

For RF procedures and reports, the term foreign entity is a non-domestic entity other than an “individual” such as but not limited to corporations, partnerships, or other business organizations. Foreign entities are identified within our supplier files as “Foreign Supplier (Companies / Organizations)” supplier type.

### Domestic Entities versus Foreign Entities

Domestic entities originate in the U.S. or U.S. territories and predominantly base all their business activity within the United States. Domestic entities reportable payments fall under US Citizen tax and reporting rules and instructions provided within Section II “Rules and Guidance for Different Types of Payees” in this Handbook such as collection of the IRS W-9 and 1099 reporting when required. Refer to Section I “Pre-Payment Decisions” and “Taxable and / or Reportable relationship with the RF?” for further guidance on reportable payment decisions.

Foreign entities originate outside the U.S. and predominantly base all their business outside the U.S. but are subject to special rules if their business is deemed “U.S. Source” under IRS rules. U.S. Source generally means the entity has some sort of permanent office, factory or base operation in the U.S., conducts regular business in the U.S. with payments to U.S. locations or U.S. bank accounts. Foreign entities fall under the Foreign Account Tax Compliance Act (FATCA) passed into law March 2010 with special compliance steps when “US Source” and the payment is reportable such as services or royalties. Payments for goods or suppliers are not taxable or reportable. Refer to Section I “Pre-Payment Decisions” and “Taxable and / or Reportable relationship with the RF?” for further guidance on reportable payment decisions.

### Tax and Reporting Rules

Like all nonresident alien payment rules documented throughout this handbook the tax and reporting rules start with an IRS rules decision on “Sourcing.” If deemed “Foreign” source there is no tax or reporting requirement and the entity is paid as a normal supplier upon completing the steps below. If the foreign entity is deemed “U.S. Source” more work is required in identifying if the activity is taxable and / or reportable following steps listed below.

### Steps to Taxation and reporting compliance when paying foreign entities:

1. Determine **IRS “Sourcing”** by completing the PDF fill-in form [Foreign Entity - Sourcing Analysis](#) and submit the form to central office by selecting the “Submit Form” button. Central office AP department enters the “source” status into the supplier file and attaches the form to the supplier file.

If Source is “Foreign Source”	If Sourcing is not completed or “U.S. Source”
The invoice will process - no further action	AP system activates a “Foreign Entity – Tax Review” Invoice Hold – continue to step 2

2. **U.S. Source** – Determine if payment represents reportable activity such as independent contractor services or royalties. Refer to [“Taxable and / or Reportable relationship with RF?”](#)

If Invoice is for Goods, Suppliers or other Non-Reportable Reimbursement	If Taxable and / or Reportable Activity
<p>The hold will be released by central office AP staff and invoice will process - no further action</p>	<ul style="list-style-type: none"> <li>• Complete the PDF fill-in form <a href="#">Foreign Entity – Invoice Analysis</a> and submit the form to central office by selecting the “Submit Form” button. Central office AP staff will attach the form at the invoice level.</li> <li>• Further contact is required with the supplier to collect appropriate IRS W-8 series forms. The most common form is the <a href="#">W-8BEN-E</a>.</li> </ul> <p>Contact the central office Payment Compliance Manager for guidance.</p> <ul style="list-style-type: none"> <li>• If we cannot obtain a W-8 series form or the supplier will not provide the form – the default withholding rate is 30%</li> <li>• Payments and / or taxes are reportable on IRS form 1042-S.</li> </ul> <p>Note - The FATCA rules are more about information than withholding. Every effort should be made to communicate with the supplier to obtain an appropriate W-8 series form versus withholding.</p>

3. Monitor foreign entity supplier and invoice status
- a. Run the “RF NRA Individual or Foreign Entities Report” by “Supplier,” “Detail” selecting the “Type” of “Foreign Supplier (Company / Organization).” Review the report to ensure Sourcing status has been provided to central office AP staff and entered for each supplier.
  - b. Run the “RF Invoice on Hold Report” routinely as needed during each week to find “Foreign Entity – Tax Review” invoice holds. Ensure the invoice activity is not taxable or reportable and follow up with central office staff if the hold has not been released. If the invoice activity is taxable or reportable, the hold is appropriate - see Step 2 above for action.

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## Appendix A – Key payroll system tax and reporting navigation and entry

### Employees and Fellows – Non-citizen Tax and Reporting Data Fields –

- **Citizenship status** – “People” screen – “Nationality” field and enter the appropriate citizenship status of “US Citizen,” “Permanent Resident,” or “Non-citizen in US on Visa.”

The screenshot shows a web-based payroll system interface. At the top, the browser title is "NO\_CONTACT - 650 Payroll Compliance Administrator @ RFPRODX - 15-JAN-2016". The main form is divided into several sections:

- Name:** Fields for Last, First, Title (set to "Ms."), Prefix, Suffix, and Middle.
- Gender:** Set to "Female".
- Person Types:** Set to "Internal".
- Identification:** Set to "Employee".
- Personal:** Fields for Birth Date (03-FEB-1988), Age (27), Status, Nationality (highlighted with a red box as "Non-Citizen in US on VISA"), and Registered Disabled.
- Effective Dates:** From 08-JUN-2015 to [blank]. Latest Start Date is 08-JUN-2015.
- Navigation:** Buttons for Address, Special Info (highlighted with a red box), Assignment, Person Type Usage, and Others...

- **IRS Residency for Tax purposes** – for non-citizens, information from the “Request for Alien Information” PDF form
  - “People” screen, “Special Info” button- “Non-Citizen Visa and Residency” special info type AND

Special Information(Joffe, Ms. Luna) - 650

Information

Name

Exists

Job Evaluation

Licensure/Certification

Non-Citizen Reporting Info

Non-Citizen Visa and Residency

Details

Start Date	End Date	Detail
08-JUN-2015		J-1.K0456147.N.01.01.0 [redacted] 5.BR.BR.

Non-Citizen Visa and Residency

Visa Type **J-1** Exchange Visitor

Visa Number [redacted]

Res Alien for tax - meets SPT **N** No

J Category Code **01** Students

Primary Activity Code **01** Studying - Degree Program

Work Authorization Start Date **01-JUN-2015**

Country of Residence **BR** Brazil

Country of Citizenship **BR** Brazil

Work Authorization Expiration Date **31-MAY-2016**

Married?

Spouse Here?

Number of Dependents Residents

Passport Number [redacted]

Date First Entered US **18-JUN-2015**

Date First Employed in US **08-JUN-2015**

OK Cancel Clear Help

“Assignment” screen – “Tax Info” button – “Residency Det...” button

Assignment( 650 Payroll Compliance Administrator @ RFPRODX - 19-JAN-2016

Organization: 050 Biochemistry and Cell Biology  
 Job: Postdoctoral Associate  
 Grade: E.89  
 Location: 050 Stony Brook

Group: 050.Employee Regular  
 Position:  
 Payroll: Biweekly  
 Status: Active Assignment  
 Vacancy:

Assignment Number:  
 Assignment Category: Exempt - Regular  
 Collective Agreement:  
 Employee Category: Sponsored Progra

Salary Information | Supervisor | Probation & Notice Period | Standard Conditions | Statutory Information

Salary Basis: Salaried Annual

Review Salary: Every  
 Review Performance: Every

Effective Dates: From 01-SEP-2015 To 31-JUL-2016

Tax Info | Entries | Statement of Earni... | Adjust Balance | Others...

