
Questions follow up

As mentioned in the preface, please find below the answers to some open questions gathered from clients during our recent events across Europe.

Aggregation of accounts

Following our joint analysis with KPMG, we take the view that we should not aggregate across account types for reporting purposes (aggregation should however be required for due diligence purposes). This means that where we have in a database a client with 3 depository accounts and 1 custodial account, FiTAX will produce 4 forms 8966, one for each account.

Report organization for clients that may be recipients and not-recipients

The 1042-S categories were revised by the IRS. The former “1042-S NQI/FTE” category became inadequate since NQI can also be recipients. The new categories are “1042-S Pooled”, “1042-S Recipient” and “1042-S Not-Recipient”.

We are aware of your needs to be able to group 1042-S for the same client (e.g. an NQI PFFI) that would appear in both “Recipient” and “Not recipient” categories, and are implementing this option into FiTAX.

New pools as described in the last 1042-S instructions

The IRS instructions released in June introduce new pools. We adapted our data dictionary to cover the new scenarios. Please refer to the next chapter where we will go over all the major changes in the data dictionary.

Need to fill the Chapter 4 forms in the 1042-S

We were asked if the new “special 1042-S transitional rule” is applicable on both the intermediary and the beneficial owner displayed on the 1042-S form.

Indeed, on 2014 data (reported in 2015), if you elect to work according to the “special 1042-S transitional rule”, the Chapter 4 recipient codes are optional to the extent that no Chapter 4 withholding was applied.

Changes related to new IRS publications

The goal of this chapter is to briefly go over the main changes you will see in the version 2014.1.0 of the FiTAX-QI/FATCA data dictionary.

Custodians' information on 1042-S

The final 1042-S instructions indicate that identifying the original withholding agent that collected tax, in case of amount withheld by another withholding agent, is optional for 2014.

As a consequence, in 2014, the fields W023 and W084 are optional. Nevertheless, if you would like to use the primary withholding agent as a pooling criterion, a dedicated parameter is available.

Choice between 1099 and 8966

The revised FFI agreement mention that a PFFI will satisfy its form 1099 obligations if it reports all the amounts that are 1099 reportable on a 8966 form or its local IGA equivalent form.

After an in-depth analysis with KPMG, we will apply the rules as set by the QI Agreement.

If payments are not reported on 8966/under IGA, they will be automatically reported on 1099. This means, for instance, that for 2014, all payments to non-exempt U.S. persons will go on 1099. For subsequent years however, this may change.

Special transitional rule

The final 1042-S instructions bring some changes to the "Special 1042-S transitional rule".

We adapted our integrity checks and the B033 field in order to cover this. These values are now optional if no Chapter 4 withholding was applied. FiTAX will let you decide if you want to display them anyway.

Data formatting and IGA guidance's

Due to the recent publications of some countries (IGA models 1) regarding the data expected locally, we extended the format of some fields. By example the Account Number (A021) evolved from 50 digits to 90 digits.

As we only increased the size of those fields, if your data interface is currently delivering shorter data format, it should not be an issue at all.

1042-S with recipient mentioning an indirect pool

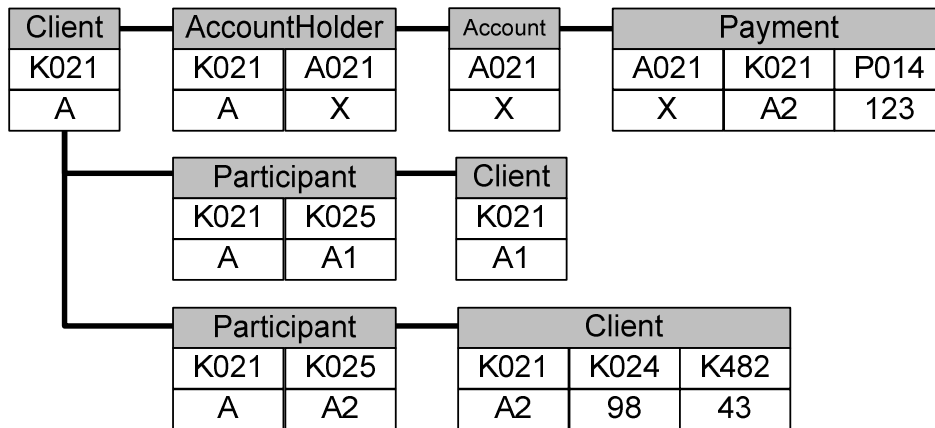
The final 1042-S instructions describe some scenarios where you would have to disclose your direct client as a recipient and an indirect pool (i.e. a Chapter 3 or Chapter 4 reporting pool).

