Update to 2014 Form 1042 Instructions

The instructions provided below in this update are intended to supplement and, if indicated, replace the specified sections of the 2014 Form 1042 instructions.

- **Escrow Procedure**

A withholding agent that withheld tax during calendar year 2014 and that was not required to deposit with the IRS the amount of tax withheld during calendar year 2014 pursuant to the escrow procedure under §1.1471-2(a)(5)(ii) or 1.1441-3(d) should not report such amount as a liability on lines 1 through 60 or lines 64a through 64d and should not report such amount as withheld on lines 63a through 63d. An amount held in escrow is required to be reported on the future calendar year return for the year in which the withholding agent is required to deposit the amount of tax with the IRS.

- **Set-off Procedure**

The last paragraph of the description of the set-off procedure on page 6 should include the following: "The amounts reported on lines 63a and 63b should reflect a reduction of any amount withheld from income paid to a beneficial owner because you applied the set-off procedure during the calendar year or the subsequent calendar year. The reductions that you applied pursuant to the set-off procedure during the calendar year must be reflected on the line for the period you reduced your liability. The amount reported on line 59 for the calendar year for which you overwithheld tax must reflect reductions that you applied pursuant to the set-off procedure during the subsequent calendar year, if applicable. On line 71, indicate that you are claiming a credit to be applied to the 2015 calendar year for amounts you set-off in the subsequent calendar year (note, you may not claim a refund for such an amount)."

- **Reimbursement Procedure**

The description of the reimbursement procedure on page 6 is updated as follows: "Under the reimbursement procedure, you repay the beneficial owner or payee the amount overwithheld. You use your own funds for this repayment and may reimburse yourself for an amount repaid by reducing the amount of any subsequent deposit of tax made during the calendar year or the subsequent calendar year. You must make the repayment by the earlier of:

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

The reimbursement amount may not be more than the amount you actually repaid. The amount of the reduced tax liability for amounts repaid to the beneficial owner or payee during the calendar year must be reflected on the line for the period you reduced your liability. The amount reported on line 59 for the calendar year for which you overwithheld tax must reflect the amount of the reduced tax liability for amounts you repaid the beneficial owner or payee in the subsequent calendar year, if applicable. Amounts reported on line 63c should be limited to amounts repaid to the beneficial owner or payee in the subsequent calendar year (before the earlier of the filing of the associated Form 1042-S or the due date for such form). On line 71, indicate that you are claiming a credit to be applied in the 2015 calendar year for amounts you repay the beneficial owner or payee in the subsequent calendar year (note, you may not claim a refund for such an amount).

For example, if you overwithhold tax in 2014, you must repay the beneficial owner by March 16, 2015 (or the date on which you filed the associated Form 1042-S with the IRS, if earlier). You must keep a receipt showing the date and amount of the repayment and provide a copy of the receipt to the beneficial owner. If you repaid the beneficial owner after year end 2014, you must report the repayment on line 63c. You must reduce your Federal tax liability on line 59 of your 2014 Form 1042 by the amount of the repayment and may claim a credit on line 71 for the amount of the difference between your tax liability and your deposits with the IRS. You may reimburse yourself by reducing any subsequent deposits you make before the end of calendar year 2015 (the year after the calendar year in which the amount was overwithheld)."

- **Lines 63a through 63e**

The second sentence of the line instructions for lines 63a through 63d should read: "The amounts
reported on line 63c should be amounts you repaid to the beneficial owner or payee in the calendar year following the calendar year of overwithholding under the reimbursement procedure (and should also be reported as a reduction in tax liability on line 59). See, Adjustment for Overwithholding, later. Amounts that you repaid to the beneficial owner or payee during the calendar year for which you overwithheld tax are reported on the line (1-60) for the period you reduced your liability and not on line 63c.”

The second sentence of the line instructions for line 63e should provide that the amount on line 63e should equal the sum of all amounts shown on Form 1042-S, box 10, less the sum of all amounts shown on Form 1042-S, box 11, plus the tax assumed on Forms 1000 and Forms 1042-S, box 9.

- Lines 64b and 64c.

The second sentence of the line instructions for lines 64b and 64c should read: “You must designate the amounts as a liability under chapter 3 on line 64b or under chapter 4 on line 64c.”

- QSL Claiming a Credit Forward

The last bullet of the section “QSL claiming a credit forward” on page 5 includes an incorrect reference to line 66 and should read: “the amount of credit forward you included on line 67b in connection with these substitute dividends.”