

Date of Approval: **November 05, 2020**

PIA ID Number: **5446**

## **SYSTEM DESCRIPTION**

*Enter the full name and acronym for the system, project, application and/or database.*

Chapter Three Withholding, CTW

*Is this a new system?*

No

*Is there a PCLIA for this system?*

Yes

*What is the full name, acronym and milestone of the most recent PCLIA?*

Chapter Three Withholding, CTW, 2844

*What is the approval date of the most recent PCLIA?*

10/23/2017

*Changes that occurred to require this update:*

Expiring PCLIA

*Were there other system changes not listed above?*

No

*What governance board or Executive Steering Committee (ESC) does this system report to? Full name and acronym.*

Submission Processing Governance Board, SPGB

*Current ELC (Enterprise Life Cycle) Milestones:*

System Development/Milestone 4B

Operations & Maintenance (i.e. system is currently operational)

*Is this a Federal Information Security Management Act (FISMA) reportable system?*

Yes

## **GENERAL BUSINESS PURPOSE**

*What is the general business purpose of this system? Provide a clear, concise description of the system, application or database, the reason for the system, and the benefits to the IRS to use the information, and how the information will be used.*

The Chapter Three Withholding (CTW) application processes forms that track withholdings reported on payments of United States source income to foreign persons on Form 1042-S and Form 1042-T. The reformatted data is downloaded to CTW from Filing Information Returns Electronically (FIRE) and Integrated Submissions Remittance Processing (ISRP) systems. The CTW application performs validation, consistency and math checks and posts valid data to either the Payer Master File (PMF), or the Information Returns Master File (IRMF) for Form 1042-T (PMF) and Form 1042-S (IRMF). Form 1042-S records are extracted and sent to E-Trak Non-Resident Filing (NRF). Annually, CTW provides data to the Department of the Treasury for statistical purposes for use as a negotiation tool with foreign countries to obtain information on U.S. persons earning foreign source income through the IRS US Competent Authority (International) or US Organization for Economic Cooperative Development (OECD) and the Integrated Production Model (IPM). Additionally, CTW grants access to the IRS Statistics of Income (SOI) to extract data.

## **PII DETAILS**

*Does the system use, collect, receive, display, store, maintain, or disseminate IR Code 6103 taxpayer information; or any other type of Sensitive but Unclassified (SBU) information or PII such as information about IRS employees or outside stakeholders?*

Yes

*Does the system use, collect, receive, display, store, maintain, or disseminate Social Security Numbers (SSN's) or tax identification numbers (i.e. last 4 digits, etc.)?*

Yes

*What types of tax identification numbers (TIN) apply to this system?*

Social Security Number (SSN)

*List the approved Treasury uses of the SSN:*

When there is no reasonable alternative means for meeting business requirements

*Explain why the authorized use(s) above support the new or continued use of SSNs (or tax identification numbers).*

Box 13e on the 1042-S has a place for a TIN, which may be an SSN, but it is only in rare circumstances this would be used as these are foreign entities that owe US funds to the IRS.

*Describe the planned mitigation strategy and forecasted implementation date to mitigate or eliminate the use of SSN's (or tax identification numbers).*

The Chapter Three Withholding system requires the use of SSN's because no other identifier can be used to uniquely identify a taxpayer. SSNs are permissible from Internal Revenue Code (IRC) 6109, which requires individual taxpayers to include their SSNs on their income tax returns.

Employer Identification Number

*Does this system use, collect, receive, display, store, maintain or disseminate other (non-SSN) PII (i.e. names, addresses, etc.)?*

Yes

*Specify the PII Elements:*

Name

Mailing address

Date of Birth

Tax Account Information

*Does this system use, collect, receive, display, store, maintain, or disseminate SBU information that is not PII?*

Yes

*Specify the types of SBU from the SBU Types List.*

**Agency Sensitive Information** Information which if improperly used or disclosed could adversely affect the ability of the agency to accomplish its mission

**Official Use Only (OUO) or Limited Official Use (LOU)** Information designated as OUO or LOU is information that: is exempt under one of the statutory Freedom of Information Act exemptions; is prohibited by other laws or regulations; would significantly impede the agency in carrying out a responsibility or function; or would constitute an unwarranted invasion of privacy.

