Foreign Investor Withholding Tax on Rent

Property Management Solutions for Over 30 Years

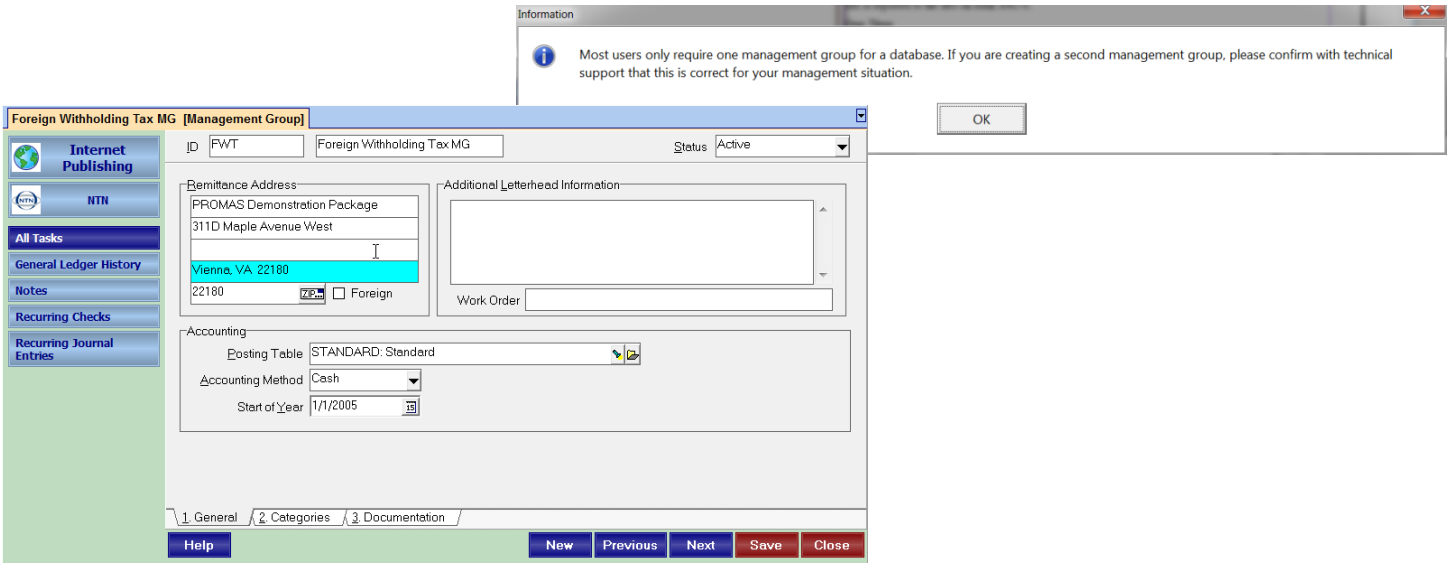
Overview

Under certain circumstances the IRS may require that you withhold 30% of the gross income for one of your foreign investor clients. Collecting and paying the tax on rent involves analyzing and determining the net income for each owner/property, then moving the money from the owner/property ledger to a management group ledger. Checks are written to the tax authorities from the management group ledger. Tax is collected and paid for the prior month. (To collect and pay for the current month see NOTE on page 3.)

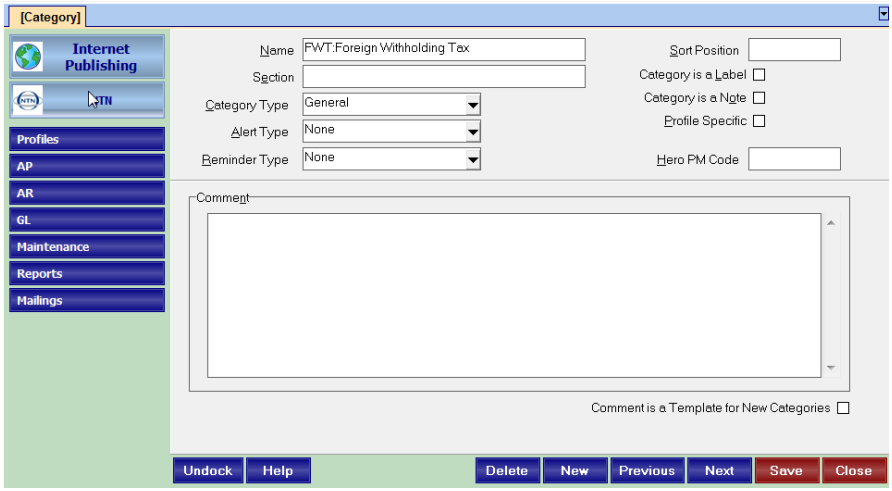
Tax is reported to the IRS on form 1042-S.

