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# Year-End Processing Guide

## Supplement:

# Producing 1042-S Tax Forms

Creating the “Foreign Person’s U.S. Source Income Subject to Withholding” Tax Form

## INTRODUCTION

This document explains the steps for flagging foreign members who are eligible to receive the 1042-S tax form and generating the forms with data from your CU\*BASE year-end tax files.

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<https://www.cuanswers.com/resources/doc/cubase-reference/>  
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# UNDERSTANDING THE PROCESS

The procedure for generating 1042-S tax forms is different from all other tax forms produced for your members in CU\*BASE. In general, tax forms such as 1099-INTs and 5498s are automated and require the credit union only to verify the data before forms are produced, making adjustments to form data only as needed.

With the 1042-S form, credit unions must play a more active role in actually populating form data for eligible members, in addition to verifying the data and making any necessary adjustments before forms are sent to members and reported to the IRS.

## 1042-S TAX FORMS STEP-BY-STEP

Here are the key steps you'll need to take if your credit union is required\* to produce 1042-S forms for any of your members:

\*Consult your tax advisor about whether or not your credit union should be generating 1042-S tax forms for any of your members. This document is intended only to explain how CU\*BASE tools can be used to flag members you have determined to be eligible and to produce the forms using CU\*BASE data.

Before **December 31**:

1. Activate the 1042-S feature by contacting a Client Service Representative	See Page 5
2. Flag all members who are eligible to receive a 1042-S form, entering the appropriate country code and other address data needed for the form	See Page 5

Between **January 1** and **February 15**:

3. Generate the 1042-S Tax Form Report to get a list of members flagged in step 2	See Page 8
4. Use the 1042-S Tax Form Maintenance feature to create a form for every eligible member, using the report created in step 3	See Page 9
5. Before forms are printed, verify that any members with a foreign address have the correct address information entered for printing on the form	See Page 6
6. Generate another copy of the 1042-S Tax Form and verify that the data shown is correct for the final forms that will be printed	See Page 8

What we will do:

After **February 15**, we will compile the 1042-S tax records you've entered and transmit to Sage Direct for printing the forms. (Contact us if you want to use a different print vendor; project will be quoted as custom development.)

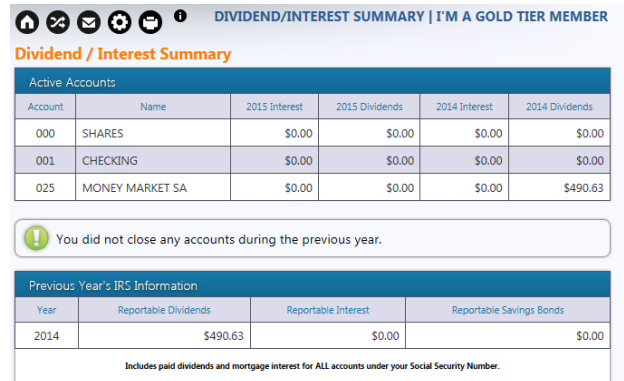
We will also transmit records to the IRS in time for the **March 15, 2020**, deadline.

## RULES AND MISCELLANEOUS TIPS

- Forms are produced only if the total dividends paid is \$10.01 or higher OR if the Backup Withholding flag on the membership is checked *and* the total dividend amount is \$0.01 or higher.
- Eligible members whose memberships were closed during the tax year will still be able to receive a form as long as the closed membership record is flagged as eligible for 1042-S. (If the membership was closed before this flag was checked, you must access it via **Tool #888 Update Closed Membership Information**).
- All 1042-S tax form data is stored in a separate database table called TAXADD4, which is generated as you manually create forms for individual members (see Page 9). **This is critical: if you do not perform this step for a member, a form will NOT be produced!**
- Eligibility settings for individual members are stored in a separate database table called FORTAXRPT. See Page 5 for instructions on flagging members as eligible for 1042-S reporting.
- Unlike other tax forms, 1042-S forms are individual by membership account base, NOT aggregated by SSN/TIN, since these members are not always U.S. citizens with U.S. tax ID numbers. This means that **if a person has two different memberships with your credit union**, you must mark both of them as eligible for 1042-S reporting and generate data for both memberships separately, and the member would receive two separate forms.
- Remember that members who are flagged as foreign citizens are automatically omitted from 1099-INT (and 5498) tax reporting. Because only members marked as foreign citizens can be flagged as eligible for 1042-S reporting, this ensures that a member cannot receive both a 1042-S and a 1099-INT form at the same time.
- When generating data for the form, the system will include dividends paid on ALL savings account types, including checking, **HSAs**, tax escrow, certificates, and **IRA** shares and certificate accounts. **You may need to adjust the dividend amount** on the tax form for members who have non-reportable accounts such as HSAs or IRAs.
- At this time 1042-S tax forms can be produced only for individual memberships (master type MI), not organizational accounts.
- If your credit union usually receives tax forms archived on CD, note that we are *not* able to archive 1042-S forms with your other tax forms at this time.
- Forms are currently set up to be printed by Sage Direct. If you would like to use another print vendor, we can provide the flat file data but you

