

# 2001



Department of the Treasury  
Internal Revenue Service

## Instructions for Form 945

### Annual Return of Withheld Federal Income Tax

Section references are to the Internal Revenue Code unless otherwise noted.

### Changes To Note

**Threshold for deposit requirement increased from \$1,000 to \$2,500.** Beginning in 2001, the threshold for the deposit requirement has increased from \$1,000 to \$2,500. See section 11 of Circular E for more details.

**Third party designee.** You can now authorize an employee or paid preparer to resolve issues with the IRS. See page 3.

**New backup withholding rate for 2002.** Beginning in 2002, the backup withholding rate is 30%.

### General Instructions

**Purpose of form.** Use Form 945 to report income tax withheld from nonpayroll payments. Nonpayroll payments include the following:

- Pensions, annuities, and IRAs
- Military retirement
- Gambling winnings
- Indian gaming profits
- Voluntary withholding on certain government payments
- Backup withholding

Report all income tax withholding from nonpayroll payments or distributions on one Form 945. Do not file more than one Form 945 for any calendar year.

All income tax withholding reported on Forms 1099 (e.g., Form 1099-R or 1099-MISC) or Form W-2G must be reported on Form 945. Do not report income tax withholding on wages on Form 945. All employment taxes and income tax withholding reported on **Form W-2, Wage and Tax Statement**, must be reported on Form 941 (or Form 943 for agricultural employees, Schedule H (Form 1040) for household employees, or Form CT-1 for railroad employees).

Do not report on Form 945 distributions to participants from nonqualified pension plans and some other deferred compensation arrangements that are treated as wages and are reported on Form W-2. Report such withholding on Form 941. See Circular E for more information.

**Related publications.** Circular E explains the rules for withholding, depositing, and reporting Federal income tax. **Pub. 15-A, Employer's Supplemental Tax Guide**, includes information on income tax withholding from pensions and annuities and Indian gaming profits. For information on withholding on gambling winnings, see the **2002 Instructions for Forms W-2G and 5754**. These publications are available on the IRS Web Site at [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM (1-800-829-3676).

**Who must file.** If you withhold income tax (including backup withholding) from nonpayroll payments, you must file Form 945. You are not required to file Form 945 for

those years in which you do not have a nonpayroll tax liability. **Do not** report on Form 945 withholding that is required to be reported on **Form 1042**, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

**When to file.** For 2001, file Form 945 by January 31, 2002. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 11. Your return will be considered timely filed if it is properly addressed and mailed First-Class or sent by an IRS designated delivery service on or before the due date. See Circular E for more information on IRS designated delivery services. If the due date for filing a return falls on a Saturday, Sunday, or legal holiday, you may file the return on the next business day.

**Where to file.** In the list below, find the location of your legal residence, principal place of business, office, or agency. Send your return to the **Internal Revenue Service** at the address listed for your location. No street address is needed. **Note:** *Where you file depends on whether or not you are including a payment.*

**Exception for exempt organizations and government entities.** If you are filing Form 945 for an exempt organization or government entity (Federal, state, local, or Indian tribal government), use the following addresses, regardless of your location:

Return without payment: Ogden, UT 84201-0042

Return with payment: P.O. Box 660443, Dallas, TX 75266-0443

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Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin

**Return without payment:**  
Cincinnati, OH 45999-0042

**Return with payment:**  
P.O. Box 105092  
Atlanta, GA 30348-5092

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Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming

**Return without payment:**  
Ogden, UT 84201-0042

**Return with payment:**  
P.O. Box 660443  
Dallas, TX 75266-0443

If you have no legal residence or principal place of business in any state

**Return without payment:**

Philadelphia, PA 19255-0042

**Return with payment:**

P.O. Box 80108  
Cincinnati 45280-0008

**Employer identification number (EIN).** If you do not have an EIN, apply for one on **Form SS-4**, Application for Employer Identification Number. Get this form by calling 1-800-TAX-FORM (1-800-829-3676) or from the IRS Web Site at **www.irs.gov**. If you do not have an EIN by the time the return is due, write "Applied for" and the date you applied in the space shown for the number.