**Protected Information** Information which if modified, destroyed or disclosed in an unauthorized manner could cause: loss of life, loss of property or funds by unlawful means, violation of personal privacy or civil rights, gaining of an unfair procurement advantage by contractors bidding on government contracts, or disclosure of proprietary information entrusted to the Government

*Are there other types of SBU/PII used in the system?*

No

*Cite the authority for collecting SBU/PII (including SSN if relevant).*

PII for federal tax administration is generally Internal Revenue Code Sections 6001, 6011, & 6012e(a)

SSN for tax returns and return information is Internal Revenue Code Section 6109

*Has the authority been verified with the system owner?*

Yes

## **BUSINESS NEEDS AND ACCURACY**

*Explain the detailed business needs and uses for the SBU/ PII, and how the SBU / PII is limited only to that which is relevant and necessary to meet the mission requirements of the system. If SSNs (or tax identification numbers) are used, explicitly explain why use of SSNs meets this criteria. Be specific.*

Form 1042-S Foreign Person's U. S. Source Income Subject to Withholding captures recipient and withholding agent data. Form 1042-T Annual Summary and Transmittal of Form 1042-S references several 1042-S forms and contains aggregate data, not individual taxpayer data. Withholding information about recipients for which monies are withheld may include Recipient TIN (not required), Recipient name, date of birth, street, city, state, postal code and sometimes province and country code; Qualified Intermediaries (QI) and Non-Qualified Intermediaries (NQI) entity TIN, QI/NQI entity name, street, city, state, postal code and sometimes province and country code; Payer Name and Taxpayer Identification Number (TIN), the TIN is optional. Transmitter data is captured and stored within the CTW application and may be identified by Transmitter Control Code (TCC), Transmitter name, street, city, state and postal code.

*How is the SBU/PII verified for accuracy, timeliness and completion?*

Data submitted electronically are verified by initial 1042-S and 1042-T processing on the consolidated United Information System (UNISYS) system. If fatal error checks are passed, valid data will proceed through the system. If the fatal error tests fail, data will be returned to the filer for correction and resubmission. The CTW application runs CTW-01 program to perform consistency and validity checks on the electronic data. Code and Edit personnel at the service center analyze data submitted on paper following instructions stated in the Internal Revenue Manual (IRM) 3.21.111, before allowing data to enter the CTW application. The CTW-03 and CTW-09 programs run perform consistency, validity and math error checks on the paper data.

## **PRIVACY ACT AND SYSTEM OF RECORDS**

The Privacy Act requires Federal agencies that maintain a system of records to publish systems of records notices (SORNs) in the Federal Register for records from which information is retrieved by any personal identifier for an individual who is a US citizen or an alien lawfully admitted for permanent residence. The Privacy Act also provides for criminal penalties for intentional noncompliance.

*Does your application or this PCLIA system pertain to a group of any record from which information is retrieved by any personal identifier for an individual who is a US citizen, or an alien lawfully admitted for permanent residence? An identifier may be a symbol, voiceprint, SEID, or other personal identifier that is used to retrieve information.*

Yes

*Identify the Privacy Act SORN(s) that cover these records.*

IRS 22.026 Form 1042S Index by Name of Recipient

## **RESPONSIBLE PARTIES**

*Identify the individuals for the following system roles:*

## Official Use Only

## **INCOMING PII INTERFACES**

*Does the system receive SBU/PII from other systems or agencies?*

Yes

*Does the system receive SBU/PII from IRS files and databases?*

Yes

*Enter the files and databases:*

System Name: Filing Information Returns Electronically (FIRE)  
Current PCLIA: Yes  
Approval Date: 11/16/2017  
SA&A: No

System Name: Integrated Submissions Remittance Processing (ISRP)  
Current PCLIA: Yes  
Approval Date: 6/10/2020  
SA&A: No

*Does the system receive SBU/PII from other federal agency or agencies?*

Yes

*For each federal interface, identify the organization that sends the SBU/PII, how the SBU/PII is transmitted and if there is an Inter-Agency Agreement (ISA) /Memorandum of Understanding (MOU).*

Name: Social Security Administration Railroad Retirement Board  
Transmission Method: FIRE System  
ISA/MOU: No

*Does the system receive SBU/PII from State or local agency (-ies)?*

No

*Does the system receive SBU/PII from other sources?*

Yes

*Identify the source that sends the SBU/PII, how the SBU/PII is transmitted and if there is an Inter-Agency Agreement (ISA) /Memorandum of Understanding (MOU).*

Organization Name: Withholding Agents  
Transmission Method: Transmit to FIRE  
ISA/MOU: No