Federal Tax Rules(Yuan, Dr. Cheng) - 650 Payroll Compliance Administrator @ RFPRODX - 19-JAN-2016

Taxation States: Resident New York, Work New York, SUI State New York  
 Show Inactive Tax Records

Taxation Locality: Resident City Port Jefferson, Work City Stony Brook, Resident County Suffolk, Work County Suffolk  
 Working At Home  Multiple Percentage

Federal Tax Rules

W4 Information: Filing Status Single, Allowances 1, Additional Tax 0.00

Tax Exemption:  FIT  FUTA,  MEDICARE  SS

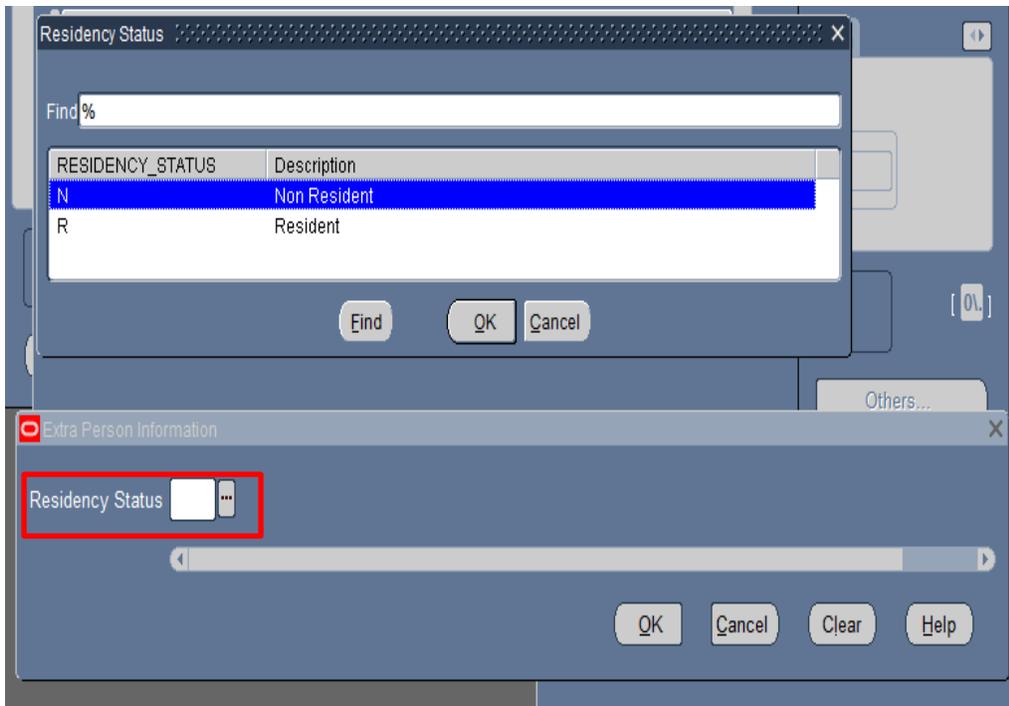
FIT Override: Regular Rate 0.000, Regular Amount 0.00, Supplemental Rate 0.000

Lock In Date: Statutory Employee  Use Information Hours   
 EIC Filing Status: No EIC  Cumulative Taxation  FIT Exempt from Wage Accumulation

Effective Dates: From 20-AUG-2015 To

Further Federal Tax Info [ ] [ ]

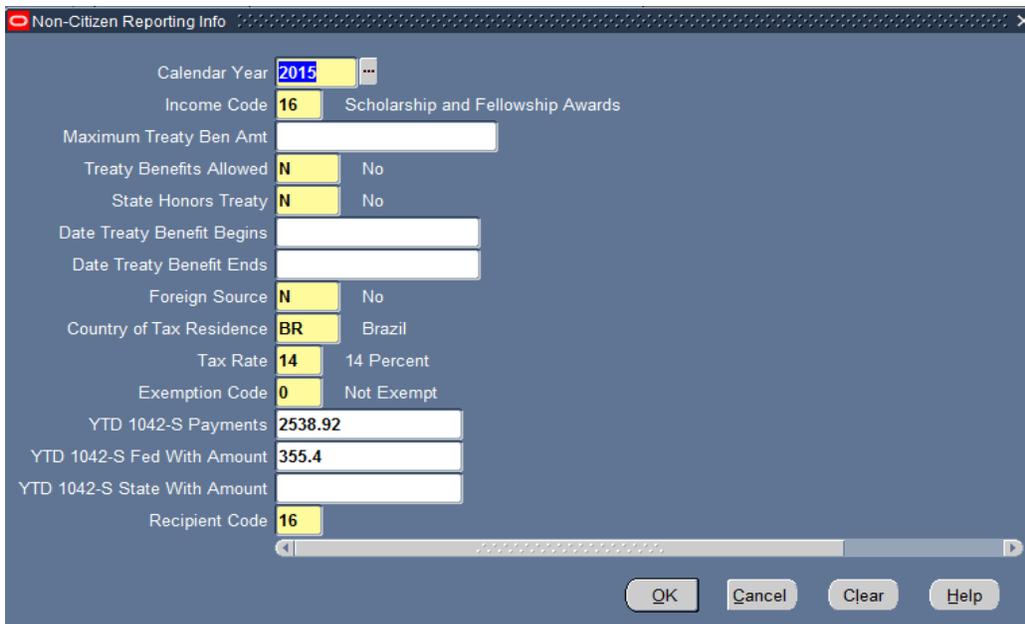
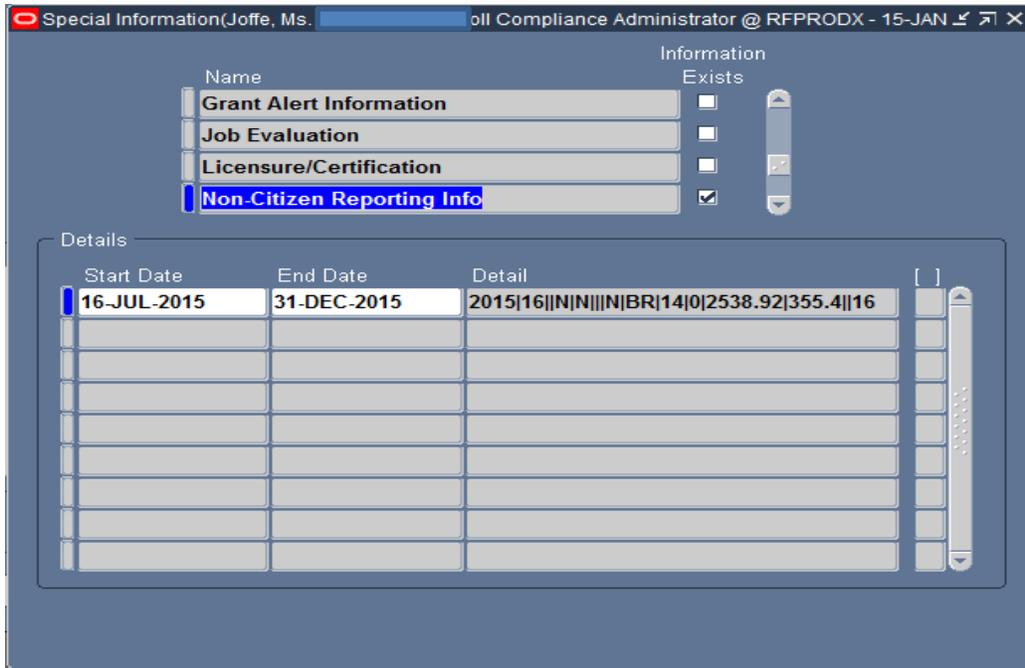
State Tax (B) | Percentage | Residency De...



- **Treaty exemption** - “People” screen, “Special Info” button- “Noncitizen Reporting” special info type.

Following illustration is for fellow assignment with taxes withheld.