**Note:** *If you are reporting withholding on pension distributions, be sure to be consistent in using the same name and EIN for all reporting and depositing of taxes (e.g., on Forms 945, 1099-R, and 8109/EFTPS). Filing Form 945 with an incorrect name and EIN or failure to use the same name and EIN in all reporting and depositing of taxes may result in penalties and delays in processing your return.*

**Penalties and interest.** There are penalties for filing Form 945 late and paying or depositing taxes late, unless there is reasonable cause. See section 11 of Circular E for more information on deposit penalties. There are also penalties for failure to furnish information returns (e.g., Form 1099-MISC, 1099-R, or W-2G) to payees and failure to file copies with the IRS.

There are penalties for willful failure to (1) file returns and pay taxes when due or (2) deposit taxes when required. There are also penalties for filing a false return or submitting bad checks. Interest is charged on taxes paid late at the rate set by law. See Circular E for details.



*If amounts that must be withheld are not withheld or are not deposited or paid to the United States Treasury, the trust fund recovery penalty may apply. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be immediately collected from the employer or business. The trust fund recovery penalty may be imposed on all persons who are determined by the IRS to have been responsible for collecting, accounting for, and paying over these taxes, and who acted willfully in not doing so. Willfully in this case means voluntarily, consciously, and intentionally. A responsible person acts willfully if the person knows the required actions are not taking place.*

**Voluntary income tax withholding.** States must allow **unemployment compensation** recipients to elect to have Federal income tax withheld at a 10% rate in 2002. Recipients paid under the Railroad Unemployment Insurance Act may also elect withholding at a 10% rate in 2002.

Recipients of any of the following Federal payments may request Federal income tax withholding in 2002 at a rate of 7%, 10%, 15%, or 27%:

- Social security and Tier 1 railroad retirement benefits
- Certain crop disaster payments
- Commodity Credit Corporation loans

The payee may request withholding on **Form W-4V**, Voluntary Withholding Request, or you may develop your own form. Any voluntary withholding on these payments must be reported on Form 945 (and on Form 1099-G) and is subject to the deposit rules.

## Depositing Withheld Taxes

Deposit all nonpayroll (Form 945) income tax withholding, including backup withholding, using **Form 8109**, Federal Tax Deposit Coupon, at an authorized financial institution, unless you are required to use the EFTPS electronic deposit system (see below). Combine all Form 945 taxes for deposit purposes. **Do not** combine deposits for Form 941, 943, or CT-1 with deposits for Form 945. If you deposit using Form 8109, be sure to mark the checkbox for Form 945 on Form 8109.

Generally, the deposit rules that apply to Form 941 also apply to Form 945. However, because Form 945 is an annual return, the rules for determining your deposit schedule (discussed below) are different from those for Form 941. See section 11 of Circular E for a detailed discussion of the deposit rules.

**Determining your deposit schedule.** There are two deposit schedules—**monthly** or **semiweekly**—for determining when you must deposit withheld income tax. These schedules tell you when a deposit is due after a tax liability arises (i.e., you make a payment subject to income tax withholding, including backup withholding). Before the beginning of each calendar year, you must determine which of the two deposit schedules you must use.

For 2002, you are a monthly schedule depositor for Form 945 if the total tax reported on your 2000 Form 945 was \$50,000 or less. If the total tax reported for 2000 exceeded \$50,000, you are a semiweekly schedule depositor.



*If you are a monthly schedule depositor and accumulate a \$100,000 liability or more on any day during a calendar month, your deposit schedule changes to semiweekly for the remainder of the year and for the following year. See section 11 of Circular E for more information on the \$100,000 next-day deposit rule.*

**Electronic deposit requirement.** You must make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2002 if:

- The total deposits of such taxes in 2000 were more than \$200,000 or
- You were required to use EFTPS in 2001.

