

Chapter Three Withholding (CTW) – Privacy Impact Assessment

PIA Approval Date – Dec. 12, 2011

System Overview:

Chapter Three Withholding (CTW) is an application developed to process Form 1042–S, Foreign Person's U.S. Source Income Subject to Withholding and Form 1042–T, Annual Summary and Transmittal of Form 1042–S. The Chapter Three Withholding Project tracks withholding reporting on payments of U.S. source income to foreign persons. This data is shared with CTW customers, such as the Statistics of Income (SOI) and U.S. Competent Authority (International) or U.S. Organization for Economic Cooperation and Development (OECD). The CTW customers share this data with the Department of Treasury for statistical purposes, and this data is used as a negotiation tool with foreign countries to obtain information on U.S. persons earning foreign source income. Regulations under chapter 3 (1441–1464) and chapter 61 (6041–6050N) of the Code together with Revenue Procedure 2000–12, "Qualified Intermediary (QI) Revenue Procedure", represent a significant change in the way withholding taxes are collected and information is reported. The new regulations require both U.S. and foreign financial institutions to change their tax withholding and information reporting systems.

Systems of Records Notice (SORN):

- IRS 22.026--Form 1042–S, Index by Name of Recipient
- IRS 22.061--Information Return Master File
- IRS 34.037--IRS Audit Trail and Security Records System

Data in the System

1. Describe the information (data elements and fields) available in the system in the following categories:

A. Taxpayer:

- CTW processes, stores, and/or transmits Sensitive But Unclassified (SBU) and Privacy Act information that requires protection under the Privacy Act of 1974, listed in Section 2 below. Recipient name, address, income and tax withheld are examples of taxpayer data.
- Payer Information is captured and stored within the system and is identified by Name and Taxpayer Identification Number (TIN), The TIN is optional.
- Form 1042–S Foreign Person's U. S. Source Income Subject to Withholding captures recipient and withholding agent data, as listed in Section 2 below.
- Form 1042–T Annual Summary and Transmittal of Form 1042–S references several Form 1042–S's and contains aggregate data, not individual taxpayer data.
- Withholding information about recipients for which monies are withheld may include recipient TIN (not required), recipient name, street, city, state, postal code and sometimes even by province and country code.
- Qualified Intermediaries (QI) and Non–Qualified Intermediaries (NQI) entity TIN, QI/NQI entity name, street, city, state, postal code and sometimes even by province and country code.
- Transmitter data is captured and stored within the CTW application and may be identified by Transmitter Control Code (TCC), transmitter name, street, city, state and postal code.

- B. Audit Trail Information – The Modernization & Information Technology Services (MITS)–24 GSS, on which CTW resides, and the CTW database collect the audit information. For audit trail purposes the manager is able to retrieve the SEID of the Tax Examiner involved in error correction.

2. Describe/identify which data elements are obtained from files, databases, individuals, or any other sources.

- A. IRS – CTW receives 1042–S and 1042–T data from the Integrated Submission and Remittance Processing (ISRP) application and the Filing Information Returns Electronically (FIRE) application via Electronic File Transfer Utility (EFTU). This includes:

- Withholding Agent EIN Employer Identification Number (EIN)
- Withholding Agent name
- Withholding Agent Street address
- Withholding Agent City
- Withholding Agent State
- Withholding Agent Postal Code
- Withholding Agent Province
- Withholding Agent Country Code
- Recipient TIN, if applicable
- Recipient Name
- Recipient Street
- Recipient City
- Recipient State
- Recipient Postal Code
- Recipient Province
- Recipient Country Code

- B. Taxpayer – Taxpayer information, collected from the IRS Forms 1042–S and 1042–T, is placed on the CTW database. This includes:

- Withholding Agent EIN
- Withholding Agent name
- Withholding Agent Street address
- Withholding Agent City
- Withholding Agent State
- Withholding Agent Postal Code
- Withholding Agent Province
- Withholding Agent Country Code
- Recipient TIN, if applicable
- Recipient Name
- Recipient Street
- Recipient City
- Recipient State
- Recipient Postal Code
- Recipient Province
- Recipient Country Code

- C. Employee – The MITS–24 GSS, on which CTW resides, and the CTW database collect the employee log-in (i.e., Standard Employee Identifier (SEID) and password) and audit information. The manager of the Tax Examiners involved in CTW processing in Ogden is able

to retrieve the SEID of the Tax Examiner involved in the error correction of each record for quality control purposes. This data is not maintained beyond the filing season.

