Medical University of South Carolina
U.S. Tax Reporting and Withholding Obligations
Nonresident Aliens

Reporting
Based on the type of income, a nonresident alien may receive only a Form 1042-S or combination of Forms 1042-S and W-2; however, a nonresident alien should never receive a Form 1099.

Forms 1042 and 1042-S are used to report all:
- non-employee payments made to nonresident aliens (i.e. independent contractor payments, scholarship/fellowship grants, royalties, dividends, interest, awards, etc.), and
- compensation payments made to employees that are exempt from tax withholding due to an income tax treaty, regardless of whether the employee is a nonresident alien or a resident alien.

Form W-2 is used to report:
- compensation payments made to nonresident alien employees that are subject to graduated tax withholding.

Withholdings
1. Payments made to nonresident alien employees must be withheld at the standard graduated rates applicable to U.S. citizen employees unless treaty benefits apply.
2. Payments made to nonresident alien independent contractors (visiting lecturers, foreign dignitaries, etc.) must be withheld at a 30% rate unless treaty benefits apply.
3. The taxable portion of scholarship/fellowship payments is subject to tax withholding at a 14% rate unless treaty benefits apply.
4. For other payments (such as, royalty, dividend, interest, etc.) made to nonresident aliens, withholding is required at the tax rate of 30% unless treaty benefits apply.

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Tax Services Department
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