If you are required to use EFTPS and fail to do so, you may be subject to a 10% penalty. If you are not required to use EFTPS, you may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400.

## Specific Instructions

**State code.** If you made your deposits by FTD coupon or by using EFTPS in a state other than that shown in your address on Form 945, enter the state code for the state where you made deposits in the box provided in the upper left corner of the form. Use the Postal Service two-letter state abbreviation as the state code. Enter the code "MU" in the state code box if you deposit in more than one state. If you deposit in the same state as shown in your address, do not make an entry in this box.

**Final return.** If you go out of business or end operations and you will not be required to file Form 945 in the future, file a final return. Be sure to mark the final return

checkbox and enter the date final income payments were made above line 1.

**Line 1—Federal income tax withheld.** Enter the income tax you withheld from pensions, annuities, IRAs, military retirement, Indian gaming profits, and gambling winnings (regular gambling withholding only). Also enter any voluntary amount you withheld on certain government payments. If you are required to report income tax withholding on Forms 1099 (e.g., Form 1099-R) or Form W-2G, you must report the taxes withheld on Form 945. Income tax withholding reported on Form W-2 must be reported on Form 941, 943, or Schedule H (Form 1040), as appropriate.

**Line 2—Backup withholding.** Enter any backup withholding, including backup withholding on gambling winnings.

Regulated investment companies (RICs) and real estate investment trusts (REITs) must report any backup withholding on Form 945 in the year the dividends are actually paid. This includes January payments of dividends declared during October, November, and December of the prior year. (See the **2001 Instructions for Form 1099-DIV** for special reporting requirements.)

**Line 3—Adjustment to correct administrative errors.** You cannot make an adjustment on Form 945 to correct income tax withholding or backup withholding reported in a prior calendar year unless it is to correct an **administrative error**. An administrative error occurs if the amount you entered on Form 945 is not the amount you actually withheld. For example, if the total income tax actually withheld was incorrectly reported on Form 945 due to a math or transposition error, this is an administrative error. The administrative error adjustment corrects the amount reported on Form 945 to agree with the amount actually withheld from nonpayroll payments.

You must report an adjustment to correct an administrative error on Form 945 in the year in which you discover the error. If the net adjustment is negative (reducing your tax liability), enclose the amount reported on line 3 in parentheses.

You will not be allowed a refund or credit for any prior year overpayment of income tax that you withheld from a payee. This is because the payees use the amount of withholding shown on the information return (e.g., Form 1099-R) as a credit when filing their income tax returns.

If you are making an adjustment(s) to correct a prior year administrative error, report the net adjustment (including adjustments to income tax withholding and backup withholding) on line 3. Complete **Form 941c**, Supporting Statement To Correct Information, or an equivalent statement, and file it with Form 945 to provide the required information on the adjustment(s). Be sure to identify the adjustment(s) in the supporting statement (Part V of Form 941c) as correcting an administrative error and provide a description of the error(s). **Do not** file Form 941c separately from Form 945.

**Reporting adjustments on line 8 or on Form 945-A.** The amount of the adjustment(s) also must be taken into account in the monthly summary of Federal tax liability (line 8) or on **Form 945-A**, Annual Record of Federal Tax Liability. If the adjustment increases your tax liability, include the adjustment with any other amount on the entry space for the date you discovered the error. If the adjustment decreases your tax liability, use the adjustment amount as a credit to offset subsequent liabilities on line 8 or Form 945-A until it is used up. (See

section 13 of Circular E for more information. The Circular E instructions for making adjustments refer to Form 941 but also apply to Form 945 adjustments.)

**Note:** *If you are not required to complete line 8 or Form 945-A because your total taxes are less than \$2,500, do not show adjustments on line 8 or on Form 945-A.*

**Line 4—Total taxes.** Add lines 1 and 2 and add or subtract any net adjustment on line 3. If total taxes are \$2,500 or more, the amount reported on line 4 must equal the total liability for the year reported on line 8M of the Monthly Summary of Federal Tax Liability, or line M of Form 945-A.

