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U.S. Tax Guide for Aliens

For use in preparing
1997 Returns



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Introduction

For tax purposes, an alien is an individual who is not a U.S. citizen. Aliens are classified as nonresident aliens and resident aliens. This publication will help you determine your status and give you information you will need to file your U.S. tax return. Resident aliens generally are taxed on their worldwide income, the same as U.S. citizens. Nonresident aliens are taxed only on their income from sources within the United States and on certain income connected with the conduct of a trade or business in the United States.

What you need to know. Table A, *What You Need To Know About U.S. Taxes*, provides a list of questions you need to answer to help you meet your U.S. tax obligations. After each question is the chapter or chapters in this publication where you will find the related discussion.

The information in this publication is not as comprehensive for resident aliens as it is for nonresident aliens. Resident aliens are generally treated the same as U.S. citizens and can find more information in other IRS publications.

Table A. What You Need To Know About U.S. Taxes

The following questions relate to topics covered in this publication. The answers to these most commonly asked questions will help you prepare your U.S. tax return.

Commonly Asked Questions	Where To Find The Answer
Am I a nonresident alien or resident alien?	See chapter 1.
Can I be a nonresident alien and a resident alien in the same year?	<ul style="list-style-type: none"> • See <i>Dual Status Aliens</i> in chapter 1. • See chapter 6.
I am a resident alien and my wife is a nonresident alien, are there special rules for us?	<ul style="list-style-type: none"> • See <i>Nonresident Spouse Treated as a Resident</i> in chapter 1. • See <i>Community Income</i> in chapter 2.
Is all of my income subject to U.S. tax?	<ul style="list-style-type: none"> • See Chapter 2. • See Chapter 3.
Do I have to pay U.S. income tax on my scholarship?	<ul style="list-style-type: none"> • See <i>Scholarships, Grants, Prizes, and Awards</i> in chapter 2. • See <i>Scholarships and Fellowship Grants</i> in chapter 3. • See chapter 9.
How much U.S. income tax will I have to pay?	See chapter 4.
I moved to the U.S. this year. Can I deduct my moving expenses on my U.S. return?	See <i>Deductions</i> in chapter 5.
Can I claim an exemption for my spouse and children?	See <i>Exemptions</i> in chapter 5.
I pay income taxes to my home country. Can I get credit for these taxes on my U.S. tax return?	See <i>Tax Payments and Credits</i> in chapter 5.
What forms must I file and when and where do I file them?	See chapter 7.
How do I pay my U.S. income taxes?	See chapter 8.
Am I eligible for any benefits under a tax treaty?	<ul style="list-style-type: none"> • See <i>Income Entitled to Tax Treaty Benefits</i> in Chapter 8. • See chapter 9.
Are employees of foreign governments and international organizations exempt from U.S. tax?	See chapter 10.
Is there anything special I have to do before leaving the United States?	<ul style="list-style-type: none"> • See chapter 11. • See <i>Expatriation Tax</i> in chapter 4.

Important Changes

Exclusion of gain from sale of home. If you sold your main home after May 6, 1997, you may be able to exclude from income up to \$250,000 of the gain realized on the sale. See chapter 3 for more information.

Resident aliens from France. The United States and France have come to an agreement to relieve double taxation of U.S. permanent residents who receive wages and pensions for governmental services performed for the government of France. Generally, if you received income of this type in 1996, the income is taxable only in France. You should attach the following statement to your 1996 U.S. income tax return (Form 1040): "I/We am/are not taxable in the United States under Article 19 of the Income Tax Convention between the United States and France on compensation or pension income

received in 1996 for services rendered to the French Government that are of a governmental nature, pursuant to a 1997 Competent Authority agreement between the United States and France." If you have already filed your 1996 return and did not include this income, you do not have to amend your return to include the above statement. If you filed your 1996 return and paid tax on this income, you should file an amended return and include the above statement on your claim for refund.

For 1997 this income is taxable in the United States. See chapter 10 for more information.

Important Reminders

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN to a nonresident or resident alien who does not have

and is not eligible to get a social security number. To apply for an ITIN, file Form W-7, *Application for IRS Individual Taxpayer Identification Number*, with the IRS. An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law. See *Identification Numbers* in chapter 5.

Form 1040NR-EZ. You may be able to use Form 1040NR-EZ, *U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents*. This form is shorter and easier to prepare than Form 1040NR. To see if you meet the conditions for filing this form, see *Form 1040NR-EZ* in chapter 7.

Earned income credit for nonresident aliens. If you are a nonresident alien for any part of the year, you cannot claim the earned income credit unless you elect to be treated as a resident alien for tax purposes.

Taxation of U.S. social security benefits received by nonresident aliens. 85% of any U.S. social security benefit received by a nonresident alien is subject to tax at a rate of 30%, unless exempt by treaty.

Change of address. If you change your mailing address, be sure to notify the Internal Revenue Service using Form 8822, *Change of Address*.

Nonresident aliens who filed Form 1040NR or Form 1040NR-EZ with the Internal Revenue Service Center, Philadelphia, PA 19255, should send the form there. Resident aliens should send the form to the Internal Revenue Service Center for their old address (addresses for the Service Centers are on the back of the form).

Expatriation tax. If you are a former U.S. citizen or former long-term U.S. resident, special tax rules may apply to you. See *Expatriation Tax* in chapter 4.

1.

Nonresident Alien or Resident Alien?

Introduction

You should first determine whether, for income tax purposes, you are a resident alien or a nonresident alien. Figure 1-A will help you find whether you are a resident or nonresident alien.

If you are both a nonresident and resident in the same year, you have a dual status. Dual status is explained later. Also explained later is a choice to treat your nonresident spouse as a resident and some other special situations.

Topics

This chapter discusses:

- How to determine if you are a nonresident, resident, or dual-status alien
- How to treat a nonresident spouse as a resident alien

Useful Items

You may want to see:

Form (and Instructions)

- 1040** U.S. Individual Income Tax Return
- 1040A** U.S. Individual Income Tax Return

- 1040NR** U.S. Nonresident Alien Income Tax Return
- 8833** Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)
- 8840** Closer Connection Exception Statement for Aliens
- 8843** Statement for Exempt Individuals and Individuals With a Medical Condition

See chapter 12 for information about getting these publications and forms.

Nonresident Aliens

If you are an alien (not a U.S. citizen), you are considered a nonresident alien unless you meet one of the two tests described next under *Resident Aliens*.

Resident Aliens

You are a resident alien of the United States for tax purposes if you meet either the **green card test** or the **substantial presence test** for the calendar year (January 1–December 31). Even if you do not meet either of these tests, you may be able to choose to be treated as a U.S. resident for part of the year. See *First-Year Choice* under *Dual Status Aliens*, later.

Green Card Test

You are a resident for tax purposes if you are a lawful permanent resident of the United States **at any time** during the calendar year. (However, see *Dual Status Aliens*, later.) This is known as the “green card” test. You are a lawful permanent resident of the United States at any time if you have been given the privilege, according to the immigration laws, of residing permanently in the United States as an immigrant. You generally have this status if the Immigration and Naturalization Service (INS) has issued you an alien registration card, also known as a “green card”. You continue to have resident status under this test unless it is taken away from you or is administratively or judicially determined to have been abandoned.

Resident status taken away. Resident status is considered to have been taken away from you if the U.S. government issues you a final administrative or judicial order of exclusion or deportation. A **final judicial order** is an order that you may no longer appeal to a higher court of competent jurisdiction.

Resident status abandoned. An administrative or judicial determination of abandonment of resident status may be initiated by you, the INS, or a U.S. consular officer.

If you initiate the determination, your resident status is considered to be abandoned when you file either of the following with the INS or U.S. consular officer:

- 1) Your application for abandonment, or
- 2) Your Alien Registration Receipt Card attached to a letter stating your intent to abandon your resident status.