will need to get a quote from your vendor as to the programming work necessary to create the forms and to maintain them going forward based on annual IRS changes.

- This feature has no effect on the Dividends/Interest Summary that appears for members in **It's Me 247** online and mobile web banking (shown here→). All members can see this information regardless of whether it will be reported to the IRS or not.



**Dividend / Interest Summary**

Active Accounts					
Account	Name	2015 Interest	2015 Dividends	2014 Interest	2014 Dividends
000	SHARES	\$0.00	\$0.00	\$0.00	\$0.00
001	CHECKING	\$0.00	\$0.00	\$0.00	\$0.00
025	MONEY MARKET SA	\$0.00	\$0.00	\$0.00	\$490.63

You did not close any accounts during the previous year.

Previous Year's IRS Information			
Year	Reportable Dividends	Reportable Interest	Reportable Savings Bonds
2014	\$490.63	\$0.00	\$0.00

Includes paid dividends and mortgage interest for ALL accounts under your Social Security Number.

# DETAILS

DEADLINE: Generate form data for all eligible members between January 1 and February 15  
Verify data and print final 1042-S Tax Information report by February 15

## ACTIVATING 1042-S PROCESSING

None of the features shown in this booklet will be available until the 1042-S feature is activated. **Online credit unions must contact a CSR to enable the functionality.**

Self-processing credit unions should also contact a CSR as well, for assistance completing the transmitter control settings that are also required. We'll also help you ensure that appropriate arrangements have been made for printing and reporting to the IRS.

The *Activate 1042-S forms processing* flag is located in the Master CU Parameter Config (MNOP09).

## FLAGGING MEMBERS WHO ARE ELIGIBLE FOR 1042-S REPORTING

The following screens are for current memberships. For memberships that have already been closed, use **Tool #888 Update Closed Membership Information**.

*Update Membership Information (Tool #15)*

Session 0 CU\*BASE GOLD Edition - CU\*ANSWERS TEST CREDIT UNION

File Edit Tools Help

### Update Membership Individual

Date opened: Apr 04, 2015 [MMDDYYYY]  
Account base: 900004124  
Branch #: 58 SHAMROCK CENTER

Imaging Solutions Scan e-Document View e-Document

**Required Information**

Name: SAMPLE MEMBER  
Gender: Male Female Unknown  
Birth date: Jun 10, 1985 [MMDDYYYY]  
DBA name: [ ]

SSN: 993-00-0095 Name ID: ME  
Designation: MI Individual  
Death date: 00000000 [MMDDYYYY]

Foreign address  Foreign citizen  Eligible for tax form 1042-S

Address #1: 123 COUNTY ROAD 15  
Address #2: LOT 123  
City: ANYCITY  
State: MI  
ZIP code: 48999 9652  
County: ANYCOUNTY

Home phone: 777 5554545  
Work phone: [ ] [ ] Ext: [ ]  
Cell phone: 777 5557777  
Fax: [ ]

Certify address  Incorrect address

Date moved to: Apr 06, 2015 [MMDDYYYY]  
Home type: Own Rent N/A

Last contacted: 00000000 [MMDDYYYY]  
Last maintained: Apr 09, 2015  
Address maintained by employee ID 96 on Apr 06, 2015

Driver's license: 123456789  
Other ID: FOREIGN CONSULAR MX  
Full middle name: [ ]

