

# Form 1042-S Basics for Small Business

If you are a US based company reporting income paid to a U.S. citizen, you would use one of several 1099 tax forms, such as a 1099-NEC or 1099-MISC. But what's the protocol for reporting income paid to workers based elsewhere in the world? That answer is form 1042-S.

The IRS deadline for both paper and electronic filing for form 1042-S is March 15<sup>th</sup>, so now is a great time to cover the basics.

## What is form 1042-S?

Form 1042-S reports all non-wage, U.S.-source income that is subject to withholding and paid to non-U.S. payees. It can be thought of as a catchall for a variety of income payments made to non-United States based people or entities. For those based in the U.S., there are over 30 different 1099 form types to report different types of income. Form 1042-S on the other hand, encompasses all types of income, and with 429 applicable codes used on this form, it can be a complicated form to file.

With form 1042-S, there are two chapters in the internal revenue code to contend with, Chapters 3 and 4. Chapter 3 is used to collect tax on United States sourced income of non-United States individuals. Chapter 4, on the other hand, is used to ensure U.S. persons pay U.S. tax on worldwide income. While Chapter 3 filing is more common than Chapter 4, it's important to know the distinction between the two.

## Which payments are reportable?

The IRS uses the acronym FDAP to determine what income is reportable. FDAP stands for fixed, determinable, annual or periodic. This is defined as all income that is paid except gains from sales of real or personal property or items excluded from gross income tax. These types of income are:

**Fixed** – Income is paid in amounts known ahead of time.

**Determinable** – A basis for defining the amount to be paid exists.

**Annual** – Payment occurs once during the year.

**Periodic** – Payment is inconsistent and happens from time to time.

The payments for U.S. sourced FDAP income are subject to withholding and 1042-S reporting.

## Form 1042-S filing best practices

To get you started, here are a few important tips to keep in mind when preparing to file 1042-S forms:

- The 1042-S is a highly scrutinized form by the IRS. So it's important to make sure you understand the filing requirements that may apply to your situation. IRS instructions for [Form 1042-S](#) is a great place to start, but you may also want to consult your tax advisor.
- Always collect the proper [W-8 form](#). As a US based business, you may be familiar with the [W-9](#) form used to collect the tax ID of the entity or individual you are paying. The same process should be followed with the appropriate W-8 form which is used to collect tax information from non-US citizens or entities. This should be part of any customer or vendor onboarding process.
- When you think about both Chapter 3 and Chapter 4, as well as the number of different income codes being reported on this form, filing form 1042-S can feel a bit overwhelming. To help stay organized, we recommend collecting the 1042-S requirements for each type of income you're paying – even if it's exempt from reporting. This proactive step can be helpful in the event of an audit.
- Understand your withholding requirements. If you pay a foreign individual or entity and they fail to satisfy their US tax obligations, your business could be on the hook for the payments as well as any penalties and interest. Understanding when you need to withhold and how much is important to ensure tax compliance with these types of payments. Again, consult your tax advisor or review IRS [Publication 515](#), to make sure you protect your business from unforeseen tax liabilities.

1099 Pro can help you with printing, mailing, and efilng your 1042-S forms before the March 15th deadline. Visit our [1042-S Software](#) page for more information and pricing.