You must file the letter by certified mail, return receipt requested. You must keep a copy of the letter and proof that it was mailed and received.

If the INS or U.S. consular officer initiates this determination, your resident status will be considered to be abandoned when the final administrative order of abandonment is issued. If you are granted an appeal to a federal court of competent jurisdiction, a final judicial order is required.



A long-term resident who ceases to be a lawful permanent resident may be subject to special reporting requirements and tax provisions. See Expatriation Tax in chapter 4.

Substantial Presence Test

You will be considered a U.S. resident for tax purposes if you meet the substantial presence test for the calendar year. To meet this test, you must be physically present in the United States on at least:

- 1) 31 days during the current year, **and**
- 2) 183 days during the 3-year period that includes the current year and the 2 years immediately before that, counting:
 - a) All the days you were present in the current year, and
 - b) $\frac{1}{3}$ of the days you were present in the first year before the current year, and
 - c) $\frac{1}{6}$ of the days you were present in the second year before the current year.

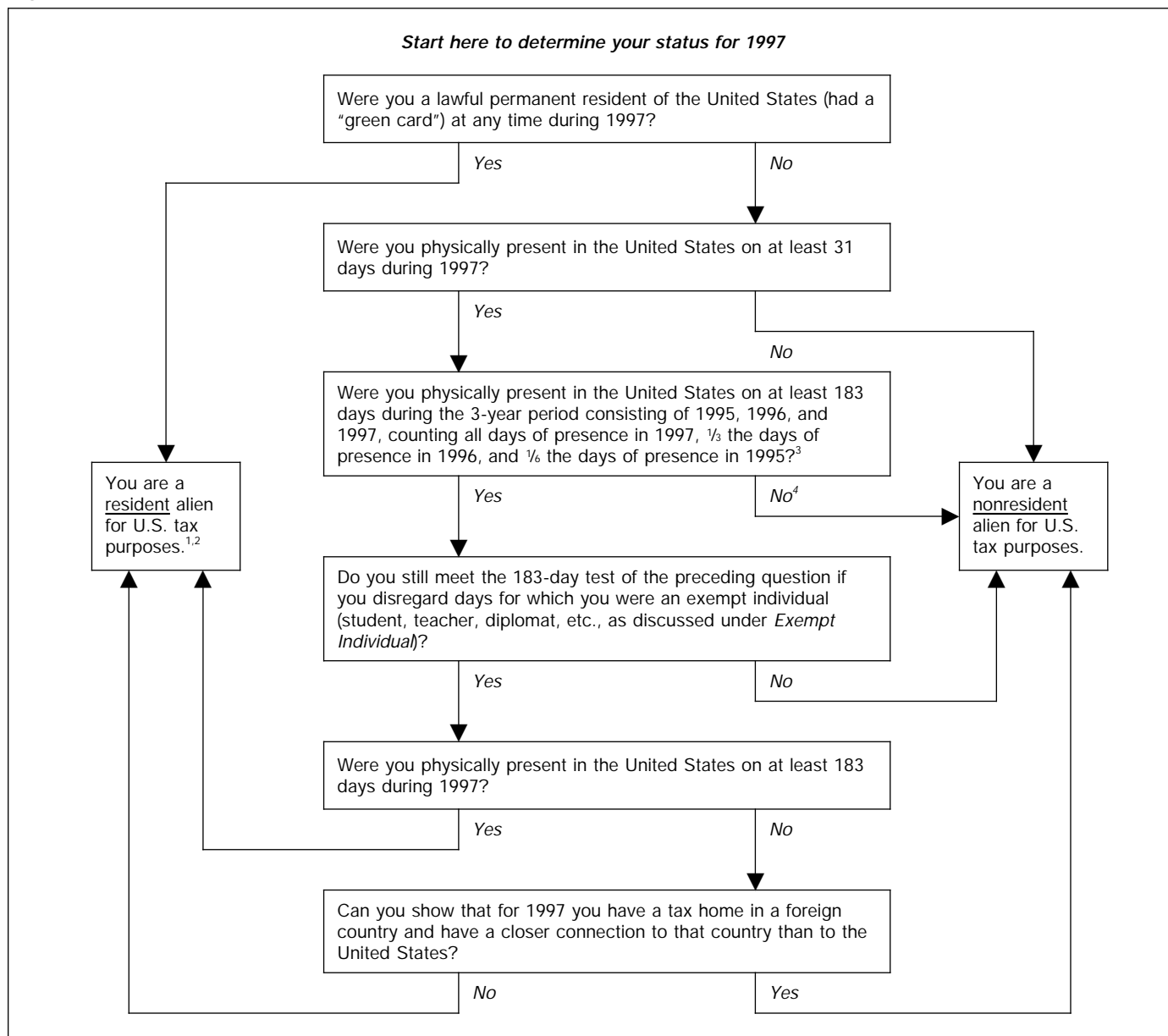
Example. You were physically present in the United States on 120 days in each of the years 1995, 1996, and 1997. To determine if you meet the substantial presence test for 1997, count the full 120 days of presence in 1997, 40 days in 1996 ($\frac{1}{3}$ of 120), and 20 days in 1995 ($\frac{1}{6}$ of 120). Since the total for the 3-year period is 180 days, you are not considered a resident under the substantial presence test for 1997.

The term **United States** includes the following:

- 1) All 50 states and the District of Columbia,
- 2) The territorial waters of the United States, and
- 3) The seabed and subsoil of those submarine areas that are adjacent to U.S. territorial waters and over which the United States has exclusive rights under international law to explore and exploit natural resources.

The term does not include U.S. possessions and territories or U.S. airspace.

Figure 1-A. Nonresident Alien or Resident Alien?



¹ If this is your first or last year of residency, you may have a dual status for the year. See the discussion of *Dual Status Aliens* in Chapter 1.

² In some circumstances you may still be considered a nonresident alien under an income tax treaty between the U.S. and your country. Check the provisions of the treaty carefully.

³ Do not count the days you were unable to leave the United States because of a medical condition that arose while you were in the United States.

⁴ If you meet the substantial presence test for 1998, you may be able to choose treatment as a U.S. resident alien for part of 1997. For details see *Substantial Presence Test* under *Resident Aliens* and *First-year choice* under *Dual-Status Aliens* in Chapter 1.

Days of Presence in the United States

You are treated as present in the United States on any day if you are physically present in the country at any time during the day. However, there are exceptions to this rule. Do not count the following as days of presence in the United States for the substantial presence test:

- 1) Days you commute to work in the United States from a residence in Canada or Mexico if you regularly commute from Canada or Mexico,
- 2) Days you are in the United States for less than 24 hours when you are in transit between two places outside the United States,
- 3) Days you were unable to leave the United States because of a medical condition that developed while you were in the United States, and
- 4) Days you were an exempt individual.

The specific rules that apply to each of these four categories are discussed next.

Regular commuters from Canada or Mexico. Do not count the days on which you commute to work in the United States from your residence in Canada or Mexico if you regularly commute from Canada or Mexico. You are considered to commute regularly if you commute to work in the United States on more than 75% of the workdays during your working period.

For this purpose, “commute” means to travel to work and return to your residence within a 24-hour period. “Workdays” are the days on which you work in the United States or Canada or Mexico. “Working period” means the period beginning with the first day in the current year on which you are physically present in the United States to work and ending on the last day in the current year on which you are physically present in the United States to work. If your work requires you to be present in the United States only on a seasonal or cyclical basis, your working period begins on the first day of the season or cycle on which you are present in the United States to work and ends on the last day of the season or cycle on which you are present in the United States to work. You can have more than one working period in a calendar year, and your working period can begin in one calendar year and end in the following calendar year.