One Time

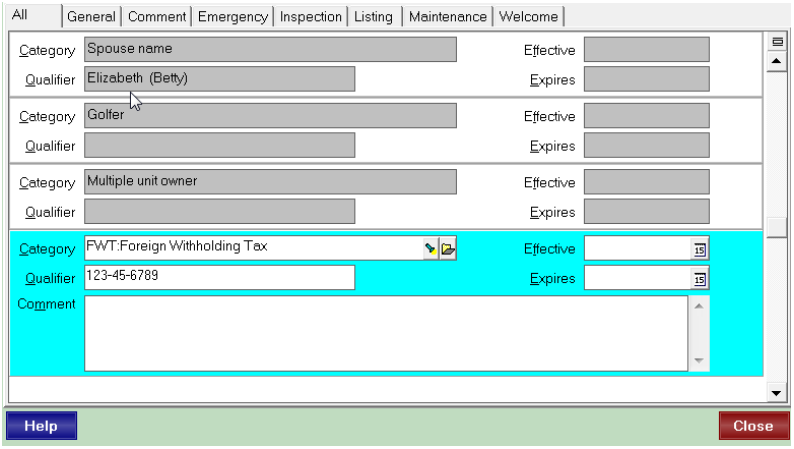
- Set up an account code called FWT Out: Foreign Tax Paid with an account type of expense. It will be used to take the tax money from the owner.
- Set up an account code called FWT In: Foreign Tax In with an account type of income. It will be used to put the tax money into the Management Group ledger.
- Set up a Foreign Tax Collections Management Group. It is where the tax monies will accumulate. That will keep them separate from your management fee income. you may get a warning message when creating the new management group - just click <OK>.



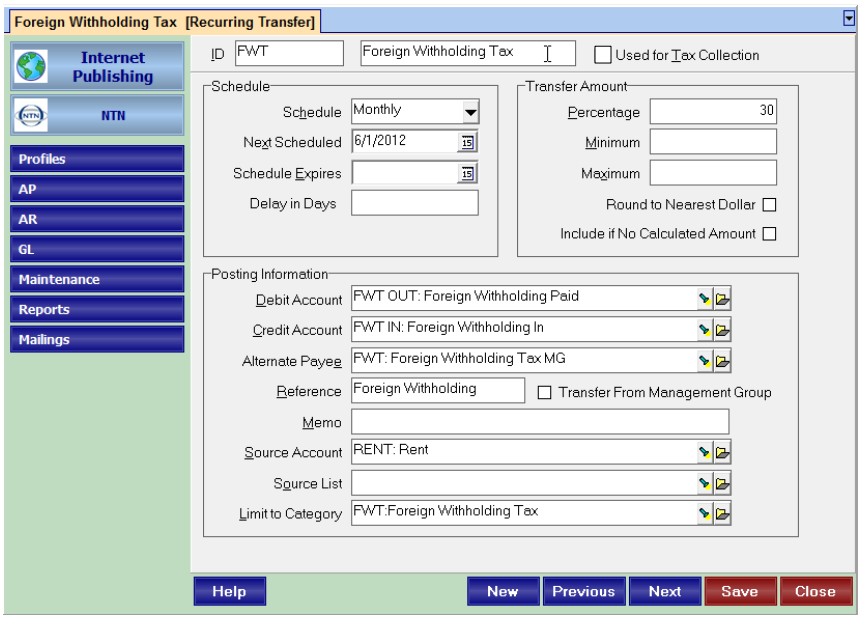
- Set up an account code called FWT Paid with an account type of expense. It will be used to pay the tax authority.
- Set up a Bill Code to point to the FWT Paid account code that you can use on the check to the Tax Authority (IRS).
- Under <<Setup, Categories>> set up a Category FWT: Foreign Withholding Tax.



- Assign to the applicable owners/properties. In the Owner or Property Profile, add a category. Enter the payer's tax ID in the Qualifier field. This will either be the owner's tax ID or EIN.

