

- <sup>a</sup> No U.S. tax is imposed on a percentage of any dividend paid by a U.S. corporation that received at least 80% of its gross income from an active foreign business for the 3-year period before the dividend is declared. (See sections 871(i)(2)(B) and 881(d) of the Internal Revenue Code.)
- <sup>b</sup> The reduced rate applies to dividends paid by a subsidiary to a foreign parent corporation that has the required percentage of stock ownership. In some cases, the income of the subsidiary must meet certain requirements (e.g. a certain percentage of its total income must consist of income other than dividends and interest). In the case of Italy, the reduced rate is 10% if the foreign corporation owns 10% to 50% of the voting stock (for a 12-month period) of the company paying the dividends.
- <sup>c</sup> The exemption or reduction in rate applies only if the recipient is subject to tax on this income in the country of residence. Otherwise a 30% rate applies.
- <sup>d</sup> Exemption does not apply to U.S. Government (federal, state, or local) pensions and annuities; a 30% rate applies to these pensions and annuities. U.S. government pensions paid to an individual who is both a resident and national of China, Denmark, Estonia, Finland, Hungary, India, Ireland, Latvia, Lithuania, Luxembourg, Mexico, The Netherlands, Portugal, Russia, South Africa, Spain, Switzerland, Thailand, Turkey, the United Kingdom, or Venezuela are exempt from U.S. tax. U.S. government pensions paid to an individual who is both a resident and citizen of Kazakhstan, New Zealand, or Sweden are exempt from U.S. tax.
- <sup>e</sup> No withholding is required on capital gains other than those listed earlier under *Capital Gains*, even if the gain is subject to U.S. tax.
- <sup>f</sup> Includes alimony.
- <sup>g</sup> The exemption or reduction in rate does not apply if the recipient has a permanent establishment in the United States and the property giving rise to the income is effectively connected with this permanent establishment. Under certain treaties, the exemption or reduction in rate also does not apply if the property giving rise to the income is effectively connected with a fixed base in the United States from which the recipient performs independent personal services. Even with the treaty, if the income is not effectively connected with a trade or business in the United States by the recipient, the recipient will be considered as not having a permanent establishment in the United States under IRC section 894(b).
- <sup>h</sup> The exemption or reduction in rate does not apply if the recipient is engaged in a trade or business in the United States through a permanent establishment that is in the United States. However, if the income is not effectively connected with a trade or business in the United States by the recipient, the recipient will be considered as not having a permanent establishment in the United States for the purpose of applying the reduced treaty rate to that item of income. IRC section 894(b).
- <sup>i</sup> The rate is 5% for royalties on the use of any copyright of literary, artistic, or scientific work, including software.
- <sup>j</sup> Exemption is not available when paid from a fund, under an employees' pension or annuity plan, if contributions to it are deductible under U.S. tax laws in determining taxable income of the employer.
- <sup>k</sup> Exemption from or reduction in rate of tax does not apply to income of holding companies entitled to special tax benefits under the laws of Luxembourg.
- <sup>l</sup> Annuities that were purchased while the annuitant was not a resident of the United States are not taxable in the United States. The reduced rate applies if the distribution is not subject to a penalty for early withdrawal.
- <sup>m</sup> Contingent interest that does not qualify as portfolio interest is treated as a dividend and is subject to the rates under income codes 6 and 7, as appropriate.
- <sup>n</sup> The exemption applies only to interest on credits, loans, and other indebtedness connected with the financing of trade between the United States and C.I.S. member countries. It does not include interest from the conduct of a general banking business.
- <sup>o</sup> The exemption applies only to gains from the sale or other disposition of property acquired by gift or inheritance.
- <sup>p</sup> The exemption does not apply if the recipient was a resident of the United States when the pension was earned or when the annuity was purchased.
- <sup>q</sup> Annuities paid in return for other than the recipient's personal services are exempt.
- <sup>r</sup> Generally, if the property was owned by the Canadian resident on September 26, 1980, not as part of the business property of a permanent establishment or fixed base in the U.S., the taxable gain is limited to the appreciation after 1984. Capital gains on personal property not belonging to a permanent establishment or fixed base of the taxpayer in the U.S. are exempt.
- <sup>s</sup> The reduced rate for royalties with respect to tangible personal property is 7%.
- <sup>t</sup> Does not apply to annuities. For Denmark, annuities are exempt.
- <sup>u</sup> Withholding at a special rate may be required on the disposition of U.S. real property interests. See *U.S. Real Property Interest* earlier in this publication.