Example. Maria Perez lives in Mexico and works for Compania ABC in its office in Mexico. She was assigned to her firm's office in the United States from February 1 through June 1. On June 2, she resumed her employment in Mexico. On 69 days, Maria commuted each morning from her home in Mexico to work in Compania ABC's U.S. office. She returned to her home in Mexico on each of those evenings. On 7 days, she worked in her firm's Mexico office. For purposes of the substantial presence test, Maria does not count the days she commuted to work in the United States because those days equal more than 75% of the workdays during the working period (69 workdays in the United States divided by 76 workdays in the working period equals 90.8%).

Days in transit. For the substantial presence test, do not count the days you are in the United States for less than 24 hours and you are in transit between two places outside the United States. You are considered to be in transit if you engage in activities that are substantially related to completing travel to your foreign destination. For example, if you travel between airports in the United States to change planes en route to your foreign destination, you are considered to be in transit. However, you are *not* considered to be in transit if you attend a business meeting while in the United States. This is true even if the meeting is held at the airport.

Medical condition. For the substantial presence test, do not count the days you intended to leave, but could not leave the United States because of a medical condition or problem that developed while you were in the United States. Whether you intended to leave the United States on a particular day is determined based on all the facts and circumstances. For example, you may be able to establish that you intended to leave if your purpose for visiting the United States could be accomplished during a period that is not long enough to qualify you for the substantial presence test. However, if you need an extended period of time to accomplish the purpose of your visit and that period would qualify you for the substantial presence test, you would not be able to establish an intent to leave the United States before the end of that extended period.

In the case of an individual who is judged mentally incompetent, proof of intent to leave the United States can be determined by analyzing the individual's pattern of behavior before he or she was judged mentally incompetent.

If you qualify to exclude days of presence because of a medical condition, you must file a fully completed Form 8843 with the IRS. See *Form 8843* later.

You cannot exclude any days of presence in the United States under the following circumstances.

- 1) You were initially prevented from leaving, were then able to leave, but remained in the United States beyond a reasonable period for making arrangements to leave.
- 2) You returned to the United States for treatment of a medical condition that developed during a prior stay.
- 3) The condition existed before your arrival in the United States and you were aware of the condition. It does not matter whether you needed treatment for the condition when you entered the United States.

Exempt individual. For the substantial presence test, do not count days for which you are an exempt individual. The term “exempt individual” does not refer to someone exempt from U.S. tax, but to anyone in the following categories.

- 1) An individual temporarily present in the United States as a foreign government-related individual.
- 2) A teacher or trainee temporarily present in the United States under a “J” or “Q” visa, who substantially complies with the requirements of the visa.

- 3) A student temporarily present in the United States under an “F,” “J,” “M,” or “Q” visa, who substantially complies with the requirements of the visa.
- 4) A professional athlete temporarily in the United States to compete in a charitable sports event.

The specific rules for each of these four categories are discussed next.

Foreign government-related individuals. A foreign government-related individual is an individual (or a member of the individual's immediate family) who is temporarily present in the United States—

- 1) As a full-time employee of an international organization,
- 2) By reason of diplomatic status, or
- 3) By reason of a visa (other than a visa that grants lawful permanent residence) that the Secretary of the Treasury determines represents full-time diplomatic or consular status.

An **international organization** is any public international organization that the President of the United States has designated by Executive Order as being entitled to the privileges, exemptions, and immunities provided for in the International Organizations Act. An individual is a full-time employee if his or her work schedule meets the organization's standard full-time work schedule.

An individual is considered to have **full-time diplomatic or consular status** if he or she:

- 1) Has been accredited by a foreign government that is recognized by the United States,
- 2) Intends to engage primarily in official activities for that foreign government while in the United States, and
- 3) Has been recognized by the President, Secretary of State, or a consular officer as being entitled to that status.

Members of the **immediate family** include the individual's spouse and unmarried children (whether by blood or adoption) but only if the spouse's or unmarried children's visa statuses are derived from and dependent on the exempt individual's visa classification. Unmarried children are included only if they:

- 1) Are under 21 years of age,
- 2) Reside regularly in the exempt individual's household, and
- 3) Are not members of another household.

The immediate family of an exempt individual does *not* include attendants, servants, or personal employees.

Teachers and trainees. A teacher or trainee is an individual, other than a student, who is temporarily in the United States under a “J” or “Q” visa and substantially complies with the requirements of that visa. You are considered to have substantially complied with the visa requirements if you have not engaged in activities that are prohibited by U.S. immigration laws and could result in the loss of your visa status.

Also included are immediate family members of exempt teachers and trainees. See the definition of immediate family earlier, under *Foreign government-related individuals*.

You will **not** be an exempt individual as a teacher or trainee if you were exempt as a teacher, trainee, or student for any part of 2 of the 6 preceding calendar years. However, you **will be** an exempt individual if you were exempt as a teacher, trainee, or student for any part of 3 (or fewer) of the 6 preceding calendar years and—

- 1) A foreign employer paid all your compensation during the current year, and
- 2) A foreign employer paid all of your compensation during each of the preceding 6 years you were present in the United States as a teacher or trainee.

A foreign employer includes an office or place of business of an American entity in a foreign country or a U.S. possession.

If you qualify to exclude days of presence as a teacher or trainee, you must file a fully completed Form 8843 with the IRS. See *Form 8843* later.

Example. Carla was temporarily in the United States during the year as a teacher on a “J” visa. Her compensation for the year was paid by a foreign employer. Carla was treated as an exempt teacher for the past 2 years but her compensation was not paid by a foreign employer. She will not be considered an exempt individual for the current year because she was exempt as a teacher for at least 2 of the past 6 years.

If her compensation for the past 2 years had been paid by a foreign employer, she would be an exempt individual for the current year.

Students. A student is any individual who is temporarily in the United States on an “F,” “J,” “M,” or “Q” visa and who substantially complies with the requirements of that visa. You are considered to have substantially complied with the visa requirements if you have not engaged in activities that are prohibited by U.S. immigration laws and could result in the loss of your visa status.

Also included are immediate family members of exempt students. See the definition of immediate family earlier, under *Foreign government-related individuals*.

You will not be an exempt individual as a student if you have been exempt as a teacher, trainee, or student for any part of more than 5 calendar years unless you establish to the satisfaction of the IRS district director that you do not intend to reside permanently in the United States and you have substantially complied with the requirements of your visa. The facts and circumstances to be considered in determining if you have demonstrated an intent to reside permanently in the United States include, but are not limited to:

- 1) Whether you have maintained a closer connection to a foreign country (discussed later), and
- 2) Whether you have taken affirmative steps to change your status from non-immigrant to lawful permanent resident as discussed later under *Closer Connection to a Foreign Country*.

If you qualify to exclude days of presence as a student, you must file a fully completed Form 8843 with the IRS. See *Form 8843* later.

Professional athletes. A professional athlete who is temporarily in the United States to compete in a charitable sports event is an

exempt individual. A charitable sports event is one that meets the following conditions:

- 1) The main purpose is to benefit a qualified charitable organization,
- 2) The entire net proceeds go to charity, and
- 3) Volunteers perform substantially all the work.

In figuring the days of presence in the United States, you can exclude only the days on which you actually competed in a sports event. You cannot exclude the days on which you were in the United States to practice for the event, to perform promotional or other activities related to the event, or to travel between events.

If you qualify to exclude days of presence as a professional athlete, you must file a fully completed Form 8843 with the IRS. See *Form 8843* next.

Form 8843. If you exclude days of presence in the United States because you fall into any of the following categories, you must file a fully completed Form 8843.

- 1) You were unable to leave the United States as planned because of a medical condition.
- 2) You were temporarily in the United States as a teacher or trainee on a “J” or “Q” visa.
- 3) You were temporarily in the United States as a student on an “F,” “J,” “M,” or “Q” visa.
- 4) You were a professional athlete competing in a charitable sports event.

Attach Form 8843 to your 1997 income tax return. If you do not have to file a return, send the form or statement to the Internal Revenue Service Center, Philadelphia, PA 19255 by the due date for filing your income tax return. The due date for filing is discussed in chapter 7.