For example, you, as a QI, are making a payment to an NQI/PFFI client. NQI/PFFI has one or more NPFFI as account holders (they would be its participants in FiTAX). You have to issue a 1042-S with NQI/PFFI as recipient using the Chapter 4 recipient code 47 (*nonparticipating FFI pool*) for payments intended to the(se) NPFFI.

In order to support this, we slightly adapted the fields K024 and K482 of the data dictionary. It is now possible to create a client “pool of clients” with only three fields (K021, K024 and K482) to the extent that this client is a participant in an entity. Payments directly allocated to him (see next chapter for details about direct allocation) will be treated as in the example below.

Please refer to the 1042-S instructions if you want to see in which cases you might have to do this kind of reporting for your clients.

Example:



In this example, client A has two participants. One of them is a pool of “Recalcitrant holder – U.S. Indicia” (K482 = 43). FiTAX will treat it as an indirect pool as long as client A is a compatible entity.

RIC/REIT

In our last newsletter, we mentioned the way we wanted to deal with cross-year transactions of REIT and RIC. The rules, to define when FITAX includes the payments in the current year reporting, were as follow:

- If the P007 of the payment is on or before March 15th or the next working day of the year following the current reporting year
- And if the P004 of the payment is in the last three months of the reporting year.
- And if the payment P052 (Income Code) is 24 or 25 OR the P033 (Security Name) contains "RIC" or "REIT"

We heard your feedback, and we will give you flexibility on how to flag transactions subject to this special treatment. Therefore, the new rules will be as follow:

- If the P007 of the payment is on or before March 15th or the next working day of the year following the current reporting year
- And if the flag P038 (RIC/REIT Spillover payment) is activated (Value = 1)

This will let you filter your records and include them according to custom filters.

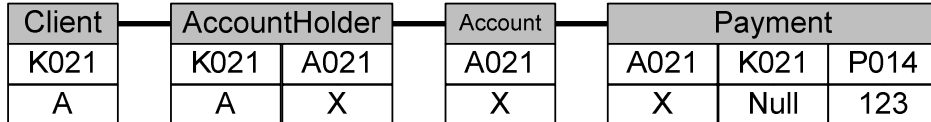
Note: If you want to work on an ISIN basis, we invite you to filter the payments by ISIN and to mass update on the P038 field.

Again, we would like to thank you for your feedback that allowed us to provide you with a solution that should address your needs.

Links between tables in the new data model

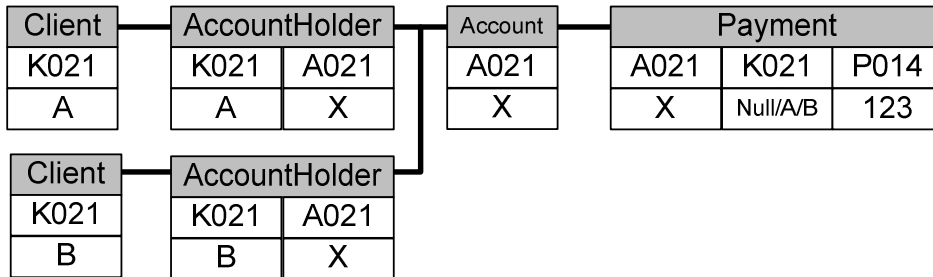
We are asked by some of you to give details about how to link elements in the new data model, especially about joint accounts or entity with participants. The goal of this chapter is to illustrate some scenarios you might have to deal with.

