

250.1 Payments to Foreign Entities

The Internal Revenue Service (IRS) requires that all payments made to foreign vendors be made in accordance with IRS regulations. These regulations require that, when services are provided in the United States, taxes are withheld from payments made to foreign vendors, unless the income is exempt under a provision of a tax treaty between the foreign vendor's country and the United States. Payments to foreign entities may be subject to withholding and reporting, depending on the type of transaction.

- Payments for tangible goods or products are not subject to U.S. reporting or tax withholding.
- Payments for services provided outside the U. S. by Foreign Entities and individuals are considered foreign source, and are not subject to U.S. reporting or withholding.
- Services provided inside the U.S. are subject to U.S. Taxation which include reporting and/or tax withholding when applicable.
- Payments for Royalties, Software licenses, or Access or Use licenses purchased from foreign entities and used inside the U.S. are subject to U.S. taxation.
- Awards & Prizes are subject to 30% tax withholding. There are no treaty benefits for this type of income.

To avoid withholding, foreign vendors that are business entities must have a United State employer identification number (EIN) and must submit a properly completed IRS Form W-8BEN, W-8ECI, W-8EXP, or W-8IMY, as appropriate. The appropriate Form W-8 should be collected prior to processing any payments (See section 160.2)

If the United States does not have a tax treaty with the foreign vendor's country of residence that exempts payments from United States federal income tax withholding, or if a valid Form W-8 or 8233 has not been correctly completed before payment is processed, 30% of the total payment to the foreign vendor will be withheld and remitted to the IRS.

All taxes withheld are sent to the IRS in the name of the beneficial owner of the payment. The 1042-S form is used to report the gross amounts paid to and taxes withheld from foreign persons or foreign entities that are subject to income tax reporting, even if no amount is deducted and withheld from the payment due to a treaty benefit. The recipient may use the information on the form to fill out a U.S. tax return and request a tax refund from the IRS.