If you do not timely file Form 8843, you cannot exclude the days you were present in the United States as a professional athlete or because of a medical condition that arose while you were in the United States. This does not apply if you can show by clear and convincing evidence that you took reasonable actions to become aware of the filing requirements and significant steps to comply with those requirements.

Closer Connection to a Foreign Country

Even if you meet the substantial presence test, you can be treated as a nonresident alien if you:

- 1) Are present in the United States for less than 183 days during the year,
- 2) Maintain a tax home in a foreign country during the year, and
- 3) Have a closer connection during the year to one foreign country in which you have a tax home than to the United States (unless you have a closer connection to **two** foreign countries, discussed next).

Closer connection to two foreign countries. You can demonstrate that you have a closer connection to **two** foreign countries

(but not more than two) if you meet all of the following conditions:

- 1) You maintained a tax home beginning on the first day of the year in one foreign country,
- 2) You changed your tax home during the year to a second foreign country,
- 3) You continued to maintain your tax home in the second foreign country for the rest of the year,
- 4) You had a closer connection to each foreign country than to the United States for the period during which you maintained a tax home in that foreign country, and
- 5) You are subject to tax as a resident under the tax laws of either foreign country for the entire year or subject to tax as a resident in both foreign countries for the period during which you maintained a tax home in each foreign country.

Tax home. Your tax home is the general area of your main place of business, employment, or post of duty, regardless of where you maintain your family home. Your tax home is the place where you permanently or indefinitely work as an employee or a self-employed individual. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

For determining whether you have a closer connection to a foreign country, your tax home must also be in existence for the **entire** current year, and must be located in the same foreign country for which you are claiming to have a closer connection.

Foreign country. In determining whether you have a closer connection to a foreign country, the term “foreign country” means:

- 1) Any territory under the sovereignty of the United Nations or a government other than that of the United States,
- 2) The territorial waters of the foreign country (determined under U.S. law),
- 3) The seabed and subsoil of those submarine areas which are adjacent to the territorial waters of the foreign country and over which the foreign country has exclusive rights under international law to explore and exploit natural resources, and
- 4) Possessions and territories of the United States.

Establishing a closer connection. You will be considered to have a closer connection to a foreign country than the United States if you or the IRS establishes that you have maintained more significant contacts with the foreign country than with the United States. In determining whether you have maintained more significant contacts with the foreign country than with the United States, the facts and circumstances to be considered include, but are not limited to, the following:

- 1) The country of residence you designate on forms and documents.
- 2) The types of official forms and documents you file, such as Form 1078,

Certificate of Alien Claiming Residence in the United States, or Form W-8, Certificate of Foreign Status.

- 3) The location of:
 - a) Your permanent home,
 - b) Your family,
 - c) Your personal belongings, such as cars, furniture, clothing, and jewelry,
 - d) Your current social, political, cultural, or religious affiliations,
 - e) Your business activities (other than those that constitute your tax home),
 - f) The jurisdiction in which you hold a driver's license, and
 - g) The jurisdiction in which you vote.

It does not matter whether your permanent home is a house, an apartment, or a furnished room. It also does not matter whether you rent or own it. It is important, however, that your home be available at all times, continuously, and not solely for short stays.

You cannot claim you have a closer connection to a foreign country if either of the following applies:

- 1) You personally applied, or took other steps during the year, to change your status to that of a permanent resident, or
- 2) You had an application pending for adjustment of status during the current year.

Steps to change your status to that of a permanent resident include, but are not limited to, the filing of the following forms:

Form I-508, *Waiver of Immunities*

Form I-485, *Application for Status as Permanent Resident*

Form I-130, *Petition for Alien Relative, on your behalf*

Form I-140, *Petition for Prospective Immigrant Employee, on your behalf*

Form ETA-750, *Application for Alien Employment Certification, on your behalf*

Form OF-230, *Application for Immigrant Visa and Alien Registration*

Form 8840. You must attach a fully completed Form 8840 to your income tax return if you have a closer connection to a foreign country or countries.

If you do not have to file a return, send the form to the Internal Revenue Service Center, Philadelphia, PA 19255, by the due date for filing your income tax return. The due date for filing is discussed later in chapter 7.

If you do not timely file Form 8840, you cannot claim a closer connection to a foreign country or countries. This does not apply if you can show by clear and convincing evidence that you took reasonable actions to become aware of the filing requirements and significant steps to comply with those requirements.

Effect of Tax Treaties

The rules given here to determine if you are a U.S. resident do not override tax treaty definitions of residency. If your residency is determined under a treaty and not under the rules discussed here, you must file a fully completed Form 8843 if the payments or income items reportable because of that determination are more than \$100,000. If you are a dual resident taxpayer, you can still claim the benefits under an income tax treaty. A **dual resident taxpayer** is one who is a resident of both the United States and another country under each country's tax laws. The income tax treaty between the two countries must contain a provision that provides for resolution of conflicting claims of residence. If you are treated as a resident of a foreign country under a tax treaty, you are treated as a nonresident alien in figuring your U.S. income tax. For purposes other than computing your tax, you will be treated as a U.S. resident. For example, the rules discussed here do not affect your residency time periods as discussed later, under *Dual Status Aliens*.

Information to be reported. If you are a dual resident taxpayer and you claim treaty benefits, you must timely file a return (including extensions) using Form 1040NR or Form 1040NR-EZ, and compute your tax as a nonresident alien. You must also attach a fully completed Form 8833, *Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)*. See *Reporting Treaty Benefits Claimed* in chapter 9, for more information on reporting treaty benefits.

Dual Status Aliens

You can be both a nonresident alien and a resident alien during the same tax year. This usually occurs in the year you arrive or depart from the United States. Aliens who have dual status should see chapter 6 for information on filing a return for a dual-status tax year.

First Year of Residency

If you are a U.S. resident for any calendar year, but you were not a U.S. resident at any time during the preceding calendar year, you are a U.S. resident only for the part of the calendar year that begins on the **residency starting date**. You are a nonresident alien for the part of the year before that date.

Substantial presence test. If you meet the substantial presence test for a calendar year, your **residency starting date** is generally the first day you are present in the United States during that calendar year. However, you do not have to count up to 10 days of actual presence in the United States if on those days you establish that:

- 1) You had a closer connection to a foreign country than to the United States, and
- 2) Your tax home was in that foreign country.

See *Closer Connection to a Foreign Country* earlier.

In determining whether you can exclude up to 10 days, the following rules apply.

- 1) You can exclude days from more than one period of presence as long as the

total days in all periods are not more than 10.

- 2) You cannot exclude any days in a period of consecutive days of presence if all the days in that period cannot be excluded.
- 3) Although you can exclude up to 10 days of presence in determining your residency starting date, you must include those days when determining whether you meet the substantial presence test.

Example. Ivan Ivanovich is a citizen of Russia. He came to the United States for the first time on January 6, 1997, to attend a business meeting and returned to Russia on January 10, 1997. His tax home remained in Russia. On March 1, 1997, he moved to the United States and resided here for the rest of the year. Ivan is able to establish a closer connection to Russia for the period January 6-10. Thus, his residency starting date is March 1.

Statement required to exclude up to 10 days of presence. You must attach a statement to your income tax return if you are excluding up to 10 days of presence in the United States for purposes of your residency starting date. You must sign and date this statement and include a declaration that it is made under penalties of perjury. The statement must contain the following information (as applicable).

- 1) Your name, address, U.S. taxpayer identification number (if any) and U.S. visa number (if any).
- 2) Your passport number and the name of the country that issued your passport.
- 3) The tax year for which the statement applies.
- 4) The first day that you were present in the United States during the year.
- 5) The dates of the days you are excluding in figuring your first day of residency.
- 6) Sufficient facts to establish that you have maintained your tax home in and a closer connection to a foreign country during the period you are excluding.