- D. Other Federal Agencies – Federal agencies submit withholding data to the CTW application through the FIRE application. Other federal agencies that submit withholding data are Social Security Administration (SSA) and the Railroad Retirement Board (RRB).
- E. Other Third Party Sources – Withholding agents supply taxpayer withholding data to CTW via the Internal Revenue Service (IRS) FIRE application. A withholding agent is a U.S. or foreign person that has control, receipt, custody, disposal, or payment of any item of income of a foreign person that is subject to withholding. A withholding agent may be an individual, corporation, partnership, trust, association, or any other entity, including any foreign intermediary, foreign partnership, or United States branch of certain foreign banks and insurance companies.

3. Is each data item required for the business purpose of the system? Explain.

Yes, each data item is required for the business purpose of the system. The data in CTW from the 1042-S and 1042-T forms are required to track withholding reporting on payments of U.S. source income to foreign persons.

4. How will each data item be verified for accuracy, timeliness, and completeness?

Data submitted electronically is verified by initial 1042-S and 1042-T processing on the consolidated UNISYS. If fatal error checks are passed, valid data proceeds through the system. If the fatal error tests fail, data will be returned to the filer for correction and resubmission. The CTW-01 program run performs consistency and validity checks on the data. Data submitted on paper is analyzed by the Code and Edit personnel at the service center. Instructions must be followed as stated in the Internal Revenue Manual (IRM) (3.21.111) before data is allowed to enter the CTW application. The CTW-03 and CTW-09 program runs perform consistency, validity and math error checks on the data.

5. Is there another source for the data? Explain how that source is or is not used.

No. There is not another source for the data.

6. Generally, how will data be retrieved by the user?

The data is generally retrieved through user queries combining the Document Locator Number (DLN) and either the tax year or the recipient name. Queries can also combine the tax year and withholding agent name. (Error and Junk data is retrievable by DLN only). Valid data can be retrieved only (cannot be modified).

7. Is the data retrievable by a personal identifier such as name, SSN, or other unique identifier?

Yes. Data is retrieved by tax year and DLN, tax year and recipient name, or tax year and withholding agent name.

Access to the Data

8. Who will have access to the data in the system (Users, Managers, System Administrators, Developers, Others)?

Role: Users (Managers and Tax Examiners) at the Ogden Submission Processing Center, Error Resolution Function

Permission: Access to the data

Role: System Administrators (SA)

Permission: Read/write access to the operating system to perform scheduled maintenance and other regular administrator duties

Role: Database Administrators (DBA)

Permission: Read/write access to all application data to perform regular database maintenance duties

Role: Statistics of Income Coordinator

Permission: Receives statistical data from CTW

Role: Large Business and International (LB&I)

Permission: Receives a Compact Disk (CD) that contains data extracts from the database, which are specific to each country with whom the U.S. has a treaty agreement; these CDs are then sent to these international partners by LB&I. LB&I does not have access to CTW database.

Role: CTW Functional Security Coordinator at TCC

Permission: Adds and deletes users to CTW according to Online Form 5081 authorization

Role: Business Unit Point of Contact

Permission: Access to the application, database, and data

Note: Contractors do not have access to the data.

9. How is access to the data by a user determined and by whom?

Access to the CTW application is determined by their job responsibilities and access is authorized using an Online Form 5081, Information System User Registration/Change Request. A user's access to the application is terminated when it is no longer required. The Online Form 5081 process requires management approval prior to granting access to the CTW application.

10. Do other IRS systems provide, receive, or share data in the system? If YES, list the system(s) and describe which data is shared.

Yes. Other IRS systems provide, receive, or share data with the CTW application.

- Filing Information Returns Electronically (FIRE) – CTW receives 1042–S and 1042–T information that was electronically submitted. CTW receives the data from FIRE via EFTU.
- Integrated Submission and Remittance Processing (ISRP) – CTW receives 1042–S and 1042–T information that was submitted on paper and transcribed. CTW receives the data from ISRP via Electronic File Transfer Utility (EFTU).
- Information Returns Processing (IRP) Information Returns Master File (IRMF) – CTW sends 1042–S valid and perfected data posts to IRMF.
- Payer Master File (PMF) – CTW sends 1042–T valid and perfected data posts to IRMF.
- Statistics of Income Distributed Processing System (SOI DPS) – At the end of the processing year 1042S and 1042T data is downloaded to the SOI application.
- e–Trak Non–Resident Filer (NRF) – The e–Trak NRF system within the Office of International Foreign Payments receives weekly extracts of 1042S data for credit verification of non–resident filers.