**Important:** YTD fields are not entered, instead populated at year end processing



Specific for NRA Fellow Non-Citizen Reporting SIT Input

NRA Fellows may have multiple 1042-S reporting requirements in a calendar year. In those cases multiple calendar year Non-Citizen Reporting SIT data lines will be required.

The following table provides guidance for different potential Fellow Non-Citizen Reporting SIT data input.

Income Tax Treaty Exemption	Taxable	Foreign-source Exemption
Income tax treaty exemption must include the following entries: Income Code = 16 Treaty Benefits Allowed = Y Treaty begin and end date applicable Tax Rate = 00 Exemption Code = 4	Tax withholding must include the following entries: Income Code = 16 Treaty Benefits Allowed = N Tax Rate = 14 Exemption Code = 0	Foreign source exemption must include the following entries: Income Code = 16 Treaty Benefits Allowed = N Foreign Source = Y Tax Rate = 00 Exemption Code = 3

If a fellow changes IRS residency status during the calendar year and requires split reporting due to residency change dates, enter the following data as a **second** Non-Citizen Reporting SIT as an indicator to central office that year end reporting needs review. Split reporting means a portion of the year is reported as a NRA and a portion as a resident alien. **IMPORTANT:** This split coding is the only indicator to Central Office that reporting is needed as both an NRA and a resident alien. Coding must be input correctly to result in multiple tax forms.

Income Code = 16

Treaty Benefit Allowed = N

Tax Rate = 00

Exemption Code = 0

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# Appendix B – Key accounts payable system tax and reporting navigation and entry

## US Citizen, Permanent Resident & Resident Aliens - 1099-MISC

### Key Minimal entry steps required for 1099-MISC

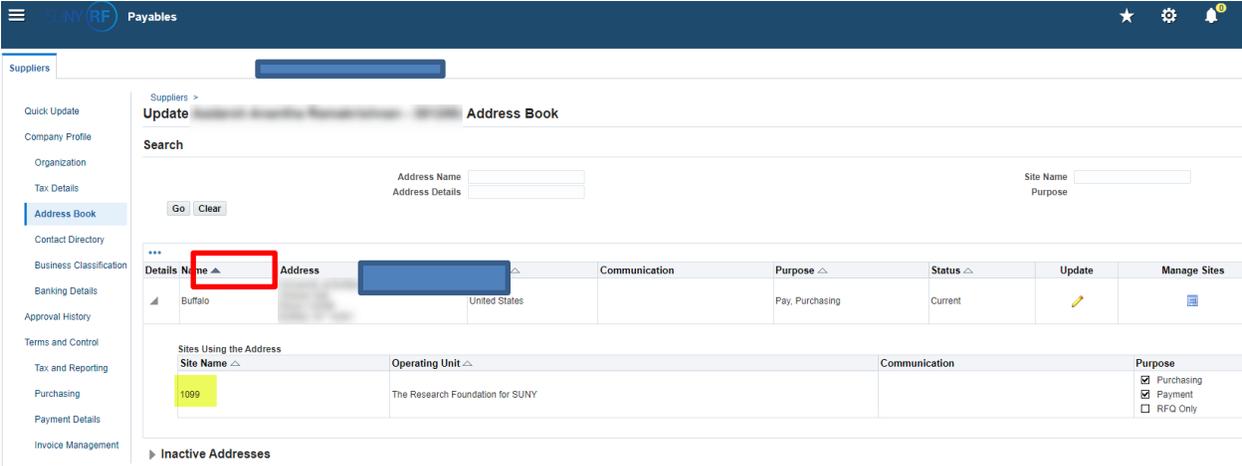
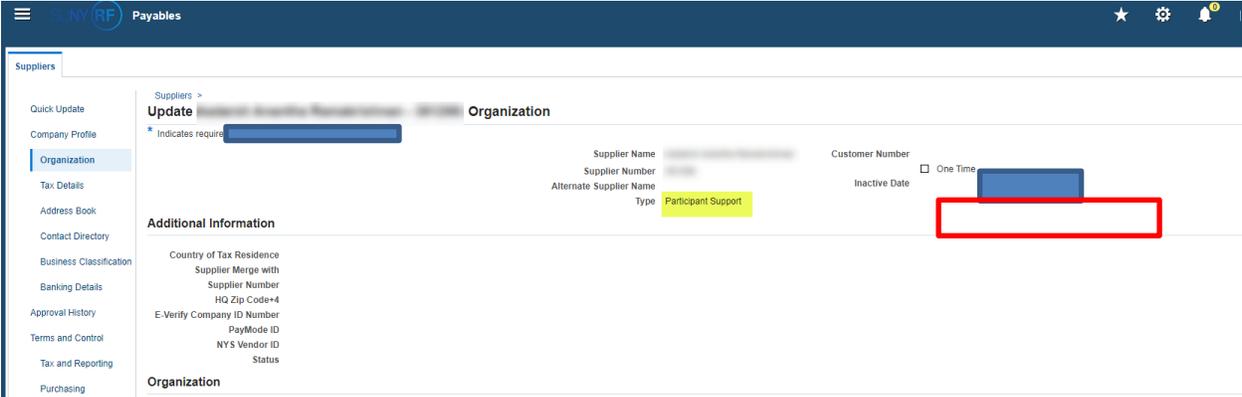
ASSUMPTIONS: Activity is tied to payee payments for independent contractor, RF-Defined Participant Support, Rent or Royalty. W-9 on file does NOT show “incorporated” or “corporation.”

### 1099 SUPPLIER SET UP

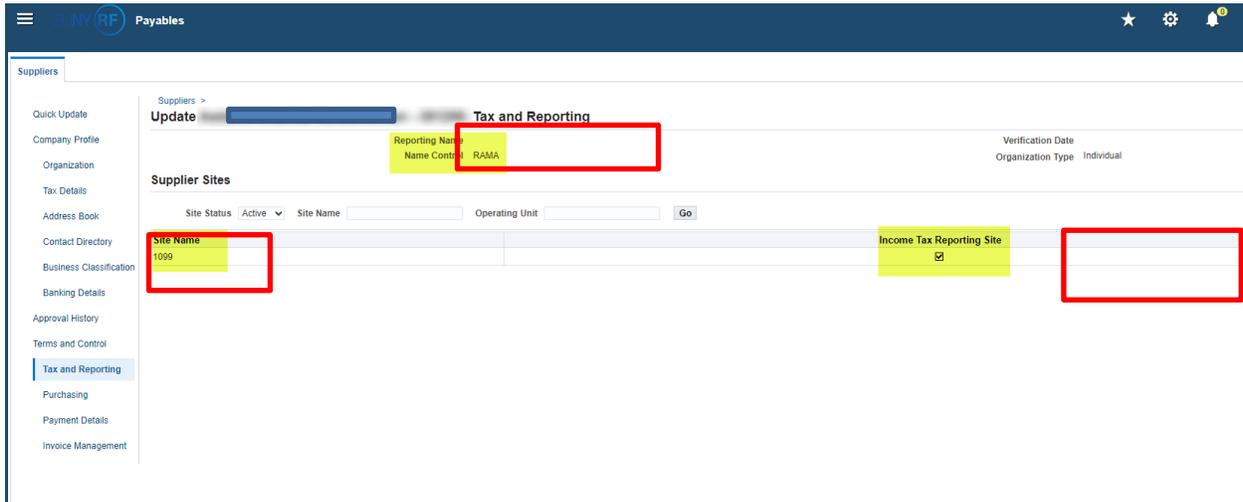
#### 1. Establish a 1099-Site (Exception - if site is “HOME”)