If you are not required to file a return, send the statement to the Internal Revenue Service Center, Philadelphia, PA 19255, on or before the due date for filing your tax return. The due date for filing is discussed in chapter 7.

If you do not file the required statement as explained above, you cannot claim that you have a closer connection to a foreign country or countries. Therefore, your first day of residency will be the first day you are present in the United States. This does not apply if you can show by clear and convincing evidence that you took reasonable actions to become aware of the requirements for filing the statement and significant steps to comply with those requirements.

Green card test. If you meet the green card test at any time during a calendar year, but do not meet the substantial presence test for that year, your **residency starting date** is the first day in the calendar year on which you are present in the United States as a lawful permanent resident.

If you meet **both** the substantial presence test and the green card test, your residency starting date is the earlier of the first day

during the year you are present in the United States under the substantial presence test or as a lawful permanent resident.

Residency during the preceding year. If you were a U.S. resident during any part of the preceding calendar year and you are a U.S. resident for any part of the current year, you will be considered a U.S. resident at the beginning of the current year. This applies whether you are a resident under the substantial presence test or green card test.

Example. Robert Bach is a citizen of Switzerland. He came to the United States as a U.S. resident for the first time on May 1, 1996, and remained until November 5, 1996, when he returned to Switzerland. Robert came back to the United States on March 5, 1997, as a lawful permanent resident and still resides here. In calendar year 1997, Robert's U.S. residency is deemed to begin on January 1, 1997, because he qualified as a resident in calendar year 1996.

First-Year Choice

If you **do not** meet either the green card test or the substantial presence test for 1996 or 1997 and you did not choose to be treated as a resident for part of 1996, but you meet the substantial presence test for 1998, you can choose to be treated as a U.S. resident for part of 1997. To make this choice, you must:

- 1) Be present in the United States for at least 31 days in a row in 1997, **and**
- 2) Be present in the United States for at least 75% of the number of days beginning with the first day of the 31-day period and ending with the last day of 1997. For purposes of this 75% requirement, you can treat up to 5 days of absence from the United States as days of presence in the United States.

When counting the days of presence in (1) and (2) above, do not count the days you were in the United States under any of the four circumstances discussed earlier under *Days of Presence in the United States*.

If you make the first-year choice, your residency starting date for 1997 is the first day of the earliest 31-day period (described in (1) above) that you use to qualify for the choice. You are treated as a U.S. resident for the rest of the year. If you are present for more than one 31-day period and you satisfy condition (2) above for each of those periods, your residency starting date is the first day of the first 31-day period. If you are present for more than one 31-day period but you satisfy condition (2) above only for a later 31-day period, your residency starting date is the first day of the later 31-day period.

Example 1. Juan DaSilva is a citizen of the Philippines. He came to the United States for the first time on November 1, 1997, and was here on 31 consecutive days (from November 1 through December 1, 1997). Juan returned to the Philippines on December 1 and did not come back to the United States until December 17, 1997. He stayed in the United States for the rest of the year. During 1998, Juan was a resident of the United States under the substantial presence test.

Juan can make the first-year choice for 1997 because he was in the United States in 1997 for a period of 31 days in a row (November 1 through December 1) and for at least 75% of the days following (and including) the first day of his 31-day period (46 total days of presence in the United States divided by 61 days in the period from November 1 through December 31 equals 75.4%). If Juan makes the first-year choice, his residency starting date will be November 1, 1997.

Example 2. The facts are the same as in Example 1, except that Juan was absent from the United States on December 24, 25, 29, 30, and 31. He can make the first-year choice for 1997 because up to 5 days of absence are considered days of presence for purposes of the 75% requirement.

Statement required to make the first-year choice. You must attach a statement to your income tax return to make the first-year choice. The statement must contain your name and address and specify the following:

- 1) That you are making the first-year choice,
- 2) That you were not a resident in 1996,
- 3) That you are a resident under the substantial presence test in 1998,
- 4) The number of days of presence in the United States during 1998,
- 5) The date or dates of your 31-day period of presence and the period of continuous presence in the United States during 1997, and
- 6) The date or dates of absence from the United States during 1997 that you are treating as days of presence.

You cannot file the form or statement until you meet the substantial presence test for 1998. If you have not met the test for 1998 as of April 15, 1998, you can request an extension of time for filing your 1997 Form 1040 until a reasonable period after you have met that test. To request an extension to file, use Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. You should pay with this form the amount of tax you expect to owe for 1997 figured as if you were a nonresident alien the entire year. You can use Form 1040NR or Form 1040NR-EZ to figure the tax. Enter the tax on Form 4868. If you do not pay the tax due, you will be charged interest on any tax not paid by the regular due date of your return, and you may be charged a penalty on the late payment. If you need more time after filing Form 4868, file Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return*.

Once you make the first-year choice, you may not revoke it without the approval of the Internal Revenue Service.

If you do not follow the procedures discussed here for making the first-year choice, you will be treated as a nonresident alien for all of 1997. However, this does not apply if you can show by clear and convincing evidence that you took reasonable actions to become aware of the filing procedures and significant steps to comply with the procedures.

Last Year of Residency

If you were a U.S. resident in 1997 but are not a U.S. resident during any part of 1998, you cease to be a U.S. resident on your **residency termination date**. Your residency termination date is December 31, 1997.

Special residency termination date. Your residency termination date is:

- 1) The last day in 1997 that you are physically present in the United States, if you met the substantial presence test,
- 2) The first day in 1997 that you are no longer a lawful permanent resident of the United States, if you met the green card test, or
- 3) The later of (1) or (2), if you met both tests.

You can use these dates only if, for the remainder of 1997, your tax home was in a foreign country and you had a closer connection to that foreign country. See *Closer Connection to a Foreign Country*, earlier.



A long-term resident who ceases to be a lawful permanent resident may be subject to special reporting requirements and tax provisions. See *Expatriation Tax in chapter 4*.

Statement required to establish your residency termination date. You must attach a statement to your income tax return to establish your residency termination date. You must sign and date this statement and include a declaration that it is made under penalties of perjury. The statement must contain the following information (as applicable).

- 1) Your name, address, U.S. taxpayer identification number (if any), and U.S. visa number (if any).
- 2) Your passport number and the name of the country that issued your passport.
- 3) The tax year for which the statement applies.
- 4) The last day that you were present in the United States during the year.
- 5) Sufficient facts to establish you have maintained your tax home in and that you have a closer connection to a foreign country following your last day of presence in the United States during the year or following the abandonment or rescission of your status as a lawful permanent resident during the year.
- 6) The date that your status as a lawful permanent resident was abandoned or rescinded.
- 7) Sufficient facts (including copies of relevant documents) to establish that your status as a lawful permanent resident has been abandoned or rescinded.
- 8) If you can exclude days under the de minimis presence rule, discussed later, include the dates of the days you are excluding and sufficient facts to establish that you have maintained your tax home in and that you have a closer connection to a foreign country during the period you are excluding.

If you are not required to file a return, send the statement to the Internal Revenue Service Center, Philadelphia, PA 19255, on or before

the due date for filing your income tax return. The due date for filing is discussed in chapter 7.

If you do not file the required statement as explained above, you cannot claim that you have a closer connection to a foreign country or countries. This does not apply if you can show by clear and convincing evidence that you took reasonable actions to become aware of the requirements for filing the statement and significant steps to comply with those requirements.

De minimis presence. If you are a U.S. resident because of the substantial presence test and you qualify to use the special residency termination date discussed earlier, you can exclude up to 10 days of actual presence in the United States in determining your residency termination date. In determining whether you can exclude up to 10 days, the following rules apply.

- 1) You can exclude days from more than one period of presence as long as the total days in all periods are not more than 10.
- 2) You cannot exclude any days in a period of consecutive days of presence if all the days in that period cannot be excluded.
- 3) Although you can exclude up to 10 days of presence in determining your residency termination date, you must include those days when determining whether you meet the substantial presence test.