**Line 5—Total deposits.** Enter the total Form 945 deposits for the year, including any overpayment applied from the prior year.

**Line 6—Balance due.** You do not have to pay if line 6 is under \$1. You should have a balance due only if your total taxes for the year (line 4) are less than \$2,500. (However, see section 11 of Circular E regarding payments made under the **Accuracy of Deposits** rule.) Enter your EIN, "Form 945", and "2001" on your check or money order and make it payable to the "United States Treasury". If line 4 is \$2,500 or more and you deposited all taxes when due, the amount on line 6 should be zero.



*If you fail to make required deposits (using EFTPS or Form 8109, as required) and instead pay these amounts with your return, you may be subject to a penalty.*

**Line 7—Overpayment.** If you deposited more than the correct amount for the year, you can have the overpayment refunded or applied to your next return by checking the appropriate box. The IRS may apply your overpayment to any past due tax account under your EIN. If line 7 is under \$1, we will send a refund or apply it to your next return only on written request.

**Line 8—Monthly summary of Federal tax liability.**

**Note:** *This is a summary of your monthly tax liability, not a summary of deposits made. If line 4 is less than \$2,500, do not complete line 8 or Form 945-A.*

Complete line 8 if you were a **monthly schedule depositor** for the entire year. (See **Determining your deposit schedule** on page 2).

Report your liabilities on Form 945-A instead of on line 8 if:

- You were a **semiweekly schedule depositor** during 2001. Do not complete entries A through M of line 8. Instead, complete and file Form 945-A with Form 945.
- You were a **monthly schedule depositor** for 2001 and during any month you accumulated nonpayroll taxes of \$100,000 or more. Because this converted you to a semiweekly schedule depositor for the remainder of 2001 and for 2002, you must report your liabilities on Form 945-A for the entire year. Do not complete entries A through M of line 8. (See section 11 of Circular E for more information on the **\$100,000 next-day deposit rule**.)

**Third party designee.** If you want to allow the IRS to discuss your 2001 Form 945 with a designated third party, complete the **Third-Party Designee** section of the return. The third-party designee may be either an employee of the business or an individual paid preparer. The designation must specify an individual and may not refer to your payroll office or a tax preparation firm. Also, enter that person's name, phone number, and any five digits that person chooses as his or her personal

identification number (PIN). By checking the "Yes" box, you are authorizing the IRS to call the designated employee or paid preparer to answer any questions that may arise during the processing of your return. You are also authorizing the designated person to:

- Give the IRS any information that is missing from your return,
- Call the IRS for information about the processing of your return, and
- Respond to certain IRS notices that you have shared with the third party designee about math errors, and return preparation. The notices will not be sent to the third-party designee.

You are not authorizing the designee to receive any refund check, bind you to anything (including additional tax liability), or otherwise represent you before the IRS. The designee authorization cannot be revoked. However, the authorization will automatically expire on the due date (without regard to extensions) for filing your 2002 Form 945.

If you want to expand the third-party designee's authorization, see **Pub. 947**, Practice Before the IRS and Power of Attorney.

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**Privacy Act and Paperwork Reduction Act Notice.**

We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to figure and collect the right amount of tax. Sections 3402, 3405, and 3406 of the Internal Revenue Code require taxpayers to pay over to the IRS income tax withheld from certain nonpayroll payments and distributions, including backup withholding. This form is used to

determine the amount of the taxes that you owe. Section 6011 requires you to provide the requested information if the tax applies to you. Section 6109 requires you to provide your employer identification number. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. We may also give the information to other countries under a tax treaty. If you fail to provide this information in a timely manner, you may be subject to penalties and interest.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 hr., 55 min.; **Learning about the law or the form**, 35 min.; and **Preparing and sending the form to the IRS**, 43 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this address. Instead, see **Where to file** on page 1.

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