Deny membership

Skip Unlock Fields ID Check Risk Assessment

BT (2429) 9/20/16

Check the *Eligible for tax form 1042-S* flag for any members who are eligible for these forms. This checkbox will be visible only on members who are marked as **foreign citizens**. Use Enter to save and one of the following windows will appear next, depending on whether the *Foreign address* flag is also checked for this member:

If member has a U.S. address:

The screenshot shows a software window titled "Session 0 CU\*BASE GOLD - IRS 1042-S Information". It contains two input fields: "Country code for tax purposes" with a dropdown menu showing "US" and "Country code for tax purposes" with a text box containing "00000000". Below these fields is a "Skip" button and a navigation bar with icons for back, forward, up, down, print, refresh, help, and search. The bottom right corner of the window displays "BT (5935)".

If the member has a foreign address:

The screenshot shows the same software window as above, but with the "Foreign Address Entries" section expanded. This section includes input fields for "Foreign city", "Foreign country code", "Province if Canada", and "Foreign postal code". An orange callout box with a speech bubble points to the "Foreign city" field, containing the text: "Remember that CU\*BASE will NOT keep this address information in synch with what's on the membership record, so be sure to double-check this!". The "Skip" button and navigation bar are also visible at the bottom.

Enter the country code used for tax purposes by this member. This is required, and represents the country where the member claims residency for the purposes of tax reporting (whether they actually live there or in the U.S. or even another country). *A list of valid country codes can be found on the IRS.gov website.*

Also enter the member's U.S. tax ID number, if one is available. This will be printed in the appropriate box on the 1042-S form.

*NOTE: This may or may not match the SSN/TIN that appeared on the previous screen, from when the membership was created. For example, you may have created the membership using an imitation SSN but later receive a U.S. TIN to use for tax reporting. Regardless of whether you change the membership record, that TIN must be entered in this separate field in order for it to appear on the tax form.*

If the member also has a **foreign address**, you'll also need to enter that address information here, including a country code for that address. This relates to where they currently live (where the form will be mailed) and will print in the appropriate box on the tax form. Although this address should match what's on the previous screen for the member's current address,

because of how the IRS requires this data to be formatted it is necessary to enter it again here, for storage in a separate database table. We are not currently able to keep this in synch, so before forms are printed at the beginning of the year you should verify that all eligible members who have foreign addresses have the correct data on record for printing on the form.

*For a country code of CA for Canada, you'll also need to provide a Province postal code.*

**WARNING:** Keep a close eye on any of these members who also have a foreign address. Currently the only place where this 1042-S member information can be entered is via Membership Information Update. (The Inquiry and Phone Op “Name/Address” maintenance tool does not access this screen.) This data is stored in a different place and must manually be kept in synch in order for the form to be filled in correctly.

When ready, use Enter to save and continue to the next screen (will either be the previous address information screen or the final membership information update screen, as usual).

### A Note about Backup Withholding

The *Eligible for 1042-S reporting* setting is independent of the *Dividend withholding* setting for this member. If this member is also eligible for dividend backup withholding, use the flag on the final screen of the membership information update feature.

*NOTE: The % of dividends that is withheld, as well as the G/L account to which funds will be transferred, is controlled by a setting in CU Master Parameters (MNOP09 #1). Online CUs please contact a CSR for assistance.*

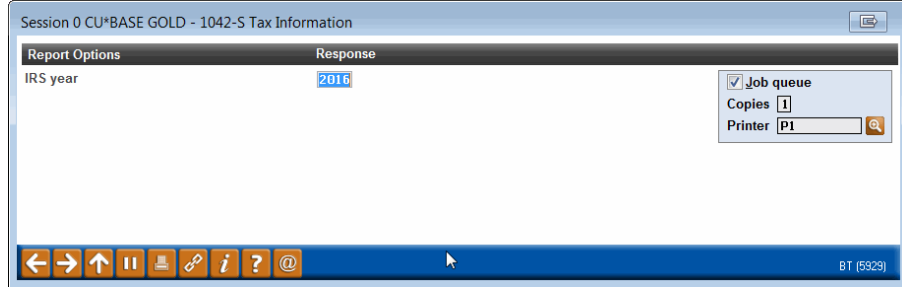
When dividends are paid by CU\*BASE, the system calculates the standard percentage to be withheld from the dividend payment and moves those funds to the designated backup withholding general ledger account. The credit union is then responsible for sending withheld dividends to the State or Federal government.