Example. Lola Bovary is a citizen of Malta. She came to the United States for the first time on March 1, 1997, and resided here until August 25, 1997. On December 12, 1997, Lola came to the United States for vacation and stayed here until December 16, 1997, when she returned to Malta. She is able to establish a closer connection to Malta for the period December 12-16. Lola is not a U.S. resident for tax purposes during 1998 and can establish a closer connection to Malta for the rest of calendar year 1997. Lola is a U.S. resident under the substantial presence test for 1997 because she was present in the United States for 183 days (178 days for the period March 1 to August 25 plus 5 days in December). Lola's residency termination date is August 25, 1997.

Residency during the next year. If you are a U.S. resident during any part of 1998 and you are a resident during any part of 1997, you will be taxed as a resident through the end of 1997. This applies whether you have a closer connection to a foreign country than the United States during 1997, and whether you are a resident under the substantial presence test or green card test.

Choosing To Be Taxed as a Resident Alien for the Entire Tax Year

If you are a dual-status alien, you can choose to be treated as a U.S. resident for the entire year if:

- 1) You were a nonresident alien at the beginning of the year,
- 2) You are a resident alien or U.S. citizen at the end of the year,

- 3) You are married to a U.S. citizen or resident alien at the end of the year, and
- 4) Your spouse joins you in making the choice.

This includes situations in which both you and your spouse were nonresident aliens at the beginning of the tax year and both of you are resident aliens at the end of the tax year.

If you make this choice, you and your spouse are both treated as U.S. residents for the entire year for income tax purposes, and you are both taxed on worldwide income. Making the choice also means that you must file a **joint return** for the year of the choice.

If you make this choice, neither you nor your spouse can make this choice for any later tax year, even if you are separated, divorced, or remarried.

Making the choice. You should attach a statement signed by both spouses to your joint return for the year of the choice that contains the following information:

- 1) A declaration that you both qualify to make the choice and that you choose to be treated as U.S. residents for the entire tax year, and
- 2) The name, address, and taxpayer identification number (SSN or ITIN) of each spouse. (If one spouse died, include the name and address of the person who makes the choice for the deceased spouse.)

You generally make this choice when you file your joint return. However, you also can make the choice by filing Form 1040X. Attach Form 1040 or Form 1040A and write "Amended" across the top of the corrected return. If you make the choice with an amended return, you and your spouse must also amend any returns that you may have filed after the year for which you made the choice.

You generally must file the amended joint return within 3 years from the date you filed your original U.S. income tax return or 2 years from the date you paid your income tax for that year, whichever is later.

A similar choice is available if, at the end of your tax year, you are a nonresident alien married to a U.S. citizen or resident. See *Nonresident Spouse Treated as a Resident*, next. If you previously made that choice, and it is still in effect, you do not need to make the choice explained here.



If you file a joint return under this provision, the special instructions and restrictions for dual-status taxpayers in chapter 6 do not apply to you.

Nonresident Spouse Treated as a Resident

If, at the end of your tax year, you are married and one spouse is a U.S. citizen or a resident alien and the other spouse is a nonresident alien, you can choose to treat the nonresident spouse as a U.S. resident. This includes situations in which one spouse is a nonresident alien at the beginning of the tax year, but a resident alien at the end of the year, and the other spouse is a nonresident alien at the end of the year.

If you make this choice, you and your spouse are treated for income tax purposes as residents for your entire tax year. Neither you nor your spouse can claim tax treaty benefits as a resident of a foreign country for a tax year for which the choice is in effect. You must file a joint income tax return for the year you make the choice, but you and your spouse can file joint or separate returns in later years.

Example 1. Pat Smith, a U.S. citizen, is married to Norman, a nonresident alien. Pat and Norman make the choice to treat Norman as a resident alien by attaching a statement to their joint return. Although Pat and Norman must file a joint return for the year of election, they can file joint or separate returns for later years.

Example 2. Bob and Sharon Williams are married and both are nonresident aliens at the beginning of the year. In June, Bob became a resident alien and remained a resident for the rest of the year. Bob and Sharon both choose to be treated as resident aliens by attaching a statement to their joint return. Bob and Sharon must file a joint return for the year of election, but they can file either joint or separate returns for later years.

How To Make the Choice

Attach a statement, signed by both spouses, to your joint return for the first tax year for which the choice applies. It should contain the following:

- 1) A declaration that one spouse was a nonresident alien and the other spouse a U.S. citizen or resident alien on the last day of your tax year, and that you choose to be treated as U.S. residents for the entire tax year, and
- 2) The name, address, and identification number of each spouse. (If one spouse died, include the name and address of the person making the choice for the deceased spouse.)

You generally make this choice when you file your joint return. However, you can also make the choice by filing a joint amended return on Form 1040X. Attach Form 1040 or Form 1040A and write "Amended" across the top of the corrected return. If you make the choice with an amended return, you and your spouse must also amend any returns that you may have filed after the year for which you made the choice.

You generally must file the amended joint return within 3 years from the date you filed your original U.S. income tax return or 2 years from the date you paid your income tax for that year, whichever is later.



If you file a joint return under this provision, the special instructions and restrictions for dual-status taxpayers in chapter 6 do not apply to you.

Suspending the Choice

The choice to be treated as a resident alien does not apply to any tax year (after the tax year you made the choice) if neither spouse is a U.S. citizen or resident alien at any time during the tax year.

Example. Dick Brown was a resident alien on December 31, 1994, and married to Judy, a nonresident alien. They chose to treat Judy as a resident alien and filed joint 1994

and 1995 income tax returns. On January 10, 1996, Dick became a nonresident alien. Judy had remained a nonresident alien throughout the period. Dick and Judy could have filed joint or separate returns for 1996. However, since neither Dick nor Judy is a resident alien at any time during 1997, their choice is suspended for that year. If either has U.S. source income or foreign source income effectively connected with a U.S. trade or business in 1997, they must file separate returns as nonresident aliens. If Dick becomes a resident alien again in 1997, their choice is no longer suspended.

Ending the Choice

Once made, the choice to be treated as a resident applies to all later years unless suspended (as explained above) or ended in one of the following ways.

- 1) **Revocation.** Either spouse can revoke the choice for any tax year, provided he or she makes the revocation by the due date for filing the tax return for that tax year. The spouse who revokes must attach a signed statement declaring that the choice is being revoked. The statement must include the name, address, and identification number of each spouse. (If one spouse dies, include the name and address of the person who is revoking the choice for the deceased spouse.) The statement also must include a list of any states, foreign countries, and possessions that have community property laws in which either spouse is domiciled or where real property is located from which either spouse receives income. File the statement as follows:
 - a) If the spouse revoking the choice must file a return, attach the statement to the return for the first year the revocation applies,
 - b) If the spouse revoking the choice does not have to file a return, but does file a return (for example, to obtain a refund), attach the statement to the return, or
 - c) If the spouse revoking the choice does not have to file a return and does not file a claim for refund, send the statement to the Internal Revenue Service Center where you filed the last joint return.
- 2) **Death.** The death of either spouse ends the choice, beginning with the first tax year following the year the spouse died. However, if the surviving spouse is a U.S. citizen or resident and is entitled to the joint tax rates as a surviving spouse, the choice will not end until the close of the last year for which these joint rates may be used. If both spouses die in the same tax year, the choice ends on the first day after the close of the tax year in which the spouses died.
- 3) **Legal separation.** A legal separation under a decree of divorce or separate maintenance ends the choice as of the beginning of the tax year in which the legal separation occurs.
- 4) **Inadequate records.** The Internal Revenue Service can end the choice for any

tax year that either spouse has failed to keep adequate books, records, and other information necessary to determine the correct income tax liability, or to provide adequate access to those records.

