

U.S. Sourced Income

If you are not a U.S. citizen or US legal permanent resident alien (commonly known as “Green Card holders”) and you do not meet the substantial presence test, generally you are a nonresident alien (NRA) by the IRS for U.S. tax purposes. Unlike U.S. taxpayers, you are not required to pay US tax on incomes that you received from non-U.S. sources. However, you do need to pay taxes on incomes that you received from U.S. sources. As can be inferred, as a nonresident alien, it is very important for you to determine the sources of your income in order to determine your US tax. To assist taxpayers, the IRS has provided a chart that outlines the determining factors of the source of certain incomes.

Item of Income Factor	Determining Source
Salaries, wages, other compensation	Where services performed
Business income: Personal Services	Where services performed
Business income: sale of inventory-purchased	Where sold
Business income: sale of inventory-produced	Where produced (allocation may be necessary)
Interest	Residence of payer
Dividends	Whether a U.S. or foreign corporation-(exception 25% look-thru look)
Rent	Location of the property
Royalties: Natural resources	Location of the property
Royalties: Patents, copyrights, etc.	Where property is used
Sale of real property	Location of the property
Sale of personal property	Seller's tax home (exceptions may apply)
Pensions	Where the services were performed that earned the pension
Scholarship-Fellowships	Generally, the residence of the payer
Sale of natural resources	Allocation based on fair market value of product at export terminal.

For most types of U.S. source income, the receiving foreign person is subject to a 30% percent withholding tax. The distributing entity or agent is required to withhold that tax. However, sometimes, a reduced rate may apply if the Internal Revenue Code provides for a lower rate, or a tax treaty between the foreign person's country of residency and the United States is applicable. In



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that case, as an individual, you may ask for a lower rate by filing Form W-8BEN, Certificate of Foreign Status of Beneficiary Owner for United States Tax Withholding and Reporting (individuals). Do you receive U.S.-sourced income? Would you like to know if a lower rate is applicable?