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## IRS Issues Proposed Regulations on Designated Distribution Withholding

The IRS has issued proposed Treasury Regulations (<https://www.federalregister.gov/documents/2019/05/31/2019-11292/withholding-on-certain-distributions-under-section-3405a-and-b>) on required withholding against certain periodic and nonperiodic payments under Section 3405. (Section references are to the Internal Revenue Code of 1986, as amended.) Section 3405 requires the payor of any periodic or nonperiodic designated distribution to withhold income tax from such payment or distribution. Generally, a designated distribution is any distribution or payment from or under an employer deferred compensation plan (including any pension, annuity, profit sharing or stock plan), an individual retirement plan, or a commercial annuity (including an annuity, endowment or life insurance contract). Individuals may elect for the required withholding under Section 3405 to not apply. However, such an election may not be made with respect to certain payments delivered outside of the United States, unless such individual can make certain certifications to the payor. Notice 87-7 ([https://www.stradley.com/-/media/files/publications/2019/06/notice\\_87\\_7\\_1987\\_1\\_cb\\_420\\_irc\\_sec\\_s\\_3405.pdf?la=en&hash=7329583143EEC427865E351198C5390C](https://www.stradley.com/-/media/files/publications/2019/06/notice_87_7_1987_1_cb_420_irc_sec_s_3405.pdf?la=en&hash=7329583143EEC427865E351198C5390C)) provided additional guidance regarding required withholding against payments delivered outside of the United States. The proposed Treasury regulations generally accept the guidance under Notice 87-7 and provide additional clarification regarding designated distributions that are subject to tax treaty. Specifically, the proposed Treasury regulations (1) provide that an army post office, a Navy fleet post office or diplomatic post office address is an address located within the United States; (2) require withholding in certain circumstance when a payee provides a United States residence address but provides payment instructions indicating that the funds are to be delivered outside of the United States; and (3) require withholding when an individual provides a residence address outside of the United States or if a payee provides an address for its nominee, trustee or agent, but not a residence address for itself.

## IRS LB&I Releases Practice Unit on Transaction Costs in a Corporate Separation

The IRS Large Business and International (LB&I) Division has released a Practice Unit ([https://www.irs.gov/pub/int\\_practice\\_units/CDA\\_T\\_225\\_04\\_02.pdf](https://www.irs.gov/pub/int_practice_units/CDA_T_225_04_02.pdf)) on the treatment of transaction costs in a divisive corporate transaction (i.e., a spinoff, split-off or split-up) under Section 355. The Practice Unit discusses the treatment of transaction costs when a taxpayer engages in a corporate separation, including (1) costs that facilitate the separation transaction, (2) facilitative costs the distributing corporation capitalized when it acquired the controlled corporation's stock in a tax-free transaction, and (3) facilitative costs the controlled corporation capitalized when the distributing corporation acquired its stock.

## Virginia Department of Taxation Announces July 1 Registration Date for Remote Sellers

The Virginia Department of Taxation announced that due to recently enacted economic nexus legislation remote sellers and marketplace facilitators who meet the new economic nexus standards are required to register with the Department to begin collecting sales tax starting July 1. Taxpayers should review the guidelines ([https://townhall.virginia.gov/L/GetFile.cfm?File=C:%5CTownHall%5Cdocroot%5CGuidanceDocs\\_Proposed%5C161%5CGDoc\\_TAX\\_2059\\_20190507.pdf](https://townhall.virginia.gov/L/GetFile.cfm?File=C:%5CTownHall%5Cdocroot%5CGuidanceDocs_Proposed%5C161%5CGDoc_TAX_2059_20190507.pdf)) issued by the Department that discuss the requirements for nexus, sourcing rules, registration and available waivers. (See our prior coverage here <https://www.stradley.com/insights/publications/2019/05/tax-insights-may-29-2019>.)