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IRS SIGNS QUALIFIED INTERMEDIARY AGREEMENTS

WASHINGTON –In a major step to implementing new regulations that completely revise the withholding and reporting of cross-border payments of U.S. source income, the Internal Revenue Service has announced that it has begun signing qualified intermediary agreements for hundreds of financial institutions.

These agreements, which are the cornerstone of the new regulations, simplify tax withholding and information reporting procedures for foreign financial institutions. Possibly thousands of financial institutions could apply to become qualified intermediaries by year's end.

"The qualified intermediary system was developed with substantial input from both U.S. and foreign financial institutions," said Larry Langdon, Commissioner of the Large and Mid-Size Business Division of the IRS. "These new rules affect nearly every major financial institution in the U.S. and abroad. Financial institutions that wish to be qualified intermediaries are encouraged to submit applications as soon as possible."

In 1998, payments to foreign persons exceeded $124 billion, reported on 2.4 million information returns. The amount of tax reported totaled $2.4 billion.

The IRS already has approved many foreign financial institutions to be qualified intermediaries. Many more foreign institutions are expected to make applications by the end of the year.

"The benefits of being a qualified intermediary are significant," said John Staples, Assistant Chief Counsel (International) at the IRS. "Financial institutions need to make the decision on whether to be a qualified intermediary and make their applications now if they want to be sure to have qualified intermediary status by the end of the year."

The qualified intermediary agreement offers several benefits, which include:

-- Receiving reduced rates of withholding based on providing withholding rate pool information to U.S. custodians.

-- Simplified information reporting procedures.

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-- Use of collective refund procedures so that customers do not have to file refund claims individually.

-- Keeping the identity of non-U.S. customers undisclosed to U.S. withholding agents and the IRS. The status of foreign persons and their entitlement to reduced rates of withholding is instead confirmed by an independent external audit. The IRS then audits the independent auditor.

Nonqualified intermediaries do not get any of these benefits. They are required to disclose all of their customers to their U.S. custodians to receive reduced rates of withholding. In addition, either the U.S. custodian or the nonqualified intermediary must report payments to each of the nonqualified intermediary's customers, significantly increasing the cost of compliance when compared to qualified intermediaries.

The effective date for implementation of the new withholding rules is January 1, 2001. The IRS has established a Web site for qualified intermediaries under the Tax Info For Business link at (*www.irs.gov*). The Web site contains the text of the qualified intermediary agreement as well as other information for applicants.

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