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# What Financial Institutions Need To Know About IRS Form 1042-S

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IRS Form 1042-S is a tax form for foreign individuals reporting income from a United States-based source. Recent federal law requires that all United States financial institutions file a Form 1042-S for foreign customers earning interest on their United States accounts. The filing of Form 1042-S by financial institutions is not discretionary, and the failure to tender the form when required may face a compliance penalty. The purpose of the form is to report interest earned on the non-resident alien fiduciary or foreign corporation's account with the financial institution.

While a foreign customer may neither be present in nor do business in the United States, IRS Form 1042-S must still be completed. It is simply the way a financial institution notifies a foreign customer of the income it received each year as it is reported to the IRS and the amount of tax that was withheld and sent to the IRS on the foreign customer's behalf. This benefits the foreign customer as well – the form makes it easier for the foreign customer to keep track of the interest generated from having an account with the financial institution, and if required to file their own report, the interest information will match the information provided by the financial institution.

Line 7 of Form 1042-S reports whether any taxes were withheld on behalf of the foreign customer. The amount withheld, if any, is calculated by reviewing a foreign customer's country of citizenship. If there is a double tax treaty in effect between the foreign customer's country of citizenship and the United States, the financial institution applies the percentage that appears (ranging from 0-30%). If that country has no tax treaty with the United States, the 30% withholding rate is required in such circumstances.

A foreign customer's individual tax situation, however, may allow for a refund of taxes withheld and paid to the United States Treasury. There are some instances where tax required to be withheld by the financial institution is not actually owed by the foreign customer given the overall financial picture of the customer.

In cases where a foreign customer recently became a United States citizen or permanent resident, interest may need to be reported on Form W-2 instead. The same amount of interest should be reported on the foreign customer's Form W-2 to match up with the information the IRS receives from the financial institution.

Foreign customers should also know that the mere filing of the form by the financial institution is not a negative; it is simply a way for the IRS to track income received from its United States source directly from the source itself.

Upon receiving a copy of the financial institution's Form 1042-S, it is urged that the customer discuss this with its tax professional. In general, a foreign customer may find that it should file a Form 1040NR (or Form 1040NR-EZ). Such Form and Instructions may be obtained from a U.S. Embassy or Consulate, or by writing to "Internal Revenue Service, 1201 N. Mitsubishi Motorway, Bloomington, IL 61705-6613, USA."

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