

MEMO# 13597

June 6, 2001

NEW TAX ACT REDUCES BACKUP WITHHOLDING RATE

[13597] June 6, 2001 TO: OPERATIONS MEMBERS No. 14-01 TAX MEMBERS No. 16-01 TRANSFER AGENT ADVISORY COMMITTEE No. 42-01 RE: NEW TAX ACT REDUCES BACKUP WITHHOLDING RATE The tax legislation that will be signed into law on June 7 (the "Economic Growth and Tax Relief Reconciliation Act of 2001" or "the Act") reduces the rate of tax at which backup withholding is imposed under Internal Revenue Code section 3406 to reflect the Act's individual income tax rate reductions. Specifically, section 101(c)(10) of the Act replaces "31 percent" in Code section 3406(a)(1) with "equal to the product of the fourth lowest rate of tax applicable under section 1(c) and such payment." The change is effective for payments made more than 60 days following the date of enactment. The effect of the Act will be to apply backup withholding to amounts paid after August 6, 2001 (which is the 60th day after June 7) through the end of 2001 at a rate of 30.5 percent. Thereafter, the backup withholding rate is reduced: to 30 percent, for amounts paid during 2002 and 2003; to 29 percent, for amounts paid during 2004 and 2005; and to 28 percent, for amounts paid during 2006 through 2010. Pursuant to the Act's "sunset" provision (section 901 of the Act), the backup withholding rate reductions are repealed at the end of 2010, which results in the backup withholding rate returning to 31 percent on January 1, 2011, unless the Code is modified further. Keith Lawson Senior Counsel

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