

July 14, 1997

TO: Chief Business Officers

FROM: Neal Wormsley
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SUBJECT: Payments to Non-United States Citizens

The following information should be distributed to individuals and departments that have or will be employing non-United States citizens as employees or independent contractors.

During the last several years, the Internal Revenue Service (IRS) has been conducting comprehensive audits of colleges and universities and other non-exempt organizations. As a result of those audits, the IRS has intensified their efforts to enforce United States tax laws applicable to non-United States citizens, commonly referred to as resident and non-resident aliens.

To obtain documentation that will assist the University in complying with current IRS guidelines as it relates to non-United States citizens, **effective August 1, 1997**, the attached form "Information and Forms Required for Payment to Non-United States Citizens" must be provided for all non-citizens at the time an initial Personnel Action Form (PAF) is completed and every time a request for payment, other than reimbursement of expenses, is initiated through Accounts Payable. The information provided on that form will be used to determine if an individual must be considered a nonresident alien for tax purposes.

Additionally, effective August 1, 1997, a valid social security or IRS Individual Taxpayer Identification Number (ITIN) must be provided any time the University is compensating an individual for services through either the Payroll system or Accounts Payable. If an individual does not have a valid social security or ITIN number, they must obtain one before they can receive payment for services provided to the University. ***An individual cannot receive payment for services, including honorariums, until the University is provided either a valid social security or ITIN number.***

The University can continue to use temporary numbers for non-citizens who are visiting the University on a short-term basis and are only being reimbursed for travel related expenses. The non-citizen form is not required when an individual is only being reimbursed for expenses; however, **a copy of the individual's I-94 must be attached to all requests for reimbursement of expenses.**

The following provides additional information regarding the documentation required for non-citizens and applicable federal income tax withholding rates.

Non-Citizen Form (new 07- 01- 97): This form will be used to collect the information necessary for the Treasurer's Office to determine if a non-citizen is to be classified as a nonresident alien for tax purposes and to establish the IRS reporting and withholding requirements. The Non-Citizen form, including the I-9 for PAFs, and all documents identified on the form must be provided for all non-citizens:

- at the time an initial Personnel Action Form is processed.
- every time a request for payment, other than reimbursement of expenses, is initiated through Accounts Payable.

Student records will be used to obtain the information identified on the form for students who receive financial aid.

IRS ITIN Number: Effective with payments made on or after August 1, 1997, a social security or an ITIN number must be provided before payment for services, including honorariums, can be disbursed. ***Temporary numbers issued by the University cannot be accepted.***

An ITIN is a new IRS tax processing number that became available on July 1, 1996, for individuals who do not qualify for a social security number. The attached document "Individual Taxpayer Identification Numbers (ITIN)" and ITIN pamphlet from

the IRS provides additional information about this new number and specifies how an ITIN can be obtained. At this time, local IRS offices are the only good sources for obtaining an ITIN. It is important that non-citizens apply for an ITIN number while they are in the United States. Failure to do so will delay their payment for services from the University.

Tax Treatment of Non-United States Citizens: To comply with the IRS's withholding and reporting requirement for individuals who are classified as nonresidents, the University must first determine if the individual is to be treated as a "resident" or "nonresident alien" for tax purposes. United States citizens, permanent residents, and resident aliens are subject to the normal IRS federal withholding rates. Individuals who are determined to be nonresident aliens are subject to special withholding and reporting requirements. These special rates are identified in the following section of this material. Classifications for tax purposes, as determined by the IRS, are as follows:

United States Citizen: An individual who is a US citizen either by birth or naturalization.

Permanent Resident: An individual who has been granted lawful, permanent resident status and has been issued or will receive an alien registration card by the Immigration and Naturalization Service. An individual will be treated as a resident for tax purposes for a calendar year if he/she is a lawful permanent resident alien at any time during that calendar year.

Resident Alien for Tax Purposes: A nonresident alien will be treated as a resident for tax purposes if he/she satisfies the "substantial presence" test. An alien will satisfy this test if he/she is physically present in the US for at least (1) 31 days during the current calendar year, and (2) 183 days during the three-year period that includes the current year and the two years preceding the current year.

Non-Resident Alien for Tax Purposes: A nonresident alien for tax purposes is a non-United States citizen who does not meet the substantial presence test and who has not been granted permanent residence.

Federal Withholding rates for Nonresident Aliens: All amounts (scholarships, compensation, honorariums, etc.) paid for services to or for a nonresident alien will be reported to the IRS and applicable federal withholding taxes must be withheld if the United States does not have a tax treaty with an individuals' country of tax residency. A listing of countries that have a tax treaty with the United States is found in the University-wide Payroll Office's home page that can be accessed through the Treasurer's Office web site at <http://www-treas.admin.utk.edu>. The federal withholding tax rates for nonresident aliens are as follows:

- fourteen (14) percent on the value of fellowships, scholarships, and other types of financial aid that exceed the cost of tuition, books, and supplies for F-1, and J-1 visa holders.
- an amount based upon a graduated rate scale for payments to individuals who are considered employees and paid through the University's payroll system.
- thirty (30) percent on all other payments including compensation (honorariums, etc.) paid through Accounts Payable.

It is important that departments work with their International Affairs Office prior to inviting a non-United States citizen to your Campus/Unit. That office will work with your departments and non-citizens to insure that the appropriate documents are obtained prior to the individual entering the United States.

Please contact either of us if you have any questions.

Attachments:

Non-Citizen Form (07-01-97)

Individual Taxpayer Identification Numbers (ITIN)

IRS Pamphlet - Information and how to obtain an ITIN

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