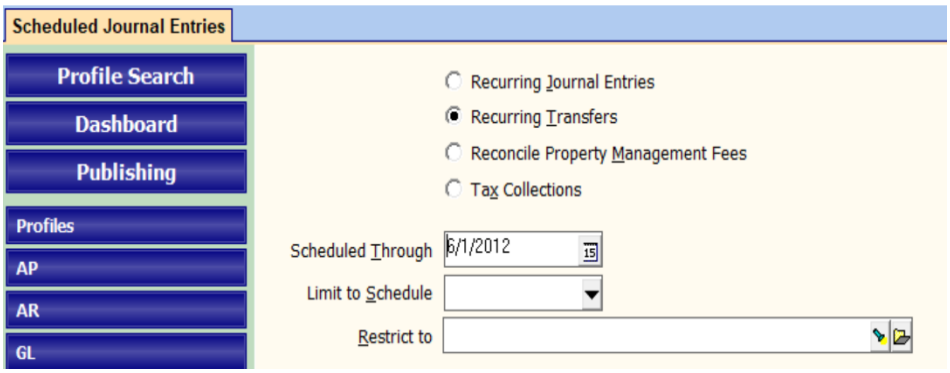


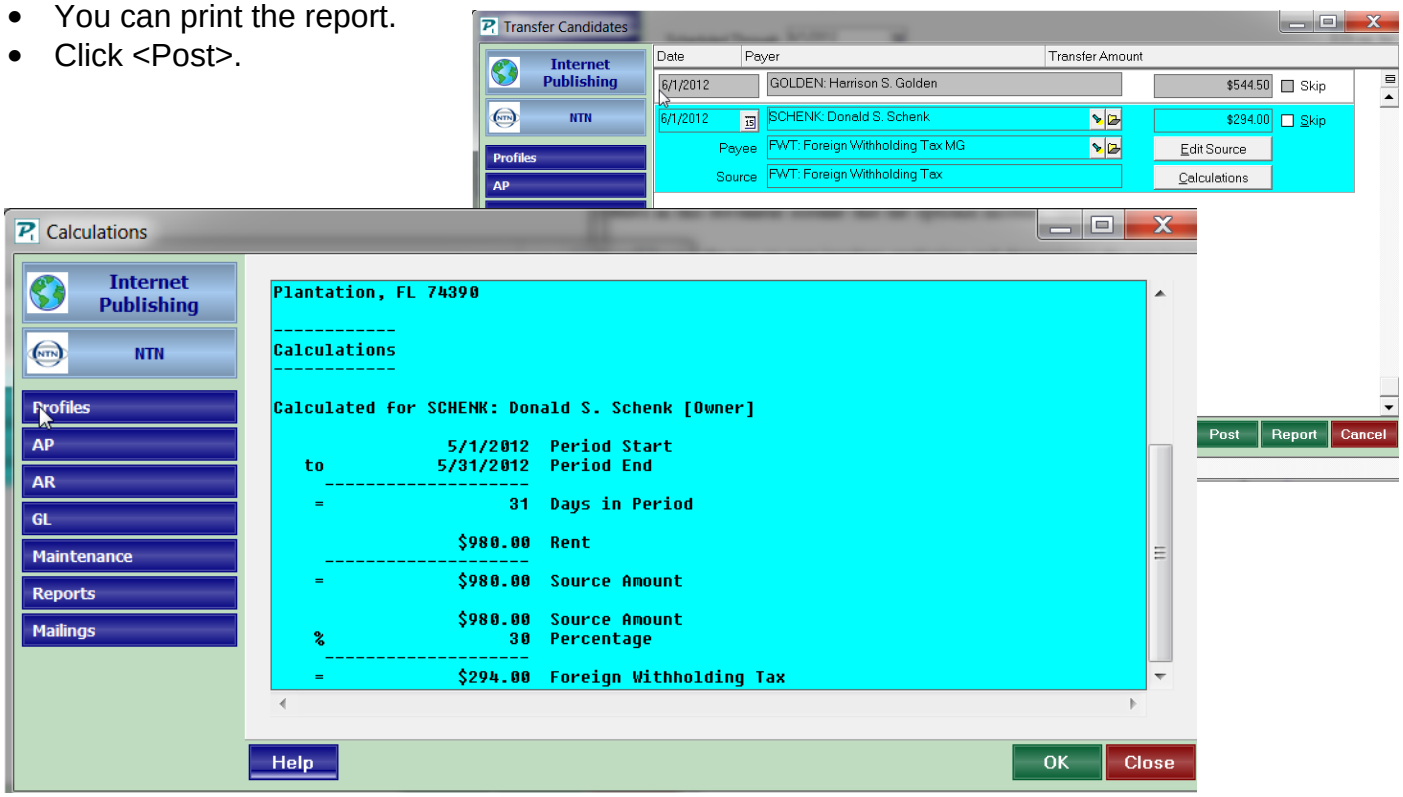
- Under <<Setup, Recurring Transfer>> set up a Recurring Transfer profile for use in calculating the tax and moving it to the tax management group.
- If the tax is on more than rent, set up an Account List under <<Setup, Account List>> and use it as the Source List in the Recurring Transfer.
- The recurring transfer uses the ledger transactions as the basis for creating the journal entry.