- <sup>v</sup> Tax imposed on 70% of gross royalties for rentals of industrial or scientific equipment.
- <sup>w</sup> The rate in column 6 applies to dividends paid by a regulated investment company (RIC) or a real estate investment trust (REIT). However, that rate applies to dividends paid by a REIT only if the beneficial owner of the dividends is an individual holding less than a 10% interest (25% in the case of the Netherlands, Portugal, Spain, Thailand, and Tunisia) in the REIT.
- <sup>x</sup> Royalties not taxed at the 5% or 8% rate are taxed at a 10% rate, unless footnote (g) applies.
- <sup>y</sup> The exemption does not apply to contingent interest that does not qualify as portfolio interest. Generally, this is interest based on receipts, sales, income, or changes in the value of property.
- <sup>z</sup> The rate is 10% if the interest is paid on a loan granted by a bank or similar financial institution. For Thailand, the 10% rate also applies to interest from an arm's length sale on credit of equipment, merchandise, or services.
- <sup>aa</sup> This is the rate for royalties for the use of, or the right to use, industrial, commercial, and scientific equipment. The rate for royalties for information concerning industrial, commercial and scientific know-how is subject to the rate in column 12, but use Income Code 10 for reporting purposes.
- <sup>bb</sup> Exemption applies to U.S. Government (federal, state, or local) pensions only if the individual is both a resident and national of France and is not a U.S. national.
- <sup>cc</sup> The exemption does not apply to cinematographic films, or works on film, tape, or other means of reproduction for use in radio or television broadcasting.
- <sup>dd</sup> Under some treaties, the reduced rates of withholding may not apply to a foreign corporation unless a minimum percentage of its owners are citizens or residents of the United States or the treaty country.
- <sup>ee</sup> Exemption or reduced rate does not apply to an excess inclusion for a residual interest in a real estate mortgage investment conduit (REMIC).
- <sup>ff</sup> The rate in column 6 applies to dividends paid by a regulated investment company (RIC). Dividends paid by a real estate investment trust (REIT) are subject to a 30% rate.
- <sup>gg</sup> Under the treaty the exemption or reduction in rate does not apply if the recipient has a permanent establishment in the U.S. and the income is effectively connected with this permanent establishment. Instead, tax is not withheld at source and the provisions of Article 8 (Business Profits) apply. Additionally, even if interest income is not effectively connected with a U.S. permanent establishment, the recipient may choose to treat net interest income as industrial or commercial profits subject to Article 8 of the treaty.
- <sup>hh</sup> The rate is 4.9% for interest derived from (1) loans granted by banks and insurance companies and (2) bonds or securities that are regularly and substantially traded on a recognized securities market. The rate is 10% for interest not described in the preceding sentence and paid (i) by banks or (ii) by the buyer of machinery and equipment to the seller due to a sale on credit.
- <sup>ii</sup> The exemption does not apply if (1) the recipient was a U.S. resident during the 5-year period before the date of payment, (2) the amount was paid for employment performed in the United States, and (3) the amount is not a periodic payment, or is a lump-sum payment in lieu of a right to receive an annuity.
- <sup>jj</sup> The rate is 15% for contingent interest that does not qualify as portfolio interest. Generally, this is interest based on receipts, sales, income, or changes in the value of property.
- <sup>kk</sup> The rate is 15% for interest determined with reference to (a) receipts, sales, income, profits or other cash flow of the debtor or a related person, (b) any change in the value of any property of the debtor or a related person, or (c) any dividend, partnership distribution or similar payment made by the debtor to a related party.
- <sup>ll</sup> The rate is 4.95% if the interest is beneficially owned by a financial institution (including an insurance company).
- <sup>mmm</sup> The rate in column 6 applies to dividends paid by a regulated investment company (RIC) or real estate investment trust (REIT). However, that rate applies to dividends paid by a REIT only if the beneficial owner of the dividends is (a) an individual holding not more than a 10% interest in the REIT, (b) a person holding not more than 5% of any class of the REIT's stock and the dividends are paid on stock that is publicly traded, or (c) a person holding not more than a 10% interest in the REIT and the REIT is diversified.
- <sup>nn</sup> Generally, if the person was receiving pension distributions before March 31, 2000, the distributions continue to be exempt from U.S. tax.
- <sup>oo</sup> The rate is 15% for interest determined with reference to the profits of the issuer or one of its associated enterprises.