*Does the system receive SBU/PII from Taxpayer forms?*

Yes

*Please identify the form number and name:*

Form Number: 1042-S Form Name: Foreign Person's US Source Income Subject to  
Withholding

Form Number: 1042-T Form Name: Annual Summary and Transmittal of Forms 1042-S

*Does the system receive SBU/PII from Employee forms (e.g. the I-9)?*

No

## **DISSEMINATION OF PII**

*Does this system disseminate SBU/PII?*

Yes

*Does this system disseminate SBU/PII to other IRS Systems?*

Yes

*Identify the full name and acronym of the IRS system(s) that receive SBU/PII from this system.*

System Name: Chapter Three Withholding System Data Store (CTW DS)  
Current PCLIA: Yes  
Approval Date: 10/23/2017  
SA&A: No

System Name: Information Return Processing (IRP)  
Current PCLIA: Yes  
Approval Date: 9/20/2018  
SA&A: No

System Name: Filing Information Returns Electronically (FIRE)  
Current PCLIA: Yes  
Approval Date: 11/16/2017  
SA&A: No

System Name: Entellitrak Non-Resident Filing (E-Trak NRF)  
Current PCLIA: Yes  
Approval Date: 3/23/2020  
SA&A: No

System Name: Integrated Production Model (IPM)  
Current PCLIA: Yes  
Approval Date: 6/6/2019  
SA&A: No

System Name: Payer Master File (PMF)  
Current PCLIA: Yes  
Approval Date: 5/4/2020  
SA&A: No

System Name: Information Returns Master File (IRMF)  
Current PCLIA: Yes  
Approval Date: 3/9/2017  
SA&A: No

System Name: Statistics of Income Distributed Processing System (SOI DPS)  
Current PCLIA: Yes  
Approval Date: 7/22/2019  
SA&A: No

*Identify the authority*

PII for federal tax administration is Internal Revenue Code sections 6001, 6011, and 6012(a). Each data item is required for the business purpose of the system. The data in CTW from the 1042-S and 1042-T forms are required to track withholding reporting on payments of U.S. source income to foreign persons.



*For what purpose?*

It is absolutely critical to tax administration in the international area that the IRS be able to effectively process: The information return (Form 1042-S) and the transmittal document for electronic and paper filed 1042-S information return (Form 1042-T).

*Does this system disseminate SBU/PII to other Federal agencies?*

Yes

*Identify the full names of the federal agency(s) that receive SBU/PII from this system, and if there is an Inter-Agency Agreement (ISA) / Memorandum of Understanding (MOU).*

Organization Name: Treasury Inspector General Tax Administration  
Transmission Method: Data Extraction-Work Request  
ISA/MOU: No

Organization Name: General Accounting Office  
Transmission Method: Data Extraction  
ISA/MOU: No

*Identify the authority.*

TIGTA (under certain conditions) - IRC section 6103(h)(1) allows the IRS to disclose information to Treasury employees with a "need to know" for tax administration purposes. The authority for releasing information covered by the Privacy Act is 5 USC 552a (b)(1). It is also governed by the "need to know" conditions with respect to performance of auditor duties. The legislative history of RRA 98 states, "The Treasury Inspector General (IG) for Tax Administration has the same access to taxpayer returns and return information as does the Chief Inspector under present law." GAO -Internal Revenue Code (IRC) section 6103(f)(4).

*Identify the Routine Use in the applicable SORN (or Privacy Act exception).*

Disclosure of returns and return information may be made only as provided by 26 U.S.C. 6103. All other records may be used as described below if the IRS deems that the purpose of the disclosure is compatible with the purpose for which IRS collected the records, and no privilege is asserted. To appropriate agencies, entities, and persons when: (a) The IRS suspects or has confirmed that the security or confidentiality of information in the system of records has been compromised; (b) the IRS has determined that as a result of the suspected or confirmed compromise there is a risk of harm to economic or property interests, identity theft or fraud, or harm to the security or integrity of this system or other systems or programs (whether maintained by the IRS or another agency or entity) that rely upon the compromised information; and (c) the disclosure made to such agencies, entities, and persons is reasonably necessary to assist in connection with IRS efforts to respond to the suspected or confirmed compromise and prevent, minimize, or remedy such harm.

*For what purpose?*

To administer the back-up withholding laws and regulations.