Example - Illustration for a Participant Support payment

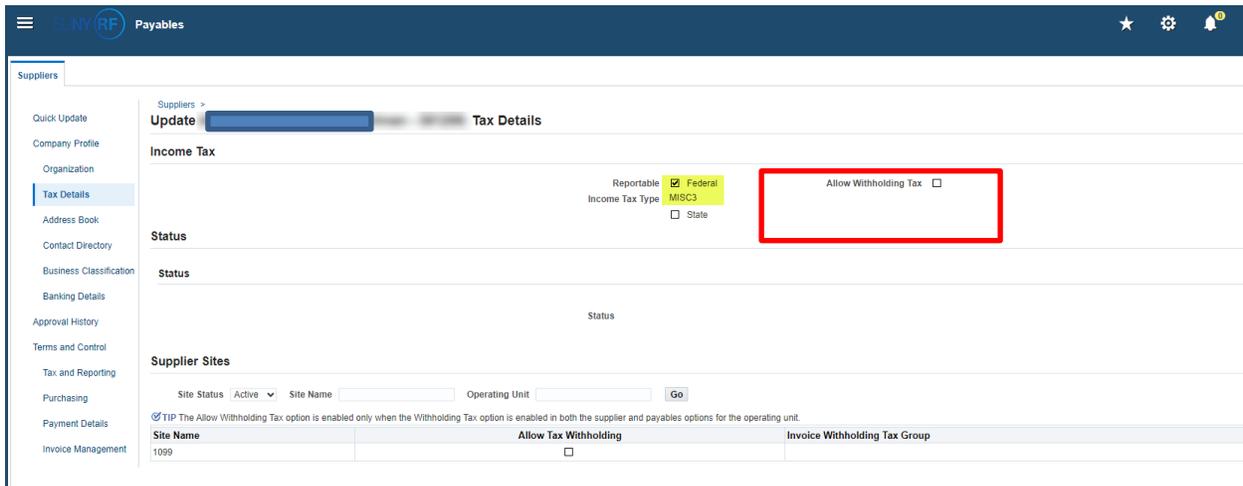
Within “Organization” and “Address Book”



2. **“Tax and Reporting”** – Enter the Name Control AND on the “Site Name” line, cursor to the right and click the “Income Tax Reporting Site” button

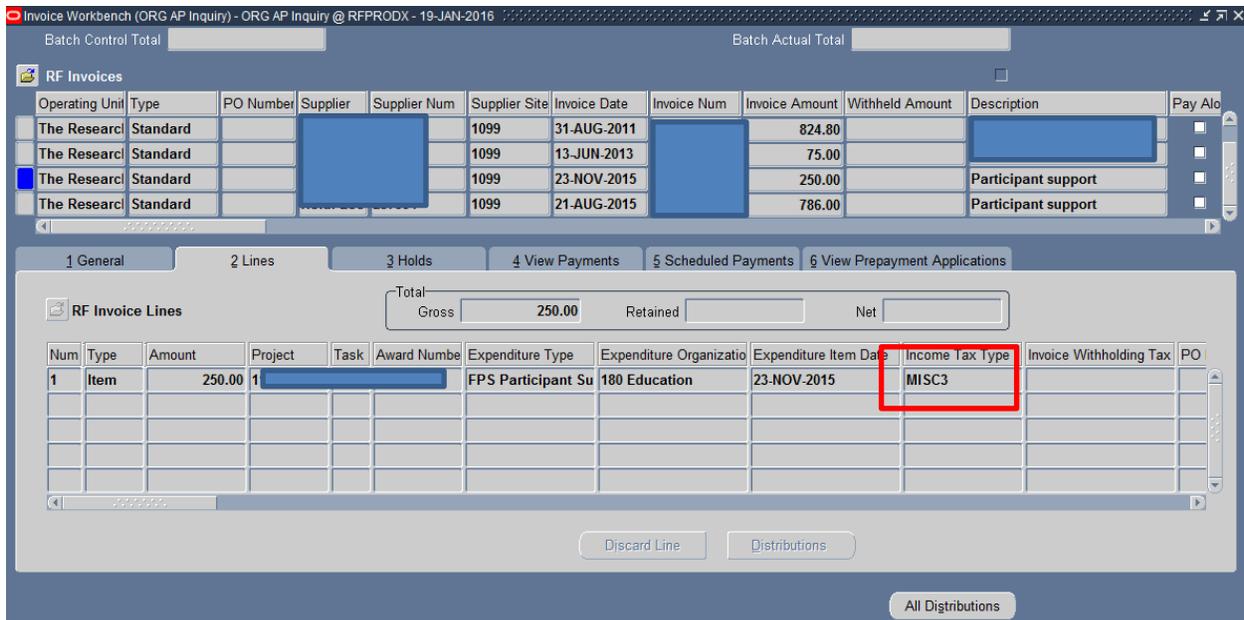


3. **“Tax Details”** – click “federal” button and “Income Tax Type” field appears. Enter the proper “MISC” “Income Tax Type” code (i.e. MISC 1 = Rent, MISC 2 = Royalty, MISC 3 = RF-Defined Participant Support or Other income, MISC 7 = Independent Contractor)



## INVOICE

4. **On invoice “Lines” & Lines “Distribution”** – “MISC” code established should pre-populate into invoices in the “income Tax Type” field if the supplier is set up correctly. ***Evaluation then must be made if the invoice is reportable and leave the “MISC” code or non-reportable and remove the “MISC” code from invoice “Lines” distribution.***



### Non-Citizen Nonresident Aliens (NRA) - 1042-S

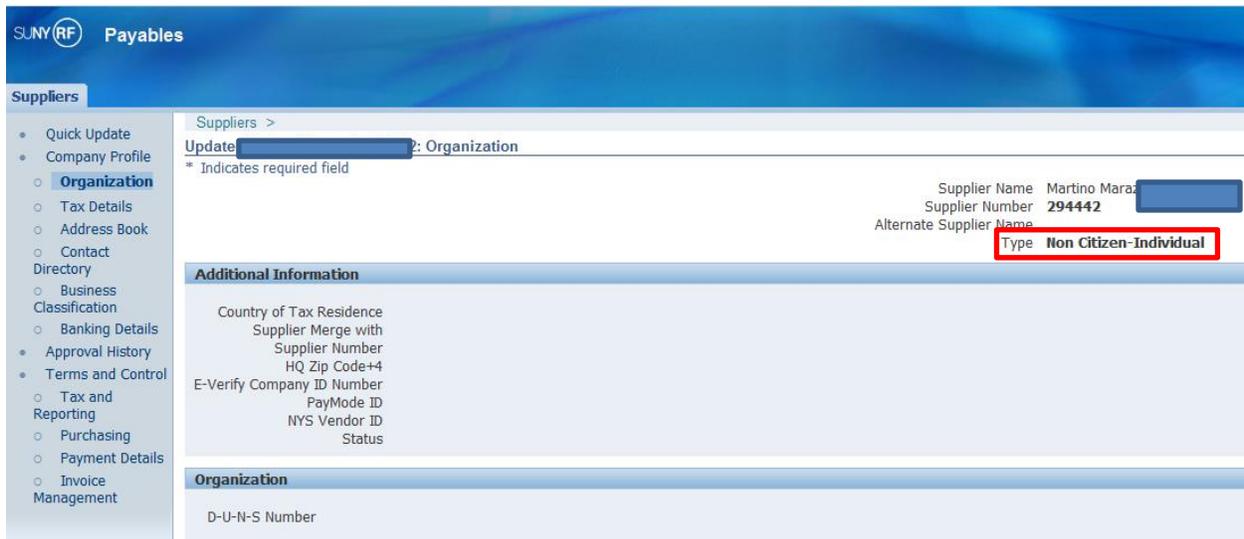
#### Key Minimal steps required for NRA Records