If the choice is ended for any of these reasons, neither spouse can make this choice in any later tax year.

Special Situations

If you are a nonresident alien from **American Samoa**, or **Puerto Rico**, you may be treated as a resident alien.

If you are a nonresident alien in the United States and a bona fide resident of American Samoa or Puerto Rico during the entire tax year, you are taxed, with certain exceptions, according to the rules for resident aliens of the United States. For more information, see chapter 5.

If you are a nonresident alien from American Samoa or Puerto Rico who does not qualify as a bona fide resident of American Samoa or Puerto Rico for the entire tax year, you are taxed as a nonresident alien.

Resident aliens who formerly were bona fide residents of American Samoa or Puerto Rico are taxed according to the rules for resident aliens.

2.

Source of Income

Introduction

After you have determined your alien status, you must determine the source of your income. This chapter will help you determine the source of different types of income you may receive during the tax year. This chapter also discusses special rules for married individuals who are domiciled in a country with community property laws.

Topics

This chapter discusses:

- Income source rules
- Community income

Useful Items

You may want to see:

Publication

- 520** Scholarships and Fellowships
- 721** Tax Guide to U.S. Civil Service Retirement Benefits

See chapter 12 for information about getting these publications.

Resident Aliens

A resident alien's income is generally subject to tax in the same manner as a U.S. citizen; that is, a resident alien is taxed on and must report income from all sources, including sources outside the United States.

If you are a resident alien, you must report all interest, dividends, wages, or other compensation for services, income from rental property or royalties, and other types of income on your U.S. tax return. You must report these amounts whether from sources within or outside the United States.

Nonresident Aliens

A nonresident alien usually is subject to U.S. income tax only on U.S. source income. This is income from sources within the United States and on certain income connected with the conduct of a trade or business in the United States.

Table 2-1, near the end of this chapter, gives the general rules for determining U.S. source income that apply to most nonresident aliens. The following discussions cover the general rules as well as the exceptions to these rules.



Not all items of U.S. source income are taxable. See chapter 3.

Interest

Generally, income from U.S. sources includes interest on bonds, notes, or other interest-bearing obligations of U.S. residents or domestic corporations. Interest from U.S. sources also includes interest paid by a domestic or foreign partnership or foreign corporation engaged in a U.S. trade or business at any time during the tax year. Interest income also includes original issue discount. In addition, all interest received by a nonresident alien individual from a state, the District of Columbia, or the U.S. Government during the tax year is income from U.S. sources.

The place or manner of payment is immaterial in determining the source of the income.

Exceptions. U.S. source interest income does not include the following items.

- 1) Interest paid by a resident alien or a domestic corporation if for the 3-year period ending with the close of the payer's tax year preceding the interest payment at least 80% of the payer's total gross income—
 - a) Is from sources outside the United States, and
 - b) Is attributable to the active conduct of a trade or business by the individual or corporation in a foreign country or a U.S. possession.
- 2) Interest paid by a foreign branch of a domestic corporation or a domestic partnership on deposits or withdrawable accounts with mutual savings banks, cooperative banks, credit unions, domestic building and loan associations, and other savings institutions chartered and supervised as savings and loan or similar associations under federal or

state law if the interest paid or credited can be deducted by the association.

- 3) Interest on deposits with a foreign branch of a domestic corporation or domestic partnership, but only if the branch is in the commercial banking business.

Dividends

In most cases, dividend income received from domestic corporations is U.S. source income. Dividend income from foreign corporations is usually foreign source income. Exceptions to both of these rules are discussed below.

First exception. Dividends received from a domestic corporation are not U.S. source income if the corporation elects to take the Puerto Rico economic activity credit or the possession tax credit.

Second exception. Part of the dividends received from a foreign corporation is U.S. source income if 25% or more of its total gross income for the 3-year period ending with the close of its tax year preceding the declaration of dividends was effectively connected with a trade or business in the United States. If the corporation was formed less than 3 years before the declaration, use its total gross income from the time it was formed. Determine the part that is U.S. source income by multiplying the dividend by the following fraction:

$$\frac{\text{Foreign corporation's gross income connected with a U.S. trade or business for the 3-year period}}{\text{Foreign corporation's gross income from all sources for that period}}$$

Personal Services

All wages and any other compensation for services performed in the United States are considered to be from sources in the United States. The only exception to this rule is discussed in chapter 3, under *Employees of foreign persons, organizations, or offices*.

If your compensation is for personal services performed both inside and outside the United States, you must figure the amount of income that is for services performed in the United States. You usually do this on a time basis. That is, you must include in gross income as U.S. source income the amount that results from multiplying the total amount of compensation by the following fraction:

$$\frac{\text{Number of days you performed services in the United States}}{\text{Total number of days of service for which you receive payment}}$$

Example. Jean Blanc, a nonresident alien, is a professional hockey player with a U.S. hockey club. Under Jean's contract, he received \$98,500 for 242 days of play during the year. This includes days spent at pre-season training camp, days during the regular season, and playoff game days. Of the 242 days, Jean spent 194 days performing services in the United States and 48 days playing hockey in Canada. Jean's U.S. source income is \$78,963, figured as follows:

$$\frac{194}{242} \times \$98,500 = \$78,963$$

Reenlistment bonus. A reenlistment bonus received by a nonresident alien for reenlistment in the U.S. Navy while in a foreign country is income for services performed outside the United States.

Transportation income. All income from transportation that begins *and* ends in the United States is treated as derived from sources in the United States. Fifty percent of transportation income from personal services is U.S. source income if the transportation is between the United States and a U.S. possession.

Transportation income is income from the use of a vessel or aircraft. This is true whether the vessel or aircraft is owned, hired, or leased, or the income is from the performance of services directly related to the use of a vessel or aircraft. The term "vessel or aircraft" includes any container used in connection with a vessel or aircraft.

If you are engaged in any other foreign trade, you should consider your wages received for services performed in the United States or its territorial waters as being from sources in the United States. However, see the discussion of *Employees of foreign persons, organizations, or offices* in chapter 3, and any tax treaty provisions that may apply. For information on how U.S. source transportation income is taxed, see chapter 4.

Scholarships, Grants, Prizes, and Awards

Generally, the source of scholarships, fellowship grants, grants, prizes, and awards is the residence of the payer regardless of who actually disburses the funds. However, see *Activities to be performed outside the United States*, later.

For example, payments for research or study in the United States made by the United States, a noncorporate U.S. resident, or a domestic corporation, are from U.S. sources. Similar payments from a foreign government or foreign corporation are foreign source payments even though the funds may be disbursed through a U.S. agent.

Payments made by an entity designated as a public international organization under the International Organizations Immunities Act are from foreign sources.

Activities to be performed outside the United States. Scholarships, fellowship grants, targeted grants, and achievement awards received by nonresident aliens for activities performed, or to be performed, outside the United States are not U.S. source income.



These rules do not apply to amounts paid as salary or other compensation for services.

Pensions and Annuities

When you receive a pension from a domestic trust for services performed both in and outside the United States, part of the pension payment is from U.S. sources. That part is the amount attributable to earnings of the trust and the employer contributions made for services performed in the United States. This applies whether the distribution is made under a qualified or nonqualified stock bonus, pension, profit-sharing, or annuity plan (whether or not funded).

If you performed services as an employee of the United States, you may receive a distribution from the U.S. Government under a plan, such as the Civil Service Retirement Act, that is treated as a qualified pension plan. To the extent the distribution can be attributed to basic U.S. salary for services performed outside the United States, it is treated as income from sources outside the United States, and is not taxable. For more information, get Publication 721, *Tax Guide to U.S. Civil Service Retirement Benefits*.

Rents or Royalties

Your U.S. source income includes rent and royalty income received during the tax year from property located in the United States or from any interest in that property.

U.S. source income also includes rents or royalties for the use of, or for the privilege of using, in the United States, intangible property such as patents, copyrights, secret processes and formulas, goodwill, trademarks, franchises, and similar property.