*Does this system disseminate SBU/PII to State and local agencies?*

No

*Does this system disseminate SBU/PII to IRS or Treasury contractors?*

No

*Does this system disseminate SBU/PII to other Sources?*

Yes

*Identify the other source(s) that receive SBU/PII from this system, and if there is an Inter-Agency Agreement (ISA) /Memorandum of Understanding (MOU).*

Organization Name: Treaty Countries

Transmission Method: OECD send a CD to each country

ISA/MOU: Yes

*Identify the authority.*

Organization for Economic Cooperation and Development (OECD) shares the extract with Treaty countries to inform the countries of their citizens who have reported withholding.

*Identify the Routine Use in the applicable SORN (or Privacy Act exception).*

Disclosure of returns and return information may be made only as provided by 26 U.S.C. 6103. All other records may be used as described below if the IRS deems that the purpose of the disclosure is compatible with the purpose for which IRS collected the records, and no privilege is asserted. To appropriate agencies, entities, and persons when: (a) The IRS suspects or has confirmed that the security or confidentiality of information in the system of records has been compromised; (b) the IRS has determined that as a result of the suspected or confirmed compromise there is a risk of harm to economic or property interests, identity theft or fraud, or harm to the security or integrity of this system or other systems or programs (whether maintained by the IRS or another agency or entity) that rely upon the compromised information; and (c) the disclosure made to such agencies, entities, and persons is reasonably necessary to assist in connection with IRS efforts to respond to the suspected or confirmed compromise and prevent, minimize, or remedy such harm.

*For what purpose?*

To administer the back-up withholding laws and regulations.

## **PRIVACY SENSITIVE TECHNOLOGY**

*Does this system use social media channels?*

No

*Does this system use privacy-sensitive technologies such as mobile, global position system (GPS), biometrics, RFID, etc.?*

No

*Does the system use cloud computing?*

No

*Does this system/application interact with the public?*

No

## **INDIVIDUAL NOTICE AND CONSENT**

*Was/is notice provided to the individual prior to collection of information?*

Yes

*How is notice provided? Was the individual notified about the authority to collect the information, whether disclosure is mandatory or voluntary, the purpose for which the information will be used, with whom the information may be shared, and the effects on the individual, if any, if they decide not to provide all or any of the requested information?*

Form 1042-T and Form 1042-S instructions.

*Do individuals have the opportunity to decline from providing information and/or from consenting to particular uses of the information?*

No

*Why not?*

IRC §§ 1441 - 1442 - General rules on withholding under chapter 3 - IRC § 1446 - Withholding on foreign partner's share of ECI - IRC § 1462 - Withholding tax as credit to recipient Reg. § 1.1461-1(b): General requirement to file form 1042 and 1042-S on or before March 15 of the calendar year following the year income was paid. Reg. § 1.1461-1(c)(1) - Form 1042-S filing requirement: IRC § 1464 - Refund or credit for over withheld tax under chapter 3 - IRC §§1471-1474 - General chapter 4 requirements - Reg. § 1.5000C-3(c) -Form 1042-S reporting requirement for amounts withheld pursuant to section 5000C - IRC §6721 -

failure to file correct information returns - IRC §6722 - failure to furnish correct payee statements - Reg. § 1.6049-4(b)(5)/ 1.6049-8(a) - Reporting interest payments to NRAs (see Rev. Proc. 2017-16) Reg. § 1.6049-6(e)(4) - furnishing form 1042-S to NRAs.

*How does the system or business process ensure 'due process' regarding information access, correction and redress?*

When data is posted to the Master file, taxpayers have the right to appeal any determination made by the IRS. When applicable, the taxpayer is advised of their statutory appeal rights as a result of the IRMF and PMF applications.

## **INFORMATION PROTECTION**

*Identify the owner and operator of the system (could be IRS owned and Operated; IRS owned, contractor operated; contractor owned and operated).*

IRS Owned and Operated

*The following people have access to the system with the specified rights:*

*IRS Employees*

Users: Read Write

Managers: Read Write

System Administrators: Read Write

*How is access to SBU/PII determined and by whom?*

Access to the CTW application is determined by their job responsibilities. Access is authorized using an Online Form 5081, Information System User Registration/Change Request. A user's access to the application is terminated when it is no longer required. The Online Form 5081 process requires management approval prior to granting access to the CTW application.