Case 1: A client gets a payment on his account



In this case, the links are simple between the elements. The account “X” is held by the client “A”. We link them in the “AccountHolder” table. The payment “123” is link to the account “X”. The K021 field on the payment will be disregarded.

Case 2: A payment is made on a joint account

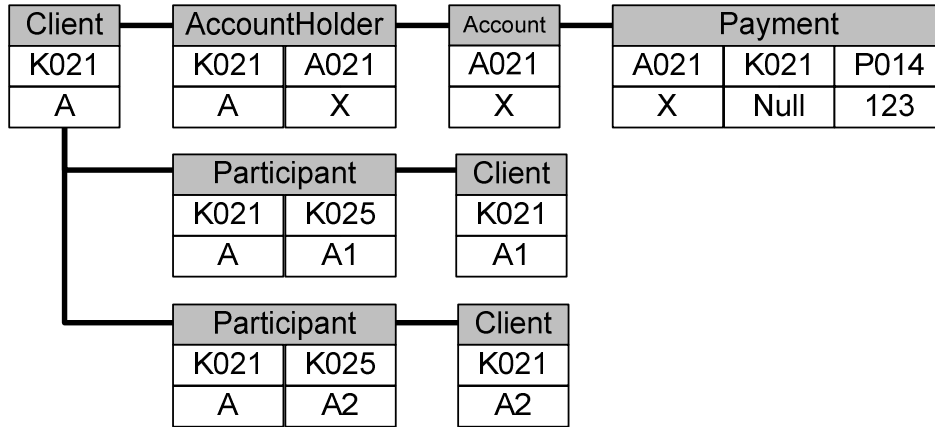


In this case, we link an account to two different clients. We need then to have two “AccountHolder” links. The K021 on the payment can be:

- Null : In this case, we will split the payment according to the H070 (Reported percentage of ownership) to the extent that it is possible (ex: we will report 100% of the amount for A if we have two H70 at 50% but B is an NRA client while A is an US Disclosed Person).
- A : The payment is reported for A
- B : The payment is reported for B

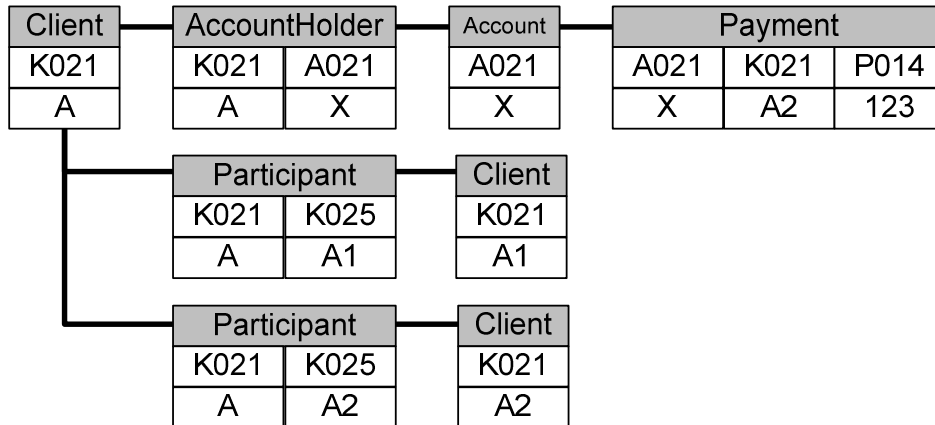
Note that the percentage of ownership will only be used for income reporting (1099 forms) and not for account balances reporting (8966 forms).

Case 3: A payment is made to an FTE (no direct allocation)



In this scenario, we have the entity A that is a direct client of the bank. This entity has two beneficial owners: A1 and A2. As no K021 is set, the payment will be split according to the R070 (Percentage of ownership). Entity A is the intermediary.

Case 4: A payment is made to an NQI (with direct allocation)



This example is similar to the previous one. The only difference is that we want to affect the payment directly to one beneficial owner of the entity. If we do so, the R070 value will be ignored and 100% of the payment will be allocated to client A2. Entity A will nevertheless be considered as an intermediary for reporting purpose.