ASSUMPTIONS: Activity is tied to reportable payment classification – independent contractor, RF-Defined Participant Support, Rent or Royalty recipients. At minimum the RF Request for Alien Information and IRS W-8BEN Part I on file. Refer to associated “NONRESIDENT ALIEN RULES” for each payee type within this Handbook for further detailed instructions

#### Non-CITIZEN SUPPLIER SET UP

1. Ensure set up with a classification Type of “NON CITIZEN-INDIVIDUAL.”

Within “Organization”



## INVOICE PROCESSING

### 2. Each invoice review - Taxes required?

- a. **No** – If **“Foreign Source”** exempt, pay the invoice and code the proper **“FS”** non- taxable **“1042-S Tax Rule”** code to the **“Line”** Descriptive Flexfield (DFF.) **If treaty exemption** eligible and completed the proper IRS forms for valid treaty claim, pay the invoice and code the proper **“TE”** **“1042-S Tax Rule”** code to the **“Line”** DFF. Specific **“1042-S Tax Rule** codes are provided within Section II of this Handbook for each payee. See the table of contents. Royalties have more specific rules - consult the royalty section of this Handbook.
  - b. **Yes** – **TAX WITHHOLDINGS ARE NOT AUTOMATIC** - Manually set up the **“Withholding Group”** and appropriate tax rate for the invoice at the header and site level. Pay the invoice and code the proper **“TAX”** taxable **“1042-S Tax Rule”** code to the **“Line”** DFF.
3. **Next invoice** – Must evaluate the next invoice taxability. If taxable must ensure tax **“Withholding Groups”** are set up. If non-taxable must ensure tax **“Withholding Groups”** are removed for that particular invoice.

### Illustration – Independent contract – Treaty exempt

The screenshot shows the Oracle Invoice Workbench interface. At the top, there are fields for 'Batch Control Total' and 'Batch Actual Total'. Below this is a table of 'RF Invoices' with columns: Operating Unit, Type, PO Number, Supplier, Supplier Num, Supplier Site, Invoice Date, Invoice Num, Invoice Amount, Withheld Amount, Description, and Pay Alone. The first row shows 'The Research' with an invoice amount of 750.00 and a description 'PO# R99'. Below the table are tabs for '1 General', '2 Lines', '3 Holds', '4 View Payments', '5 Scheduled Payments', and '6 View Prepayment Applications'. The '2 Lines' tab is selected, showing 'RF Invoice Lines' with a total gross of 750.00. A table below shows one line item with 'Number' 255, 'Quantity Invoiced' 750, and 'Description of Service: Deliver in it IN.'. A red box highlights the 'Default Distribution Account' field, which contains 'IN.'. A pop-up window titled 'Invoice Lines' is open, showing '1042-S Tax Type' as 'IN' and '1042-S Tax Rule' as 'ICTE', with a description 'Independent Contractor - Treaty Exempt'. Red boxes highlight these fields in the pop-up window.

This is a close-up of the 'Invoice Lines' pop-up window. It contains two input fields: '1042-S Tax Type' and '1042-S Tax Rule'. The '1042-S Tax Rule' field has a dropdown menu open, showing a list of tax rules. The rule 'ICTE' is selected and highlighted. At the bottom of the window are buttons for 'OK', 'Cancel', 'Clear', and 'Help'.

Table of ALL “1042-S Tax Rule” Codes

1042-S Tax Type	Description
<b>CRFS</b>	<b>Copyright Royalty - Foreign Source</b>
CRTAX	Copyright Royalty - Taxable
CRTE	Copyright Royalty - Treaty Exempt
FTVRFS	Film and TV Royalty - Foreign Source
FTVRTAX	Film and TV Royalty - Taxable
FTVRTE	Film and TV Royalty - Treaty Exempt
ICFS	Independent Contractor - Foreign Source
ICTAX	Independent Contractor - Taxable
ICTE	Independent Contractor - Treaty Exempt
IERFS	Industrial Equipment Royalty - Foreign Source
IERTAX	Industrial Equipment Royalty - Taxable
IERTE	Industrial Equipment Royalty - Treaty Exempt
IKHRFS	Industrial Know How Royalty - Foreign Source
IKHRTAX	Industrial Know How Royalty - Taxable
IKHRTE	Industrial Know How Royalty - Treaty Exempt
NONRE	NON Reportable Expenditures
PRFS	Patent Royalty - Foreign Source
PRTAX	Patent Royalty - Taxable
PRTE	Patent Royalty - Treaty Exempt
PSFS	Participant Stipend - Foreign Source
PSTAX	Participant Stipend - Taxable
RFS	Rent - Foreign Source
RTAX	Rent - Taxable
RTE	Rent - Treaty Exempt
USAIDNT	USAID - Non Taxable
USAIDTAX	USAID - Taxable

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## Appendix C – Income Tax Treaty Administration

### Income Tax Treaty Administration Basics

Non-U.S. Citizens who are Nonresident Aliens for tax purpose whose

- Country has an income tax treaty with the US; and
- The activity and payment classification are covered by a treaty article; and
- Nonresident has a US TIN; and
- Completes the appropriate IRS treaty request form

may be eligible to claim an income tax treaty. All government forms provide instructions. The form should be completed following the instructions, but there are a few subtle and important data elements that most struggle with to complete a valid income tax treaty claim form. The following sections cover each payee type eligible for income tax treaty and the tips for a complete treaty exemption claim form. There is no requirement to notify the individual about possible income tax treaty eligibility, but any submitted income tax treaty request must be reviewed for validity and honored for exemption if complete and valid. Many operating locations have an international office that can assist the individual.

### Income Tax Treaties and IRS Quick Reference Tables

The official IRS resource for “quick reference” to treaties is [Tax Treaty Tables](#) on the IRS website - [Table 1](#) (royalties) and [Table 2](#) (employees, independent contractors and fellows). Treaties are not available for RF-Defined Participant Support payments. Links to full treaties and language can be found at [IRS United States Income Tax Treaties A-Z](#). Use the quick reference tables but refer to full treaty when more information is required. If there are still questions about treaty and income eligibility contact the Corporate Payment Compliance Manager for assistance.

When reviewing countries on the IRS treaty tables, “Commonwealth of Independent States” (CIS) represents the former breakup of the USSR and consists of Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan. These CIS countries are covered by the 1973 U.S. – U.S.S.R. treaty. Additional members of the CIS that have independent treaties and are found on separate rows in the IRS treaty tables and include Kazakhstan, Russia and Ukraine.

### Employees- Tip on Quick Reference Table decisions and how to complete IRS 8233 and Supporting Statement from IRS Publication 519

Assumption - Inquiry if a treaty can be claimed or the employee has provided the documentation to claim treaty exemption.