If the member is also eligible for tax form 1042-S, the system will pull the amount of dividends withheld into the form data (see Page 9).

# PRINTING THE 1042-S INFORMATION REPORT

This report can be generated before you start working on generating tax form data, and then again later to verify form data you've created and make sure nothing was missed.

## 1042-S Information Report (Tool #1012)



The report shows all members who are flagged as eligible for 1042-S, as well as any members with 1042-S data already on file, regardless of their eligibility status. (This is useful for showing members whose eligibility status changed after you created their 1042-S form data.) This will include eligible memberships that were closed during the year.

Specify the tax year and use Enter to produce the report:

1/01/16 14:17.30		ABC TESTING CREDIT UNION		LTAX1042		Page 1							
RUN ON 12/17/15		1042-S TAX INFORMATION RECORDS		USER DAWNM									
		2015											
ACCOUNT	BASE GROSS INCOME	FEDERAL W/H	W/H CREDIT TOTAL	CHAPTERS THREE AND FOUR				TAX RATE	STATUS	INCOME CODE	TAX NOT ESCROWED	ELIGIBLE FOR 1042-S TAX FORM	
				PARTICIPATE 3	4	EXEMPT CODE 3	4						
596	53.96	.00	.00	Y	N	02		.00	.00	01	29	N	Y
600	1603.95	.00	.00	Y	N	02	15	.00	.00	01	29	N	Y
90985	1.43	.32	.32	Y	N	01		.00	.00	01	29	Y	Y
98983	ACCOUNT NOT FLAGGED FOR ELIGIBILITY												
109214	9.50	.00	.00	Y	N	01		27.50	.00	01	29	Y	Y
110144	1580.01	259.01	259.01	Y	N	05		28.00	.00	01	29	Y	Y
20489	NO DATA YET EXISTS FOR SELECTED TAX YEAR												
900003610	NO DATA YET EXISTS FOR SELECTED TAX YEAR												

Members that have been flagged as eligible but for whom form data has not yet been generated will appear with the notation, "NO DATA EXISTS FOR SELECTED TAX YEAR." This is a helpful way to gather the list of members you need to work before getting started, as well as showing which records still need attention before forms are printed.



# GENERATING/MODIFYING FORM DATA FOR ELIGIBLE MEMBERS

DEADLINE: Between January 1 and February 15

Remember that this step cannot be done until *after* the tax file data has been generated during year-end processing. So any time after January 1st until the February entry deadline you will use these steps to generate data for the 1042-S tax form, **for every member** you have flagged as eligible for this reporting.

*TIP: To gather the list of memberships you've flagged as eligible for 1042-S reporting, generate the 1042-S Information Report (see Page 8) before starting this procedure.*

## Update 1042-S Tax Form Data (Tool #921)

Enter the account number, a closed account sequence (if the membership was closed during the tax year), and the tax year and use Enter to proceed to the next screen.

## Screen 2

If you do not enter an Exemption code, use this to enter the backup withholding rate instead. See Note B below.

When this screen is first accessed after Jan. 1, these amounts will be populated with the total dividends paid and federal withholding for **ALL savings accounts**, including checking, certificates, and escrows, **as well as IRAs and HSAs**. See Note A below.

Check this only if you want the corresponding box checked on the 1042-S form. Refer to IRS publications for instructions.

This screen lets you specify some of the data that will appear on the printed 1042-S form. If this is the first time you've accessed this member for this tax year, the system will automatically pull in *Gross income* and *Federal tax withheld* data from the tax file which was created on January 1. However, data will NOT be refreshed automatically after that point; later adjustments to these amounts, if needed, must be done manually before forms are produced.

### Notes:

A –Gross income will show the total dividends paid on all accounts with Application Type SH, IR, SD, TX, and CD. **This includes IRAs**, so if you

do allow these members to have IRA and HSA accounts, you may need to adjust this amount manually. *Federal tax withheld* will show the amount withheld for all those same accounts.

**Remember that if you are maintaining an existing record, the system will NOT refresh these amounts!**

**TIP:** To force the data to be refreshed from the tax file, use **Delete (F16)** to delete the form data entirely, then recreate it.