11. Have the IRS systems described in Item 10 received an approved Security Certification and Privacy Impact Assessment?

Yes.

Filing Information Returns Electronically (FIRE)

- Security Assessment & Authorization (SA&A) – May 28, 2009
- Privacy Impact Assessment (PIA) – February 23, 2009, and is currently undergoing re-certification.

Integrated Submission and Remittance Processing (ISRP)

- Security Assessment & Authorization (SA&A) – September 22, 2011
- Privacy Impact Assessment (PIA) – May 3, 2011

Information Returns Processing (IRP) Information Returns Master File (IRMF)

- Security Assessment & Authorization (SA&A) – March 8, 2010
- Privacy Impact Assessment (PIA) – July 13, 2011

Payer Master File (PMF)

- Security Assessment & Authorization (SA&A) – March 29, 2010
- Privacy Impact Assessment (PIA) – October 23, 2009

Statistics of Income Distributed Processing System (SOI DPS)

- Security Assessment & Authorization (SA&A) – May 7, 2009
- Privacy Impact Assessment (PIA) – April 18, 2011

e-Trak Non-Resident Filer (NRF)

- Security Assessment & Authorization (SA&A) – May 4, 2009
- Privacy Impact Assessment (PIA) – May 12, 2011

12. Will other agencies provide, receive, or share data in any form with this system?

Yes, SSA and RRB provide data through the FIRE application. Other agencies may have access to the data as part of security reviews, audits, or required assessments conducted on this system.

Government Accountability Office (GAO), Treasury Inspector General for Tax Administration (TIGTA), and other agencies or functions may require access as part of their official oversight audit responsibilities.

Organization for Economic Cooperation and Development (OECD): The U.S.

Competent Authority (International) receives information in these general categories: recipient name, address and TIN, withholding agent's country and TIN, actual payer's name, address, TIN, gross and net income, gross and net income currency, tax year, payment type, tax withheld and tax withheld currency. The U.S. Competent Authority produces Compact Disks (CDs) with data specific to each country with whom the U.S. has a treaty agreement; these CDs are then sent to these international partners by LB&I.

Administrative Controls of Data

13. What are the procedures for eliminating the data at the end of the retention period?

CTW is unscheduled. IRS recently submitted a request for records disposition authority for CTW and associated records to the National Archives and Records Administration (NARA). When approved by NARA, disposition instructions for CTW inputs, system data and documentation will be published IRM 1.15.19 Records Control Schedule for the Enterprise Computing Center – Martinsburg (ECC – MTB), Item 89. CTW is designed to correct Form 1042-T and 1042-S records that have failed validity,

consistency checks, or math error computations. Unresolved electronic 1042–S information records are to be moved to the 1042–S “Junk” Table, and destroyed on or after January 15 of the year after processing. Backup tapes of resolved and corrected 1042–S information records are to be destroyed 6 years after year of processing. The Service Level Agreement Document between Wage and Investment (W&I), as the primary Business Unit responsible for the data collected and TCC, the production site, document the nightly database export procedures, as well as, offline storage/data archiving–backups procedures. The Technical Contingency Planning Document (TCPD) contains information concerning offline storage and the company that is responsible for it.

14. Will this system use technology in a new way?

No. Technology will not be used in a new way.

15. Will this system be used to identify or locate individuals or groups? If so, describe the business purpose for this capability.

No. This system will not be used to identify or locate individuals or groups.

16. Will this system provide the capability to monitor individuals or groups? If yes, describe the business purpose for this capability and the controls established to prevent unauthorized monitoring.

No. This system does not provide the capability to monitor individuals or groups.

17. Can use of the system allow IRS to treat taxpayers, employees, or others, differently?

No the system will not allow IRS to treat taxpayers, employees, or others differently. All Forms 1042–S and 1042–T filed by taxpayers are processed through CTW. All taxpayers are treated equally. The employees profile number is entered into the system as the user for audit trail purposes. All employees are treated equally. It is unlikely that disparate treatment of individuals or groups will occur.

18. Does the system ensure "due process" by allowing affected parties to respond to any negative determination, prior to final action?

Yes. The CTW system performs validation/error checks of tax treaty rates and corrects any incorrect reporting. When data is posted to the Masterfile, taxpayers have the right to appeal any determination made by the IRS. When applicable, the taxpayer is advised of their statutory appeal rights as a result of the IRMF and PMF applications.

19. If the system is web–based, does it use persistent cookies or other tracking devices to identify web visitors?

No. The system uses Oracle Web Services and is configured so that cookies are not maintained.

[View other PIAs on IRS.gov](#)