What is Backup Withholding and When should you withhold the 24% Backup Withholding from a payment made to a U.S. Tax Resident

What is Backup Withholding?

- Government entities that make certain payments are required to withhold income tax of 24% from these payments if the payee is not exempt from backup withholding and fails to furnish correct taxpayer identification number (TIN). Backup withholding does not apply to wages or pension payments.

- You generally must withhold 24% of certain taxable payments if the payee fails to furnish you with his or her correct taxpayer identification number (TIN).

- “Missing” Taxpayer Identification Number

  A taxpayer identification number is considered "missing" whenever (1) the TIN is not provided, (2) the TIN has more or less than nine digits, or (3) the TIN includes an alpha character in one or more of its nine positions.

- This withholding is referred to as “Backup Withholding.” IRS Publication 15 provides additional information regarding which payments are subject to backup withholding.

Payments that may be subject to backup withholding include interest, dividends, rents, royalties, nonemployee compensation, and certain other payments including broker and barter exchange transactions.

How to Complete the PIR when 24% Backup Withholding is required

- Complete the Payment to Individual Report (PIR)

- In the Purpose of Payment box enter the reason for withholding the 24% backup withholding. For example, “Payment recipient refused to provide an SSN.”

- In the box with the words Wisconsin Department of Revenue please cross out the words Wisconsin Department of Revenue and enter the words University of Wisconsin System (Vendor # 507013).

- Process the PIR using the normal UW procedures.

- Once the PIR has all the required approvals please forward it directly to:

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  Tax Compliance Manager
  21 North Park Street, Suite 5301, Room 5352
  Madison, Wisconsin 53715-1218