## RECORDS RETENTION SCHEDULE

*Are these records covered under a General Records Schedule (GRS, IRS Document 12829), or has the National Archives and Records Administration (NARA) approved a Records Control Schedule (RCS, IRS Document 12990) for the retention and destruction of official agency records stored in this system?*

Yes

*How long are the records required to be held under the corresponding GRS or RCS, and how are they disposed of? In your response, please provide the GRS or RCS chapter number, the specific item number, and records series title.*

The National Archives and Records Administration (NARA) approved IRS request for CTW records/data disposition authority under NARA Job No. N1-58-11-20. Disposition instructions for CTW data and related records are published in Records Control Schedule (RCS) Document 12990 under RCS 19 for the Enterprise Computing Center - Martinsburg (ECC - MTB), Item 89. CTW is designed to correct Form 1042-T and 1042-S records that have failed validity, consistency checks, or math error computations. Unresolved electronic 1042-S information records are to be moved to the 1042-S "Junk" Table and destroyed on or after January 15 of the year after processing. Backup tapes of resolved and corrected 1042-S information records are to be destroyed 6 years after year of processing. The Service Level Agreement Document between Wage and Investment (W&I), as the primary Business Unit responsible for the data collected and TCC, the production site, document the nightly database export procedures, as well as, offline storage/data archiving-backups procedures. The Technical Contingency Planning Document (TCPD) contains information concerning offline storage and the company that is responsible for it.

## SA&A OR ASCA

*Has the system been through SA&A (Security Assessment and Authorization) or ASCA (Annual Security Control Assessment)?*

Yes

*What date was it completed?*

1/12/2020

*Describe the system's audit trail.*

Audit Trails of the users' activities are available to the managers through the CTW Action Tracking screen and the Action Summary screen.

## PRIVACY TESTING

*Does the system require a System Test Plan?*

Yes

*Is the test plan completed?*

Yes

*Where are the test results stored (or documentation that validation has occurred confirming that requirements have been met)?*

The 2020 CTW System Test Plan (STP) is stored in the DocIT Repository.

*Were all the Privacy Requirements successfully tested?*

Yes

*Are there any residual system privacy, civil liberties, and/or security risks identified that need to be resolved?*

No

*Describe what testing and validation activities have been conducted or are in progress to verify and validate that the applicable Privacy Requirements (listed in header) have been met?*

In development testing of Oracle Forms, the functionality provided for CTW managers to audit CTW users is confirmed and verified via the Action Tracking Screen and corresponding database tables. The manager's screen provides the recorded Action Date, which identifies the CTW user and the lists of records available to review. These records are individually identified by the Document Locator Number (DLN). Chat action and the recorded dates also provide another level of accountability within CTW. Chat action is any correspondence between the CTW manager and CTW user regarding records that were accessed under a DLN on a specific date. With this information provided, it allows CTW managers and users the ability to account for both unknown and common issues along with their solutions, which would be helpful moving forward. The CTW user has no knowledge of which taxpayer record is being accessed, until the user opens a record by the DLN. CTW developers do not have access to the production database tables, or taxpayer records. CTW applications provide the physical security (i.e., server access, user access, intranet authentication, etc.). These functions are tested in development by adding and deleting users from the system's user table (via a Database Administrator) and the CTW positions table which holds the Standard Employee Identifiers (SEID) of the users granted access to the system.

## **SBU DATA USE**

*Does this system use, or plan to use SBU Data in Testing?*

No

## **NUMBER AND CATEGORY OF PII RECORDS**

*Identify the number of individual records in the system for each category:*

IRS Employees: Not Applicable

Contractors: Not Applicable

Members of the Public: More than 1,000,000

Other: No

## **CIVIL LIBERTIES**

*Does the system maintain any information describing how any individual exercises their rights guaranteed by the First Amendment?*

No

*Is the system information used to conduct 'data-mining' as defined in the Implementing Recommendations of the 9/11 Commission Act of 2007, Public Law 110-53, Section 804?*

No

*Will this system have the capability to identify, locate, and monitor individuals or groups of people?*

No

*Does computer matching occur?*

Yes

*Does your matching meet the Privacy Act definition of a matching program?*

Yes

*Can the business owner certify that it meets requirements of IRM 11.3.39, Disclosure of Official Information, Computer Matching & Privacy Protection Act?*

Yes

## **ACCOUNTING OF DISCLOSURES**

*Does the system include or require disclosure of tax or employee information to anyone other than IRS employees in the performance of their duties, or to the person to whom the information pertains or to a 3rd party pursuant to a Power of Attorney, tax or Privacy Act consent?*

Yes

*Does the system have a process in place to account for such disclosures in compliance with IRC §6103(p) (3) (A) or Subsection (c) of the Privacy Act? Contact Disclosure to determine if an accounting is required.*

Yes