

UBS Custody *News*

Priority: Medium – Market: United States

Withholding tax rate changes resulting from US Tax Reform

US backup withholding and partnership distribution withholding tax rates have reduced starting January 1, 2018.

Background

In December 2017 both Houses of Congress voted to pass the Tax Cuts and Jobs Act of 2017. On December 22, 2017, President Trump signed the bill and it officially became law.

Impact

Among the effects of the Act are several changes to US withholding tax rates because they are linked to the income tax rates. Specifically:

The backup withholding tax rate has reduced from 28% to 24%. Backup withholding tax generally applies to payments made to US persons who have failed to certify their Taxpayer Identification Number, or to undocumented persons who pursuant to the regulations are presumed to be US persons.

The withholding tax rates applicable to distributions of effectively connected income by US publicly traded partnerships have reduced as following:

- From 35% to 21% when paid to non-US corporations,
- From 39.6% to 37% when paid to non-resident individual investors and other foreign non-corporate entities.

Furthermore, the withholding tax rate on distributions from a Real Estate Investment Trusts (REIT) or another Qualified Investment Entity (QIE) representing gain from the sale or exchange of a US real property interest paid to non-US persons who owned more than 10% of the REITs stock or more than 5% of the relevant class of shares of another QIE, has reduced from 35% to 21%.

It is important to note that this rate applies only to such substantial holders. All non-US persons owning not more than 10% of the REITs shares or 5% in the case of another QIE are subject to withholding at the ordinary dividend rate depending on their status on the provided US tax form.

Entry into force

The reduction in US backup withholding, partnership distribution and US REITs distribution to substantial non-US persons withholding tax rates apply to income paid as of January 1, 2018.

Sources: Citibank N.A., Clearstream Banking, CTI Tax Solutions

Should you have any questions, please contact your UBS Custody Relationship or Client Service Manager.

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