Each Time

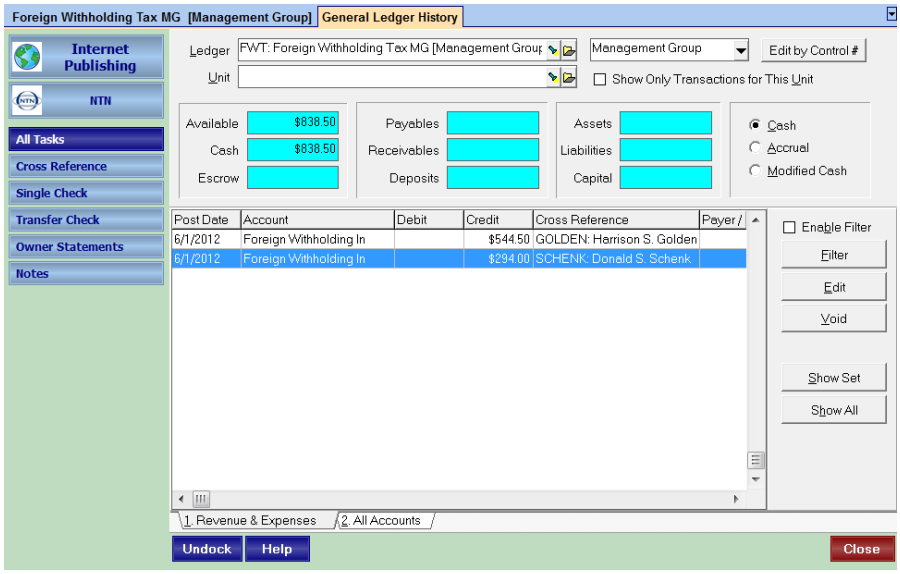
- Go to <<GL, Scheduled Journal Entries>>. Mark the radio button for Recurring Transfers.
- Click <Compile>. The amount of tax to be paid is based on the rent income transactions for each ledger. Click the <Calculate> button to see the specifics.
- You can print the report.
- Click <Post>.





NOTE: The tax collection and recurring transfers consider transactions relative to the Next Scheduled date. For example, a Next Scheduled date of 3/1 will consider transactions from 2/1 - 2/28. A Next Scheduled of 3/16 will consider transactions from 2/16 - 3/15. Thus, if you want to include this month's collections to show on this month's statement and your day to do statements is the 20th, then set the Next Scheduled to the 20th and you will collect tax on all relevant transactions from the 21st of last month through the 20th of this month.

The money has now moved from the owner/property ledgers into the Tax Management Group ledger. You can run an income summary or income details report under <<Reports, Management Group Reports>> to determine how much to write the Tax Authority check for, or you can use the report printed from the Recurring Journal Entry screen.



Income Details

June 13, 2012

Foreign Withholding Tax MG

Date	Description	Amount	Balance
6/1/2012	Beginning Balance		$0.00
Income			
6/1/2012	Foreign Withholding In to Foreign Withholding Tax MG	$544.50	
6/1/2012	Foreign Withholding In to Foreign Withholding Tax MG	$294.00	
	Foreign Withholding In	$838.50	
	Total Income	$838.50	
	Net Income (Loss)	$838.50	
	Net Balance Change $838.50	$838.50	
6/13/2012	Ending Balance		$838.50
		$838.50	

