

ADMINISTRATIVE PRACTICE LETTER

SUBJECT: PAYMENTS TO NONRESIDENT ALIENS

INTRODUCTION

United States tax law requires the University of Maine System (University) to consider withholding federal income tax from and reporting to the Internal Revenue Service (IRS) all payments made to nonresident aliens, excluding travel reimbursements. These requirements are difficult to comply with due in large part to the complexity of the laws that surround payments to nonresident aliens. The purpose of this APL is to document procedures to insure University compliance.

PROCEDURES

Effective January 1, 2006, when processing a payment to a nonresident alien, including for employment, independent contractor services, fellowships, scholarships, and travel expenses, the following procedures must be followed.

TYPE OF PAYMENT

INDEPENDENT CONTRACTOR SERVICES

All requests for payments to nonresident aliens for independent personal services services should include a completed Foreign National Information Form (Form). A copy of this Form is attached for your reference and may be duplicated. The completed Form should be forwarded to the Accounts Payable department at your institution. The information on the completed Form will be used to analyze the nonresident alien's residency status and eligibility for exemption from withholding through a tax treaty. The requesting department will be notified of any IRS forms that need to be completed by the nonresident alien.

All payments to nonresident aliens, except for reimbursement of travel expenses, should be properly coded in the Accounts Payable system to ensure compliance with IRS rules and regulations.

SCHOLARSHIPS

Each semester, the University of Maine System Accounting Department (Accounting) will identify nonresident aliens in the student information system who have received a taxable scholarship. Accounting will coordinate with the International Programs Office or person at each institution to insure the appropriate IRS forms are completed and tax withheld, if necessary.

EMPLOYMENT

All requests for payments to nonresident aliens for employment should include a completed Foreign National Information Form. A copy of this form is attached for your reference and may be duplicated.

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The information on the completed Form will be used to analyze the nonresident alien's residency status and eligibility for exemption of income from taxation through a tax treaty and will determine the appropriate IRS forms that need to be completed and signed by the nonresident alien. Once the IRS forms are properly completed, the nonresident alien will be eligible for payment.

TRAVEL EXPENSES

Reimbursement to nonresident alien independent contractors for travel expenses are not taxable provided documentation exists to substantiate the reimbursement. The Foreign National Information Form need not be completed for these types of payments. Payments made to nonresident alien Independent Contractors that include payment for both independent contracted services and travel reimbursement should be treated as two separate payments.

ASSISTANCE

Questions related to scholarships, travel expenses and independent contractor payments for services should be directed to the Manager of Accounting Operations at 973-3315. Questions related to employment and/or tax treaties should be directed to the System Payroll office at 973-3320.

ATTACHMENTS

Attachment #1 is the Foreign National Information Form and should be used as prescribed in this APL.

Attachment #2 is an interpretation of the IRS laws governing nonresident aliens and can be used by University personnel as a reference in dealing with nonresident alien issues. It is important to note that IRS laws surrounding nonresident aliens are constantly being revised. Consequently, the attachment may not contain the latest revisions to IRS laws.

Attachment #3 is a listing of tax treaties available to employees and/or students of the University.

Attachment #4 is Form 8233, Exemption from Withholding on Compensation for Independent Personal Services which is used by eligible nonresident aliens who would like to apply for a Tax Treaty.

APPROVED

Vice Chancellor for Finance and Administration