

Supplemental Tables of Income Tax Rates and Exempt Personal Service Income Under New Income Tax Treaties and Protocols

Announcement 96-12

The United States recently exchanged instruments of ratification for new income tax treaties with France, Portugal, and Sweden. The United States also exchanged instruments of ratification for new protocols with Canada and Mexico. The effective dates are as follows:

Canada. The provisions for taxes withheld on interest, dividends, royalties, and pensions and annuities (other than social security benefits) are effective for amounts paid or credited after December 31, 1995. For other taxes, and for taxes withheld on social security benefits, the provisions are effective for tax years beginning after 1995.

France. The provisions for taxes withheld on interest, dividends, and royalties are effective for amounts paid or credited after February 1, 1996. For other taxes, the provisions are effective for tax periods beginning on and after January 1, 1996.

Mexico. The provisions under the new protocol are effective October 26, 1995.

Portugal. The provisions of the new treaty for taxes withheld at source are effective for amounts paid or credited on or after January 1, 1996. For other taxes, the new treaty is effective for taxable years beginning on or after January 1, 1996.

Sweden. The provisions of the new treaty for taxes withheld at source are effective for amounts paid or credited on or after January 1, 1996. For other

taxes, the new treaty is effective for taxable years beginning on or after January 1, 1996.

The Internal Revenue Service prepared Tables 1 and 2 below, as an aid in determining the taxability of certain types of income. Table 1 lists tax rates for investment income such as divi-

dends, interest, and royalties. Table 2 lists the different kinds of personal service income that may be fully or partially exempt from U.S. tax. Mexico is not included because the protocol does not change any income tax provisions.

These tables are similar in format to

Tables 1 and 2 in the 1995 editions of Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations*, and Publication 901, *U.S. Tax Treaties*. Taxpayers and withholding agents may use these tables until the Service revises Publications 515 and 901.

Table 1. Tax Rates for 1996 on Income Other Than Personal Service Income Under Chapter 3, Internal Revenue Code, and Income Tax Treaties

Income Code Number		1	2	3	6	7	9	10	11	12	13	14	21
Country of Residence of Payee					Dividends Paid by:					Copyright Royalties ^a			
Name	Code	Interest Paid by U.S. Obligors General ^{a,d}	Interest on Real Property Mortgages ^{a,d}	Interest Paid to a Controlling Foreign Corporation ^{a,d}	U.S. Corporation General ^{a,b,d}	U.S. Subsidiary to Foreign Parent Corporation ^{a,b,d}	Capital Gains ^a	Industrial Royalties ^{a,d}	Motion Pictures and Television ^d	Other ^d	Real Property Income and Natural Resources Royalties ^c	Pensions and Annuities	Social Security Payment ^f
Canada	CA	10	10 ^j	10	15 ^e	6 ^e	30 ^k	0	10	0	30	15	30
France	FR	0	0 ^j	0	15 ^e	5 ^e	0 ^{d,g}	5	0	0	30	0 ^{f,h}	30
Portugal	PO	10	10 ^j	10	15 ^e	15 ^e	0 ^{d,g}	10	10	10	30	0 ^{h,i}	30
Sweden	SW	0	0 ^j	0	15 ^e	15 ^e	0 ^{d,g}	0	0	0	30	0 ^h	30

^aUnder 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.

^bNo 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.)

^cWithholding at a different rate may be required on the disposition of a U.S. real property interest. See Publication 515.

^dThe 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. 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, the recipient will be considered as not having a permanent establishment in the United States under section 894(b) of the Internal Revenue Code.

^eThe rate in column 6 applies to dividends paid by a regulated investment company (RIC) or real estate investment trust (REIT). However, the reduced 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 Portugal) in the REIT.

^fA U.S. government pension paid to an individual who is a resident and a national of France and who is not a U.S. national is exempt from tax.

^gExemption does not apply to gains from the sale of U.S. real property. For the withholding tax rate on the sale of U.S. real property, see Publication 515.

^hExemption does not apply to U.S. government (federal, state, or local) pensions and annuities; a 30% rate applies to these pensions and annuities. A U.S. government pension paid to an individual who is either (a) a resident and national of Portugal, or (b) a resident and citizen of Sweden is exempt from tax.

ⁱIncludes alimony.

^jExemption or reduced rate does not apply to an excess inclusion for a residual interest in a real estate mortgage investment conduit (REMIC).

^kGenerally, 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.

^lApplies to 85% of the social security payments received from the U.S. government. The effective rate on the total social security payments received is 85% of the rate shown in the table. These rates also apply to the social security equivalent portion of tier 1 railroad retirement benefits (income code 22) received from the U.S. The remainder of tier 1, all of tier 2, dual, and supplemental railroad retirement benefits (income code 23) are taxed as shown in column 14 of this table.