Income Summary

June 13, 2012

Foreign Withholding Tax MG

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Income			
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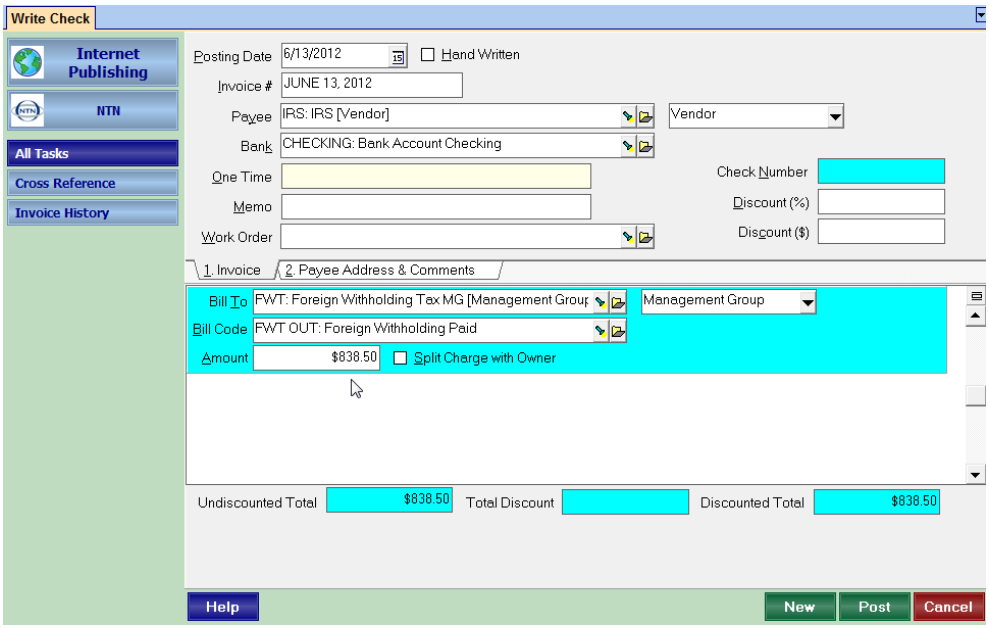
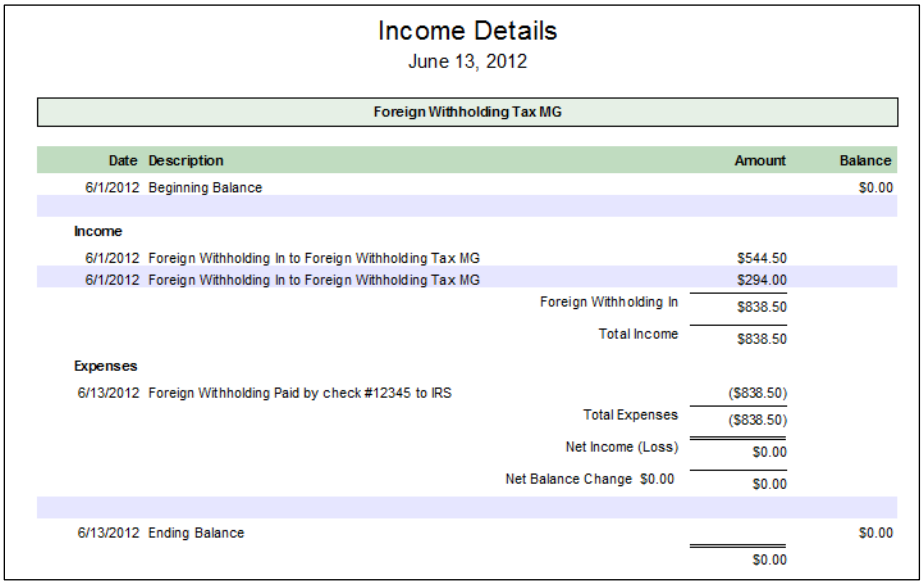
	Net Balance Change $838.50	$838.50	
6/13/2012	Ending Balance		$838.50
		$838.50	

Write a check to the tax authority using the Tax Management Group as the Bill To and the Bill Code you create earlier.



After writing the check, you can run the Income Details report again to show that the management group has been zeroed out.



Income Details

June 13, 2012

Foreign Withholding Tax MG

Date	Description		Amount	Balance
6/1/2012	Beginning Balance			$0.00
Income				
6/1/2012	Foreign Withholding In to Foreign Withholding Tax MG		$544.50	
6/1/2012	Foreign Withholding In to Foreign Withholding Tax MG		$294.00	
		Foreign Withholding In	$838.50	
		Total Income	$838.50	
Expenses				
6/13/2012	Foreign Withholding Paid by check #12345 to IRS		($838.50)	
		Total Expenses	($838.50)	
		Net Income (Loss)	$0.00	
		Net Balance Change $0.00	$0.00	
6/13/2012	Ending Balance			$0.00
			$0.00	

Note that the check you write to the Tax Authority is based on the transactions in the Tax Management Group. If you discover that one of the owners had the wrong category assigned, that means that both the report and the journal transfer were wrong. Voiding the check only voids the check. It does not affect the journal entries or the report.

To correct the journal entry:

- Void it out of the Tax Management Group ledger. Then use <<GL, Journal Transfer>> to move the money from the owner ledger to the correct Tax Management Group ledger.

To correct the report:

- Go into <<Setup, Recurring Transfer>>. Edit the transfer record that was incorrect.
- Note the Next Scheduled Date. Set the Next Scheduled Date back one month. Save
- Go to <<GL, Scheduled Journal Entries, Tax Collections>>. Compile for the same date you originally used.
- Print the report but DO NOT post the transactions.
- Go back to <<Setup, Recurring Transfer>>. Edit the transfer record and change the Next Scheduled Date back where it was.

Please contact the Help Desk if you have any questions.