## Using the IRS Quick Reference Tax Treaty Table - Employees

1. Must have a U.S. TIN
2. **Country?** - Identify the country for the employee from RF Request for Alien Information Form (refer to section - [Determine Citizenship and IRS Residency Status for Tax Purposes](#)) and ensure the country matches any other documentation on hand. This information should be entered in the employees “Noncitizen Visa and Residency Special Info Type” and “Noncitizen Reporting Special Info Type” if treaty claim. Refer to [Appendix A of this Handbook](#).
3. **Access Quick Reference Table** - Access IRS [Tax Treaty Tables](#) and go to “[Table 2. Compensation for Personal Services Performed in United States Exempt from U.S. Income Tax Under Income Tax Treaties](#)” and find the country for the employee. If the country does not exist in the table, then there is no treaty benefit between the US and the country. If the country is present continue to step 3.
4. **Activity meets Treaty?** - Identify the type of activity and if the treaty claim is for “teacher/researcher - income code 19” or “student – income code 20” and if lines appear on the table for those types of income, go to step 4. If the income activity does not appear on the table, then there is no “treaty article” to cover payment.
5. **Review for specific treaty eligibility** - Identify the specific line of income (19 or 20) and review each column across to evaluate if treaty activity applies to the employment. If income code 19 or 20 is not present for a certain country, a treaty does not exist for that country.
  - **Income 19 Teacher/Researcher** – Generally there are no “amount” limits for teacher researcher treaties but instead there are date limits from the date they arrived in the U.S. (e.g. 2 years from arrival date). All the income from the date a valid complete exemption form (8233 and supporting statement) is received is exempt from federal and state income taxes in the calendar year up until the fixed treaty end date based from arrival. The solid time limits for the “teacher/researcher” treaty is specified in the quick reference table and supporting statement in [IRS publication 519](#). Also look at the columns across in the quick reference table to ensure time or payer requirements are also met. Notice the last column provides the treaty “article.”
  - **Income 20 Student** - Generally there are “amount” limits for students for each calendar year. So, the income from the date a valid complete exemption form (8233 and supporting statement) is received is exempt from federal and state income taxes up to a certain dollar limit (e.g. for Chinese students there is a \$5000 limit per calendar year). **IMPORTANT** - read lines tied to typical RF activity. Payments such as “Compensation during study or training” or “Compensation while gaining experience” to match RF activity. **“Remittance and Allowances” is not RF activity**. Also look at the columns across to ensure time or payer requirements are also met. Notice the last column provides the treaty “article” that can be used to look up the full text of the treaty.
6. **Enter treaty data to payroll system** - Enter the appropriate data into the “Noncitizen Reporting Special Info Type.” Key is the treaty “start date” as the date a valid complete exemption claim was received. Refer to Appendix A of this Handbook.

Illustration Table 2 – Quick reference table for China

Country (1)	Code <sup>1</sup> (2)	Purpose <sup>22</sup> (3)	Maximum Presence in U.S. (4)	Required Employer or Payer (5)	Maximum Amount of Compensation (6)	Treaty Article Citation (7)
China, People's Rep. of	16	Scholarship or fellowship grant <sup>15</sup>	No specific limit	Any U.S. or foreign resident <sup>5</sup>	No limit	20(b)
	17	Independent personal services <sup>7, 8</sup>	183 days	Any contractor	No limit	13
	18	Dependent personal services <sup>8, 17, 58</sup>	183 days	Any foreign resident	No limit	14
	42	Public entertainment <sup>29</sup>				16
	19	Teaching <sup>4</sup>	3 years	U.S. educational or research institute	No limit	19
	20	Studying and training: <del>Remittances or allowances-</del>	No specific limit	<del>Any foreign resident</del>	No limit	20(a)
		Compensation during training or while gaining experience	No specific limit	Any U.S. or foreign resident	\$5,000 p.a.	20(c)

## Form 8233 and Supporting Statement from IRS Publication 519 for Employees

The information covered here is not all inclusive, only subtle and important data elements that most struggle with to complete a valid 8233.

### 8233 Part II – Claim for the tax treaty information –

The claim must have entries to the appropriate lines on the 8233 and common missing information includes:

- A description of services
- Treaty article number for the type of services
- Country the employee is resident and
- Expected amounts.

The item most applicants need help finding is the “treaty article” number. This can be found by reviewing the treaty “on-line” at the [IRS United States Income Tax Treaties – A to Z](#) or accessing the quick reference [Table 2](#) at IRS [Tax Treaty Tables](#) looking at the last column “Treaty Article Citation.” Review the appropriate line that characterizes the employee activity.

### 8233 Part IV – Withholding Agent Acceptance and Certification

This area is completed by an appropriate operating location administrator after a review to attest to the form as complete based on the facts and circumstances and the form instructions.

### Required Supporting Statement from IRS Publication 519

The supporting statements are found in IRS Publication 519. The statements are a few paragraphs long for countries with treaties and some locations with large volume create templates. Some make a photo copy for the individual to complete and sign. Illustration of a portion of the first page of Appendix A followed by the statement for “China, Peoples Republic of:”

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## Appendix A—Tax Treaty Exemption Procedure for Students

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This appendix contains the statements nonresident alien students and trainees must file with Form 8233 to claim a tax treaty exemption from withholding of tax on compensation for dependent personal services. For treaty countries not listed, attach a statement in a format similar to those for other treaties. See chapter 8 for more in-

- |  |   |  |
|--|---|--|
| <p>profession or professional specialty. .</p> <p>3. I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the</p> | <p>2. I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].</p> <p>3. I will receive compensation for personal services per-</p> | <p>or, I am temporarily present in the United States as a recipient of a grant, allowance, or award from _____ [insert the name of the nonprofit organization or government institution providing the grant, allowance, or award].</p> <p>3. I will receive compensation</p> |
|--|---|--|

### China, People's Republic of

1. I was a resident of the People's Republic of China on the date of my arrival in the United States. I am not a U.S. citizen.
2. I am present in the United States solely for the purpose of my education or training.
3. I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and the People's Republic of China in an amount not in excess of \$5,000 for any tax year.
4. I arrived in the United States on \_\_\_\_\_ [insert the date of your last arrival in the United States before beginning study or training]. I am claiming this exemption only for such period of time as is reasonably necessary to complete the education or training.

**Appendix A – For Students** (illustrated above) - student treaty exemptions are predominantly based on a dollar limit as illustrated above for China. Student articles generally limit the exemption to \$5000 per calendar year.

**Appendix B – For Teachers and Researchers** (illustrations below) - teacher/research treaty exemptions are predominantly based on a time limits. Statements for teacher/researchers are generally longer. Rtheir exemption is allowed predominantly for 2 to 3 years with no dollar limit during that time period.

## Appendix B—Tax Treaty Exemption Procedure for Teachers and Researchers

This appendix contains the statements nonresident alien teachers and researchers must file with Form 8233 to claim a tax treaty exemption from withholding of tax on compensation for dependent personal services. For treaty countries not listed, attach a statement in a format similar to those for other treaties. See [chapter 8](#) for more information on withholding.

### Belgium

1. I am a resident of Belgium. I

2. I am visiting the United States for the purpose of teaching or conducting research at \_\_\_\_\_ *[insert the name of the university, college, or other recognized educational or research institution]*. I will receive compensation for my teaching or research activities.

3. The teaching or research compensation received during the entire tax year (or during the period from \_\_\_\_\_ to \_\_\_\_\_) for these activi-

United States and the People's Republic of China. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, lecturer, researcher, or student before the date of my arrival in the United States.

4. Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.
5. I arrived in the United States

for the period from \_\_\_\_\_ to \_\_\_\_\_) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and the former Union of Soviet Socialist Republics. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, conference participant, or student before the date of my arrival in the United States.

### China, People's Republic of

1. I was a resident of the People's Republic of China on the date of my arrival in the United States. I am not a U.S. citizen.

2. I am visiting the United States for the primary purpose of teaching, giving lectures, or conducting research at \_\_\_\_\_ *[insert the name of the educational institution or scientific research institution at which you teach, lecture, or conduct research]*, which is an accredited educational institution or scientific research institution. I will receive compensation for my teaching, lecturing, or research activities.

3. The teaching, lecturing, or research compensation received during the entire tax year (or during the period from \_\_\_\_\_ to \_\_\_\_\_) qualifies for exemption from withholding of federal tax under the tax treaty between the

United States and the People's Republic of China. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, lecturer, researcher, or student before the date of my arrival in the United States.

4. Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.
5. I arrived in the United States on \_\_\_\_\_ *[insert the date of your last arrival in the United States before beginning your teaching, lecturing, or research activities]*. The treaty exemption is available only for compensation received during a maximum aggregate period of three years.

**Submission of 8233 and supporting statements from IRS publication 519** – review the instructions. Specific instructions for the original and copies must be followed by certain deadlines including sending the forms to the IRS. Although there is IRS language on how long to wait before implementing the exemption, begin immediately with valid claims on a completed 8233 and supporting statement from IRS publication 519.

Independent Contractors- Tip on Quick Reference Table decisions and how to complete IRS 8233

Using IRS Quick Reference Tax Treaty Tables – Independent Contractors

Assumption - Inquiring if a treaty can be claimed or the independent contractor has provided the documentation to claim treaty exemption.

1. Must have a U.S. TIN
2. **Country?** - Identify the country for the independent contractor from RF Request for Alien Information Form (refer to section - [Determine Citizenship and IRS Residency Status for Tax Purposes](#)) and ensure the country matches any other documentation on hand.
3. **Access Quick Reference Table** - Access IRS [Tax Treaty Tables](#) and go to “[Table 2. Compensation for Personal Services Performed in United States Exempt from U.S. Income Tax Under Income Tax Treaties](#)” and find the country for the independent contractor. If the country does not exist in the table, then there is no treaty benefit between the US and the country. If the country is present continue to step 3.
4. **Review for specific treaty eligibility** - Identify the specific line of income 17 and review each column across to evaluate if treaty activity applies to the independent contractor. If income code 17 is not present for a certain country, then the activity is not covered by treaty for that country. Generally, there are no “amount” or date limits for independent contractor treaties. All the income from the date a valid complete 8233 exemption form is received and certified is exempt from income taxes in the calendar year.

Country (1)	Code <sup>1</sup> (2)	Purpose <sup>22</sup> (3)	Maximum Presence in U.S (4)	Required Employer or Payer (5)	Maximum Amount of Compensation (6)	Treaty Article Citation (7)
China, People's Rep. of	16	Scholarship or fellowship grant <sup>15</sup>	No specific limit	Any U.S. or foreign resident <sup>5</sup>	No limit	20(b)
	17	Independent personal services <sup>7, 8</sup>	183 days	Any contractor	No limit	13
	18	Dependent personal services <sup>8, 17, 58</sup>	183 days	Any foreign resident	No limit	14
	42	Public entertainment <sup>29</sup>				16
	19	Teaching <sup>4</sup>	3 years	U.S. educational or research institute	No limit	19
	20	Studying and training:				
		Remittances or allowances	No specific limit	Any foreign resident	No limit	20(a)
	Compensation during training or while gaining experience	No specific limit	Any U.S. or foreign resident	\$5,000 p.a.	20(c)	

Tips for a complete IRS 8233 for Independent Contractors:

The information covered here is not all inclusive; only subtle and important data elements that most struggle with to complete a valid 823.

**8233 Part II – Claim for the tax treaty information**

The claim must have entries to the appropriate lines. Items commonly missed:

- A description of services
- Treaty article number for the type of services

- Country the independent contractor is resident and
- Expected amounts

The item most applicants need help finding is the “treaty article” number. This can be found by reviewing the treaty “on-line” at the [IRS United States Income Tax Treaties – A to Z](#) or accessing the quick reference [Table 2](#) at IRS [Tax Treaty Tables](#) – looking at the last column “Treaty Article Citation.” Make sure to review the appropriate line that characterizes the independent contractor activity.

### **8233 Part IV – Withholding Agent Acceptance and Certification**

This area is completed by an appropriate operating location administrator after a review to attest to the form as complete to the facts, circumstances and the form instructions.

**Submission of 8233**– review the instructions. Specific instructions for the original and copies must be followed by certain deadlines including sending the forms to the IRS. Although there is IRS language on how long to wait before implementing the exemption, begin immediately with valid claims on a completed 8233.

[Fellows- Tip on Quick Reference Table decisions and how to complete IRS W-8BEN](#)

### [Using IRS Quick Reference Tax Treaty Tables - Fellows](#)

Assumption - Inquiring if a treaty can be claimed or the fellow has provided the documentation to claim treaty exemption.

1. Must have a U.S. TIN
2. **Country?** - Identify the country for the fellow from RF Request for Alien Information Form (refer to section - [Determine Citizenship and IRS Residency Status for Tax Purposes](#) and ensure the country matches with documentation on hand.
3. **Access Quick Reference Table** - Access IRS [Tax Treaty Tables](#) and go to “[Table 2. Compensation for Personal Services Performed in United States Exempt from U.S. Income Tax Under Income Tax Treaties](#)” and find the country for the fellow. If the country does not exist in the table, then there is no treaty benefit between the US and the country. If the country is present continue to step 3.
4. **Review for specific treaty eligibility** - Identify the specific line of income 16 and review each column across to evaluate if treaty activity applies to the fellow. If income code 16 is not present for a certain country, then treaty exemption does not exist for that country. Generally, there are no “amount” or date limits for fellow treaties. All the income from the date a valid complete W-8BEN exemption form is received is exempt from income taxes as long as the fellowship activity remains the same.

Illustration Table 2 – Quick Reference China

Country (1)	Code <sup>1</sup> (2)	Purpose <sup>22</sup> (3)	Maximum Presence in U.S (4)	Required Employer or Payer (5)	Maximum Amount of Compensation (6)	Treaty Article Citation (7)
China, People's Rep. of	16	Scholarship or fellowship grant <sup>15</sup>	No specific limit	Any U.S. or foreign resident <sup>5</sup>	No limit	20(b)
	17	Independent personal services <sup>7, 8</sup>	183 days	Any contractor	No limit	13
	18	Dependent personal services <sup>8, 17, 58</sup>	183 days	Any foreign resident	No limit	14
	42	Public entertainment <sup>29</sup>				16
	19	Teaching <sup>4</sup>	3 years	U.S. educational or research institute	No limit	19
	20	Studying and training:				
		Remittances or allowances	No specific limit	Any foreign resident	No limit	20(a)
	Compensation during training or while gaining experience	No specific limit	Any U.S. or foreign resident	\$5,000 p.a.	20(c)	

### Tips for a complete IRS W-8BEN Part II for Fellows:

The W-8BEN serves two purposes. Part I is to gather official name, address, tax status and TIN for a nonresident Alien (similar to IRS W-9 for U.S. Citizens and Resident Aliens). Part II is for an individual to claim income tax treaty exemptions for a few different non-service (passive) type incomes. The information covered here is not all inclusive; only subtle and important data elements that most struggle with to complete a valid W-8BEN.

- **Line 9** – Country for the treaty
- **Line 10** – This section can be confusing because the W-8BEN is used for some other passive incomes for treaty exemption. Skip all information asking about percentage (%) - that pertains mainly to royalty treaties. The following is all needed for fellowship treaty claims:
  - **The treaty article**
  - **Explanation of the activity in the space provided**
- **Filing of the form** – Unlike treaty claims for services, the W-8BEN has no special instructions on disbursement. Make sure the form is filed and available for inspection. If the status of the payments changes a new form should be completed. Best practice: the form and treaty claim are valid for 3 years and then the claim and forms should be reviewed and resubmitted.

### Licensees (Royalty) - Tip on Quick Reference Table decisions and how to complete IRS W-8BEN

#### Using IRS Quick Reference Tax Treaty Tables – Licensees (Royalty)

Assumption - Inquiring if a treaty can be claimed or the licensee has provided the documentation to claim treaty exemption.