B – If this member is not exempt from backup withholding, enter the backup withholding rate, if applicable, such as 30.00. NOTE: You can enter either an *Exemption code* or a tax rate, not both.

When done, use Enter to save and return to the previous screen. Then repeat the entire process for all other memberships marked as eligible for 1042-S reporting.

### SAMPLE 1042-S FORM

This sample was taken from the IRS.gov website as of December 2018 and is shown for illustration purposes only.

<b>Form 1042-S</b>		<b>Foreign Person's U.S. Source Income Subject to Withholding</b>			<b>2019</b>	OMB No. 1545-0096	
Department of the Treasury Internal Revenue Service		Go to <a href="http://www.irs.gov/Form1042S">www.irs.gov/Form1042S</a> for instructions and the latest information.			<b>Copy A</b> for Internal Revenue Service		
UNIQUE FORM IDENTIFIER		AMENDED		AMENDMENT NO.			
<b>1</b> Income code	<b>2</b> Gross income	<b>3</b> Chapter indicator. Enter "3" or "4"	<b>3a</b> Exemption code	<b>4a</b> Exemption code	<b>13e</b> Recipient's U.S. TIN, if any	<b>13f</b> Ch. 3 status code	<b>13g</b> Ch. 4 status code
		<b>3b</b> Tax rate	<b>4b</b> Tax rate	<b>13h</b> Recipient's GILN	<b>13i</b> Recipient's foreign tax identification number, if any	<b>13j</b> LOB code	
<b>5</b> Withholding allowance				<b>13k</b> Recipient's account number			
<b>6</b> Net income				<b>13l</b> Recipient's date of birth (YYYYMMDD)			
<b>7a</b> Federal tax withheld				<b>14a</b> Primary Withholding Agent's Name (if applicable)			
<b>7b</b> Check if federal tax withheld was not deposited with the IRS because escrow procedures were applied (see instructions) <input type="checkbox"/>				<b>14b</b> Primary Withholding Agent's EIN		<b>15</b> Check if pro-rata basis reporting <input type="checkbox"/>	
<b>7c</b> Check if withholding occurred in subsequent year with respect to a partnership interest <input type="checkbox"/>				<b>15a</b> Intermediary or flow-through entity's EIN, if any		<b>15b</b> Ch. 3 status code	<b>15c</b> Ch. 4 status code
<b>8</b> Tax withheld by other agents				<b>15d</b> Intermediary or flow-through entity's name			
<b>9</b> Overwithheld tax repaid to recipient pursuant to adjustment procedures (see instructions)				<b>15e</b> Intermediary or flow-through entity's GILN			
<b>10</b> Total withholding credit (combine boxes 7a, 8, and 9)				<b>15f</b> Country code	<b>15g</b> Foreign tax identification number, if any		
<b>11</b> Tax paid by withholding agent (amounts not withheld) (see instructions)				<b>15h</b> Address (number and street)			
<b>12a</b> Withholding agent's EIN	<b>12b</b> Ch. 3 status code	<b>12c</b> Ch. 4 status code		<b>15i</b> City or town, state or province, country, ZIP or foreign postal code			
<b>12d</b> Withholding agent's name				<b>16a</b> Payer's name		<b>16b</b> Payer's TIN	
<b>12e</b> Withholding agent's Global Intermediary Identification Number (GIIN)				<b>16c</b> Payer's GILN		<b>16d</b> Ch. 3 status code	<b>16e</b> Ch. 4 status code
<b>12f</b> Country code	<b>12g</b> Foreign tax identification number, if any			<b>17a</b> State income tax withheld		<b>17b</b> Payer's state tax no.	<b>17c</b> Name of state
<b>12h</b> Address (number and street)				<b>13a</b> Recipient's name		<b>13b</b> Recipient's country code	
<b>12i</b> City or town, state or province, country, ZIP or foreign postal code				<b>13c</b> Address (number and street)			
<b>13a</b> Recipient's name				<b>13d</b> City or town, state or province, country, ZIP or foreign postal code			
<b>13b</b> Recipient's country code							
<b>13c</b> Address (number and street)							
<b>13d</b> City or town, state or province, country, ZIP or foreign postal code							

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 11386R

Form **1042-S** (2019)