Internal Revenue Service, Treasury

§ 31.3406(b)(4)–1 Exemption for certain minimal payments.

(a) In general. A payor of reportable interest or dividends (as described in section 3406(b)(2)) or of royalties (as described in section 3406(b)(3)(E)) may elect not to withhold from payments that do not exceed $10 and that on an annualized basis does not exceed $10 (see paragraph (c) of this section). A broker or barter exchange may elect not to withhold on gross proceeds of $10 or less without regard to the annualization requirement. See §31.6051–4 for the requirement to furnish a statement to the payee if tax is withheld under section 3406.

(b) Manner of making the election. The election not to withhold from payments that do not exceed $10 can be made only for payments described in paragraph (a) of this section. The election may be made on a payment-by-payment basis.

(c) How to annualize—(1) In general. To annualize a reportable interest payment, dividend payment, or royalty payment, a payor must calculate what the amount of the payment would be if it were paid for a 1-year period (instead of the period for which it actually is paid). The annualized amount is determined by dividing the amount of the payment by the number of days in the period for which it is being paid and then multiplying that result by the number of days in the year. If the annualized amount is $10 or less, the payor may elect not to withhold on

§31.3406(b)–3 Reportable payments by certain fishing boat operators.

(a) Payments subject to backup withholding. A payment of a kind, and to a payee, that is required to be reported under section 6050A (relating to information reporting by certain fishing boat operators) is a reportable payment for purposes of section 3406. See §31.6051–4 for the requirement to furnish a statement to the payee if tax is withheld under section 3406.

(b) Amount subject to backup withholding. The determination of whether a short sale is subject to withholding under section 3406 must be made on the date of the initiation or closing, as the case may be, or on the date that the initiation or closing, as the case may be, is entered on the broker’s books and records.

(5) Fractional shares. A broker is not required to withhold under section 3406 with respect to a sale of a fractional share of stock resulting in less than $20 of gross proceeds (as described in §5f.6045–1(c)(3)(X) of this chapter).


§31.3406(b)(3)–4 Reportable payments of royalties.

(a) Royalty payments subject to backup withholding. A payment of a kind, and to a payee, that is required to be reported under section 6050N (relating to

information reporting of payments of royalties) is a reportable payment for purposes of section 3406. See §31.6051–4 for the requirement to furnish a statement to the payee if tax is withheld under section 3406.