Table 2. Compensation for Personal Services Performed in United States Exempt from Withholding and U.S. Income Tax Under Income Tax Treaties

Country (1)	Code (2)	Category of Personal Services	Maximum Presence in U.S. (4)	Required Employer or Payer (5)	Maximum Amount of Compensation (6)	Treaty Article Citation (7)
		Purpose (3)				
Canada	16	Independent personal services ²	No limit	Any contractor	No limit ³	XIV
	17	Dependent personal services	No limit	Any U.S. or foreign resident	\$10,000	XV
	19	Studying and training: Remittance or allowances ¹⁵	183 days	Any foreign resident ⁵	No limit ³	XV
				No limit	Any foreign resident	No limit
France	15	Scholarship or fellowship grant ¹¹	5 yrs. ¹²	Any U.S. or foreign resident ⁷	No limit	21(1)
	16	Independent personal services ²	No limit	Any contractor	No limit	14
		Public entertainment	No limit	Any contractor	\$10,000 ⁸	17
	17	Dependent personal services ^{5,9}	183 days	Any foreign resident	No limit	15
		Public entertainment	No limit	Any U.S. or foreign resident	\$10,000 ⁸	17
	18	Teaching ^{6,13}	2 yrs. ¹²	U.S. educat'l or research inst.	No limit	20
	19	Studying and training: ⁶ Remittances or allowances Compensation during study or training	5 yrs. ¹²	Any foreign resident	No limit	21(1)
		Compensation while gaining experience	12 consec. mos. 5 yrs. ¹²	French resident Other foreign or U.S. resident	\$8,000 \$5,000 p.a.	21(2) 21(1)
Portugal	15	Scholarship or fellowship grant ¹¹	5 yrs.	Any U.S. or foreign resident ⁷	No limit	23(1)
	16	Independent personal services ²	182 days	Any contractor	No limit	15
		Public entertainment	No limit	Any contractor	\$10,000 p.a. ⁸	19
	17	Dependent personal services ^{5,9}	182 days	Any foreign resident	No limit	16
		Public entertainment	No limit	Any U.S. or foreign resident	\$10,000 p.a. ⁸	19
	18	Teaching ^{6,14}	2 yrs.	U.S. educational institution	No limit	22
	19	Studying and training: ⁶ Remittances or allowances Compensation during study or training	5 yrs	Any foreign resident	No limit	23(1)
		Compensation while gaining experience	12 consec. mos. 5 yrs.	Portuguese resident Other foreign or U.S. resident	\$8,000 \$5,000 p.a.	23(2) 23(1)
Sweden	16	Independent personal services ²	No limit	Any contractor	No limit	14
	20	Public entertainment	No limit	Any contractor	\$6,000 ⁴	18
	17	Dependent personal services ^{5,9}	183 days	Any foreign resident	No limit	15
	20	Public entertainment	No limit	Any U.S. or foreign resident	\$6,000 ⁴	18
	19	Studying and training: Remittance or allowances ¹⁵	No limit	Any foreign resident	No limit	21

¹Refers to income codes described in Publication 515 and to be reported on Forms 1042-S.

²Exemption does not apply to the extent income is attributable to the recipient's fixed U.S. base.

³For public entertainers, the exemption does not apply if the gross receipts, including reimbursement, are more than \$15,000 for the calendar year.

⁴Exemption does not apply if gross receipts (including reimbursements) exceed this amount during any 12-month period.

⁵Exemption does not apply if the employee's compensation is borne by a permanent establishment or a fixed base that the employer has in the United States.

⁶Does not apply to compensation for research work primarily for private benefit.

⁷Grant must be from a nonprofit organization.

⁸Exemption does not apply if gross receipts (or compensation for Portugal), including reimbursements, exceed this amount. Income is

fully exempt if visit to the United States is substantially supported by public funds of the treaty country or its political subdivisions or local authorities.

⁹Does not apply to fees of a foreign director of a U.S. corporation.

¹⁰Applies only if training or experience is received from a person other than alien's employer.

¹¹Does not apply to payments from the National Institutes of Health (NIH) under its Visiting Associate Program and Visiting Scientist Program.

¹²The combined period of benefits under Articles 20 and 21(1) cannot exceed 5 years.

¹³Exemption does not apply if the individual previously claimed the benefit of this Article.

¹⁴Exemption does not apply if the individual either (a) previously claimed the benefit of this Article, or (b) during the immediately preceding period, claimed the benefit of Article 23. The benefits under Articles 22 and 23 cannot be claimed at the same time.

¹⁵Applies only to full-time student or trainee.