

# Supplemental Tables of Income Tax Rates Under New Income Tax Convention With Japan

## Announcement 2004-54

The United States recently exchanged instruments of ratification for a new income tax treaty with Japan.

**Effective dates.** The provisions for withholding tax at source are effective for amounts paid or credited after July 1, 2004. For all other taxes, the treaty is effective

for tax periods beginning on or after January 1, 2005.

An individual who claimed treaty benefits under Article 19 (teachers and researchers) or Article 20 (students and trainees) of the former treaty can continue to apply those provisions. A person entitled to benefits under the previous treaty with Japan can elect to have that treaty apply in its entirety for the 12 month period following the date the new treaty would otherwise apply.

**Tables 1 and 2.** The following tables can be used, depending on the effective

dates, to replace the entries for Japan in Tables 1 and 2 in Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities (For Withholding in 2004)*. More information on the new treaty can be found in Publication 901, *U.S. Tax Treaties (Rev. May 2004)*. The footnotes in those publications that relate to the column headings in these tables generally apply to these replacement entries.

You can find the complete text of the U.S.-Japan treaty on the Internet at [www.irs.gov](http://www.irs.gov).

Table 1. **Withholding Tax Rates on Income Other Than Personal Services** (The effective dates are shown earlier.)

Income code number	1	2	3	6	7	9	10	11	12	13	14	21
Country/Code												
Japan JA	10 a,b,c,d	10 a,b,c,d,e	10 a,b,c,d	10 a,c,d,f	5 a,c,d,f,g	0 a,h	0 a,c	0 a,c	0 a,c	30	0 i	0

### Income Codes

1	Interest paid by U.S. obligors — General	10	Industrial royalties
2	Interest on real property mortgages	11	Copyright royalties — Motion pictures and Television
3	Interest paid to controlling foreign corporations	12	Copyright royalties — Other
6	Dividends paid by U.S. corporations — General	13	Real property income and Natural resources royalties
7	Dividends qualifying for direct dividend rate	14	Pensions and annuities
9	Capital gains	21	Social security payment

### Footnotes

- a 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.
- b Interest is exempt if a) paid to certain financial institutions, or b) paid on indebtedness from the sale on credit of equipment or merchandise.
- c Exemption or reduced rate does not apply to certain amounts paid under, or as part of, a conduit arrangement.
- d Amounts paid to a pension fund that are not derived from the carrying on of a business by the fund are exempt.
- e Exemption or reduced rate does not apply to an excess inclusion for a residual interest in a real estate mortgage investment conduit (REMIC).
- f 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 or a pension fund 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. Dividends paid to a pension fund from a RIC, or a REIT that meets the above conditions, are exempt.
- g The reduced rate applies if the company receiving the dividends owns at least 10% of the voting stock of the company paying the dividends. Dividends paid by a more than 50% owned corporate subsidiary are exempt if certain conditions are met.

- h Exemption does not apply to gains on the sale of real property.
- i 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 Japan are exempt from U.S. tax.

Table 2. **Compensation for Personal Services Performed in United States Exempt from Withholding and U.S. Income Tax Under Income Tax Treaties** (The effective dates are shown earlier.)

Country	Code	Category of personal services	Maximum presence in U.S.	Required Employer or Payer	Maximum Amount of Compensation	Article No.
		Purpose				
Japan	16	Independent personal services <sup>2,6</sup>				
	20	Public entertainment	No limit	Any contractor	\$10,000 p.a. <sup>5</sup>	16
	17	Dependent personal services <sup>1,2</sup>	183 days	Any foreign resident	No limit	14
	20	Public entertainment	No limit	Any U.S. or foreign resident	\$10,000 p.a. <sup>5</sup>	16
	18	Teaching or research <sup>3</sup>	2 years	U.S. educational institution	No limit	20
	19	Studying and training: Remittances or allowances	1 year <sup>4</sup>	Any foreign resident	No limit	19

### **Footnotes**

- 1 The exemption does not apply if the employee's compensation is borne by a permanent establishment that the employer has in the United States.
- 2 Does not apply to amounts received as a director of a U.S. corporation.
- 3 Does not apply to income for research work primarily for private benefit.
- 4 The time limit applies only to a business apprentice.
- 5 Does not apply if the gross receipts (including reimbursements) exceed this amount.
- 6 Treated as business profits under Article 7 of the treaty.