1. Must have a U.S. TIN
2. **Is Country on Table?** - Identify the country for the licensee from RF Request for Alien Information Form (refer to section - Determine Citizenship and IRS Residency Status for Tax Purposes) and ensure the country matches other documentation on hand.

3. **Access Quick Reference Table** - Access IRS [Tax Treaty Tables](#) and go to “[Table 1 “Withholding Tax rates on Income Other Than Personal Services Income Under Chapter 3, Internal Revenue Code, and Income Tax Treaties”](#) and find the country for the licensee. If the country does not exist in the table then there is no treaty benefit between the US and the country. If the country is present continue to step 3.
4. Identify the type of royalty listed across the top of the table and find the tax rate which vary from 0% up to 30% (If no rate listed assume 30%) for that particular royalty and country.
  - a. Income code 10 for Industrial Equipment, Know-How/Other Industrial, or Patents
  - b. Income code 11 for Film & TV
  - c. Income code 12 for Copyrights
5. **Review for specific treaty eligibility** - Identify the specific royalty and income. The treaty is applicable from the date a valid complete W-8BEN exemption form is received and is exempt from income taxes as long as the W-8BEN stays valid (dependent upon the facts and circumstances, the form could be valid for multiple years).

Illustration Table 1 – Title and page 2 Quick Reference for some countries

**Table 1. Tax Rates on Income Other Than Personal Service Income Under Chapter 3, Internal Revenue Code, and Income Tax Treaties**

- This table lists the income tax rates on interest, dividends, royalties, and other non-personal services income. The income code numbers shown in this table are the same as the income codes on [Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding](#).
- Taxpayers must meet the limitation on benefits provisions in the treaty, if any, to qualify for reduced withholding rates. See [Table 4. Limitation on Benefits](#), for a list of treaties that contain a limitation on benefits provision.
- In most cases, the Business Profits article, rather than a reduced withholding tax rate, applies if the income is attributable to a permanent establishment of the taxpayer in the United States.
- If the Treaty Article Citation includes a “P,” that refers to a protocol that amends the original treaty article. See also [Table 3 – List of Tax Treaties](#). A reference to 2P or 5P would be to the 2<sup>nd</sup> protocol or the 5<sup>th</sup> protocol.

Income Code Number	Code	Social Security		Royalties					Treaty Article Citation
		21	Treaty Article Citation	10	11	12			
Name		Social Security <sup>99</sup>		Industrial Equipment	Know-How/Other Industrial Royalties	Patents	Film & TV	Copyrights	
Australia.....	AS	30	18(2)	n/a u,	5	5	5	5	12(2) / P8
Austria.....	AU	30	18(1)(b)	n/a u	0 ss	0 ss	10 ss	0 ss	12(1), (2)
Bangladesh.....	BG	30	19(2)	n/a u	10	10	10	10	12(2)
Barbados.....	BB	30	18(1)(b)	n/a u rr	5 rr	5 rr	5 rr	5 rr	12(2) / 1PV
Belgium.....	BE	30	17(2)	n/a u	0 ss	0 ss	0 ss	0 ss	12(1)
Bulgaria.....	BU	30	17(2)	n/a u	5	5	5	5	12(2) / P5(7)
Canada.....	CA	0	XVIII(5) / 4P2(2)	10	0	0	10	0	12(2), (3) / 5P7(1)
China, People's Rep. of.....	CH	30	17(2)	7 v	10	10	10	10	11(2)
Comm. of Independent States.....		30	None	0	0	0	0	0	11(1)(a)

**Tips for a complete IRS W-8BEN Part II for Licensees (Royalty):**

The W-8BEN serves two purposes. Part I is to gather official name, address, tax status and TIN for a nonresident Alien (similar to IRS W-9 for U.S. Citizens and Resident Aliens). Part II is for an individual to claim income tax treaty exemptions for a few different non-service (passive) type incomes. The information covered here is not all inclusive; only subtle and important data elements that most struggle with to complete a valid W-8BEN:

- **Line 9** – Country for the treaty
- **Line 10** – This section can be confusing because the W-8BEN is also used for other passive incomes (i.e. fellows) for treaty exemption. Royalties are the one income that could have an income tax treaty claim but the claim does not represent full exemption. In many cases and depending on the country a royalty claim only means a **reduced** rate. These rates are found in

the IRS Quick Reference Treaty Table – [Table 1 “Withholding Tax rates on Income Other Than Personal Services Income Under Chapter 3, Internal Revenue Code, and Income Tax Treaties”](#) illustrated below. Reduced rates under royalty treaties could be percentages of 5, 7, 8, 10 or 15. The following is what is needed for royalty treaty claims on the W-8BEN:

- **The reduced rate under the applicable country and royalty treaty**
- **The treaty article**
- **Explanation of the activity in the space provided**
- **Filing of the form** – Unlike treaty claims for services, the W-8BEN has no special instructions on disbursement. Make sure the form is filed and available for inspection. If the status of the payments changes a new form should be completed. Best practice: the form and treaty claim are valid for 3 years and then the claim and forms should be reviewed and resubmitted.

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## Appendix D – Tax and Reporting Definitions

**Reportable Payment Classifications** – The RF is required by the federal and state government to withhold where appropriate and report amounts paid and taxes withheld on a year-end tax statement. The RF does this for the RF recognized payments classifications as well as split reporting for US Citizens and Resident Aliens versus Nonresident Aliens.

**“Subject to” Taxation and Reporting** – All income paid and received is “subject to” taxation and reporting rules, but individuals can claim exemptions under available rules at payment or when they file their individual income tax return.

**Taxpayer Identification Number (TIN)** – A general term for different kinds of tax ID numbers, such as Social Security Number (SSN) or Individual Taxpayer Identification Number (ITIN)

**Citizenship and IRS Residency for Tax Purposes** – Key determinations when evaluating tax and reporting rules. There are split taxation and reporting rules. One set if a US Citizen or Resident Alien for Tax Purpose and an entirely different set of rules if a Nonresident Alien for Tax Purposes

**U.S. Tax and Reporting Rules** – U.S. Citizens and Non-U.S. Citizens that are Permanent Resident (Green Card) or Resident Alien (meeting the Substantial Presence Test). Reporting predominantly on W-2 or 1099-MISC Tax Statements

**Nonresident Alien (NRA) Tax and Reporting Rules** – Non-U.S. Citizens that are not Permanent Residents and do not meet the Substantial Presence Test. Reporting predominantly on 1042-S Tax Statement.

**Graduate rate withholding tables** – Annually withholding rate tables released by the federal and state government for calculated tax withholdings

**Flat rate tax withholdings** – Flat percentage withholding rates for certain tax withholdings. The flat rate is typically applicable to SS and Medicare withholding rates and Nonresident Aliens.

**Qualified versus Non-Qualified** – “Qualified” in general means the activity meets specific government rules as exempt from tax withholding or excluded from tax and reporting, whereas Non-Qualified activity does not meet the government exemption or exclusion rules and is subject to tax withholding and reporting.

**Substantiated versus unsubstantiated** – Substantiated mean reasonable documentation to the business purposes and costs, as well as submitted for reimbursement in a timely manner. If the expense is not documented or the request for reimbursement is not submitted timely to the facts and circumstances, then it is taxable and reportable. This term is used directly with Business Travel Reimbursements.

**Business Travel Reimbursement Exemption** – IRS rule which exempts business travel if substantiated

### Abbreviations:

- CO – Central Office
- SS – Social Security
- EE – Employee

- IC – Independent Contractor
- SIT – Used within this Handbook for “Special Information Type” screens within the payroll system. This term is also sometimes used as a general term for “State Income Tax” (like FIT for federal income tax) but not in this Handbook

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