

Important 2017 W-2 & 1099 Changes

(As of February 22, 2017)

Information Returns (W-2s, 1098s, 1099s, 5498s, etc.)

Penalties increased—Higher penalties apply for:

- Failure to file correct information returns by the due date, and
- Failure to furnish information returns.

The higher penalty amounts apply to returns required to be filed after December 31, 2017 and are indexed for inflation. The new penalty amounts are listed below:

- \$50 per information return if filed correctly within 30 days of the due date; the maximum penalty is \$536,000 per year (\$187,500 for small businesses)
- \$100 per information return if filed correctly more than 30 days after the due date but by August 1; the maximum penalty is \$1,609,000 per year (\$536,000 for small businesses)
- \$260 per information return if filed after August 1, did not file corrections, or did not file required information returns; the maximum penalty is \$3,218,500 per year (\$1,072,500 for small businesses)

W-2 - Reprogramming required

Box 9 Verification code—Box 9 is no longer shaded and is now used for the optional W-2 verification code.

New box 12 Code FF—A new box 12 Code FF has been added to report the total amount of permitted benefits under a qualified small employer health reimbursement arrangement (QSEHRA). These new QSEHRAs allow eligible employers to pay or reimburse medical care expenses of eligible employees after the employees provide proof of coverage. The maximum reimbursement for an eligible employee under a QSEHRA is \$4,950 (\$10,000 if it also provides reimbursements for family members), before indexing for inflation.

Leave-based donation programs to aid victims of a) the severe storms and flooding in Louisiana, and b) Hurricane Matthew—Under these programs, employees may donate their vacation, sick, or personal leave in exchange for employer cash payments made before January 1, 2018, to qualified tax-exempt organizations providing relief for the victims of a) the severe storms and flooding in Louisiana that began on August 11, 2016, or b) Hurricane Matthew. The donated leave will not be included in the income or wages of the employee. The employer may deduct the cash payments as business expenses or charitable contributions.

W-2G

Box 1 text—The text in box 1 has been changed from “Gross winnings” to “Reportable winnings”. This change clarifies that for certain types of gambling activity, the amount shown in box 1 is gross winnings less the amounts of the wager or buy-in.

1042-S - Reprogramming required

Unique form identifier—Beginning in 2017, withholding agents will be required to assign a unique identifying number to each Form 1042-S they file. This identifying number is used, for example, to identify which information return is being corrected or amended when multiple information returns are filed by a withholding agent with respect to the same recipient. The unique identifying number cannot be the recipient's U.S. or foreign TIN; must be exactly 10 numeric digits; and must be unique to each original Form 1042-S filed for the current year. The identifying number can be used on a new original form in a subsequent year.

Amended forms—Beginning in 2017, withholding agents filing an amended form must indicate the amendment number. Any amended form must have the same unique form identifier as the original form that is being amended. Each time that the same form is amended (as determined by the unique form identifier), provide the amendment number in the box provided on the form (using “1” for the first amendment and increasing sequentially for each subsequent amendment).

Pro-rata reporting—The “Pro-Rata Reporting” box was moved from the top of the form (below the title) down to new box 15.

Qualified derivatives dealers—To facilitate implementation of the withholding requirements associated with QDDs, a new chapter 3 exemption code that applies for payments to a QDD and a new chapter 3 status code for a QDD have been added.

Pooled reporting codes—The 2017 Form 1042-S includes new pooled reporting codes 36, 37, and 38 (related to dividend equivalent offsetting payments) as well as existing code 33 (for joint account withholding rate pools). However, based on the final QI agreement applicable for 2017, these codes are no longer valid and withholding agents should not use these codes for Form 1042-S reporting purposes. These four codes will be removed from the 2018 form.

Other changes to codes—Income code 54 has been changed from “Other income” to “Substitute payments - interest from certain actively traded or publicly offered securities.” Withholding agents should use income code 23 (Gross income - Other) to report payments of income for which no other income code applies. A chapter 4 exemption code has been added for payments that are not subject to chapter 4 withholding and for which no other chapter 4 exemption code applies. The chapter 4 exemption codes for excluded payments on offshore obligations and collateral have been removed as these exemptions do not apply after the 2016 calendar year. The chapter 4 status codes for limited FFIs and branches that are treated as nonparticipating FFIs have also been removed as these are not valid statuses for purposes of chapter 4 after the 2016 calendar year.

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List of foreign country codes—Beginning in 2017, Form 1042-S filers will use the same list of country codes used on other IRS forms such as Forms 926, 1118, 3520 and 8805.

Foreign taxpayer identifying number and date of birth—Beginning in 2017, a financial institution that files a Form 1042-S with respect to a payment on an obligation that it maintains at its U.S. office or U.S. branch must report the recipient's foreign taxpayer identifying number and date of birth (if the recipient is an individual).

Amount repaid to recipient—A withholding agent that repays overwithheld tax to a recipient under the set-off procedure should report the repayment in box 11 if the repayment is made in the year following the calendar year of overwithholding.

1098 - *Reprogramming required*

New box 10, number of mortgaged properties—Filers must report the number of properties in excess of one that secure a single mortgage.

1098-T

Limited penalty relief—For the 2017 calendar year, no penalties will be imposed under sections 6721 or 6722 for reporting the aggregate amount billed instead of the aggregate amount of payments received for qualified tuition and related expenses on Form 1098-T. Beginning in 2018, only the qualified tuition and related expenses actually paid can be reported on Form 1098-T.

1099-C

Removal of the expiration of non-payment testing period as an identifiable event—The rule has been removed that a deemed discharge of indebtedness for which a Form 1099-C must be filed occurs at the expiration of a 36-month nonpayment testing period.

1099-OID - *Reprogramming required*

Reporting tax-exempt OID—Box 11 was added to report tax-exempt OID.

1099-S - *Reprogramming required*

Foreign Transfers—A new checkbox has been added as box 5 to report the transfer of real estate by a foreign person. Previous box 5, Buyer's Part of Real Estate Tax, is now box 6.

5498

Reporting late rollover contributions to an IRA—Report late rollover contributions certified by the participant in boxes 13a and 13b on Form 5498. Report the self-certification code in box 13c.