Real Property

Real property is land and buildings and generally anything built on, growing on, or attached to land.

Gross income from sources in the United States includes gains, profits, and income from the sale or other disposition of real property located in the United States.

Natural resources. The income from the sale of products of any farm, mine, oil or gas well, other natural deposit, or timber located in the United States and sold in a foreign country, or located in a foreign country and sold in the United States, is partly from sources in the United States. For information on determining that part, see section 1.863-1(b) of the Income Tax Regulations.

Personal Property

Personal property is property, such as machinery, equipment, or furniture, that is not real property.

Income from the sale or exchange of personal property by a nonresident alien individual generally has its source in the United States if the individual has a **tax home** in the United States. If the individual does not have a tax home in the United States, the income generally is considered to be from sources outside the United States.

Tax home. Your tax home is the general area of your main place of business, employment, or post of duty, regardless of where you maintain your family home. Your tax home is the place where you permanently or indefinitely work as an employee or a self-employed individual. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

Inventory property. Inventory property is personal property that is stock in trade or that is held primarily for sale to customers in the ordinary course of your trade or business. Income from the sale in the United States of inventory property generally has its source within the United States, regardless of where

Table 2-1. Summary of Source Rules for Income of Nonresident Aliens

Type of Income:	Source Determined By:
Compensation for personal services	Where services are performed
Dividends	Residence of paying corporation
Interest	Residence of payor
Rents	Where property is located
Royalties—Natural resources	Where property is located
Royalties—Patents, copyrights, etc.	Where property is used
Pensions	Where services were performed
Sale of inventory—purchased Sale of inventory—produced	Where property is sold Allocation
Sale of personal property (other than inventory property)	Tax home of seller
Sale of real property	Where property is located
Sale of natural resources	Allocation

you purchased the property. Income from the sale of inventory property outside the United States (even though you purchased it within the United States) has its source outside the United States. These rules apply even if your tax home is not in the United States.

If you produce inventory property in the United States and sell it outside the United States, or produce it outside the United States and sell it in the United States, your income from the sale is partly from sources in the United States and partly from sources outside the United States. For information on making this allocation, see section 1.863-3 of the Income Tax Regulations.

Depreciable personal property. To determine the source of any gain from the sale of depreciable personal property, you must first figure the part of the gain that is not more than the total depreciation adjustments on the property. You allocate this part of the gain to sources in the United States based on the ratio of U.S. depreciation adjustments to total depreciation adjustments. The rest of this part of the gain is considered to be from sources outside the United States.

For this purpose, “U.S. depreciation adjustments” are the depreciation adjustments to the basis of the property that are allowable in figuring taxable income from sources within the United States. However, if the property is used predominantly in the United States during a tax year, all depreciation deductions allowable for that year are treated as U.S. depreciation adjustments. But there are some exceptions for certain transportation, communications, and other property used internationally.

Gain from the sale of depreciable property that is more than the total depreciation adjustments on the property is sourced as if the property were inventory property, as discussed above.

The **basis of property** usually means the cost (money plus the fair market value of other property or services) of property you acquire. **Depreciation** is an amount deducted to recover the cost or other basis of a trade or business asset. The amount you can deduct depends on the property’s cost, when you began using the property, how long it will take to recover your cost, and which depreciation method you use. A depreciation deduction is any deduction for depreciation or amortization or any other allowable deduction that treats a capital expenditure as a deductible expense.

Intangible property. The general rule for determining the source of income from sales of personal property applies to sales of intangibles. Intangible property includes patents, copyrights, secret processes or formulas, goodwill, trademarks, trade names, or other like property. The general rule applies only to the extent the payments for the property do not depend on the productivity, use, or disposition of the intangible. To the extent the payments for the intangible property do depend on the productivity, use, or disposition of the property, their source is determined as though the payments were royalties, as discussed earlier. If payments for goodwill do not depend on its productivity, use, or disposition, their source is the country in which the goodwill was generated.

To the extent gain from the sale of an intangible does not exceed its depreciation ad-

justments, treat the gain as if the intangible were depreciable personal property, discussed earlier.

Sales through offices or fixed places of business. Despite any of the above rules, if you do not have a tax home in the United States, but you maintain an office or other fixed place of business in the United States, treat the income from any sale of personal property (including inventory property) that is attributable to that office or place of business as being from U.S. sources. However, this rule does not apply to sales of inventory property for use, disposition, or consumption outside the United States if an office or other fixed place of business of the taxpayer outside the United States materially participated in the sale.

If you have a tax home in the United States but maintain an office or other fixed place of business outside the United States, income from sales of personal property, other than inventory, depreciable property, or intangibles, that is attributable to that foreign office or place of business is treated as being from sources outside the United States. However, this rule does not apply unless an income tax of at least 10% of the income from the sale is actually paid to a foreign country.

Community Income

Generally, if you are married and you or your spouse are subject to the community property laws of a foreign country, a U.S. state, or a U.S. possession, you generally must follow those laws to determine the income of yourself and your spouse for U.S. tax purposes. But you must disregard certain community property laws if:

- 1) Both you and your spouse are nonresident aliens, or
- 2) One of you is a nonresident alien and the other is a U.S. citizen or resident and you do not both choose to be treated as U.S. residents as explained in chapter 1.

In these cases, you and your spouse must report community income as explained below.

Earned income. Earned income of a spouse, other than trade or business income and a partner’s distributive share of partnership income, is treated as the income of the spouse whose services produced the income. That spouse must report all of it on his or her separate return.

Trade or business income. Trade or business income, other than a partner’s distributive share of partnership income, is treated as the income of the person who exercises substantially all of the management and control over the trade or business. That spouse must report all of it on his or her separate return.

Partnership income (or loss). A partner’s distributive share of partnership income is treated as the income (or loss) of the partner. The partner must report all of it on his or her separate return.

Separate property income. Income derived from the separate property of one spouse (and which is not earned income, trade or business income, or partnership distributive share income) is treated as the income of that spouse. That spouse must report all of it on his or her separate return. Use the appropriate community property law to determine what is separate property.

Other community income. All other community income is treated as provided by the applicable community property laws.

3. Exclusions From Gross Income

Introduction

Resident and nonresident aliens are allowed exclusions from gross income if they meet

certain conditions. An exclusion from gross income is generally income you receive that is not included in your U.S. income and is not subject to U.S. tax. This chapter covers some of the more common exclusions allowed to resident and nonresident aliens.

Topics

This chapter discusses:

- Nontaxable interest
- Certain compensation paid by a foreign employer
- Scholarships and fellowship grants
- Gain from sale of home

Useful Items

You may want to see:

Publication

- **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- **523** Selling Your Home

See chapter 12 for information about getting these publications.

Resident Aliens

Resident aliens may be able to exclude the following items from their gross income.

Foreign Earned Income and Housing Amount

If you are physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months, you may qualify to exclude from your income up to \$70,000 of income earned abroad, plus a housing amount if you are an employee. You may also qualify for these exclusions if you are a bona fide resident of a foreign country and you are a citizen or national of a country with which the United States has an income tax treaty. For more information, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Foreign country. The term “foreign country” means any territory under the sovereignty of a government other than that of the United States. The term also includes territorial waters of the foreign country, the airspace over the foreign country, and the seabed and subsoil of submarine areas adjacent to the territorial waters of the foreign country.

Nonresident Aliens

Nonresident aliens can exclude the following items from their gross income.

Interest

U.S. source interest income that is not connected with a U.S. trade or business is excluded from income if it is from:

- 1) Deposits (including certificates of deposit) with persons in the banking business,

- 2) Deposits or withdrawable accounts with mutual savings banks, cooperative banks, credit unions, domestic building and loan associations, and other savings institutions chartered and supervised as savings and loan or similar associations under federal or state law (if the interest paid or credited can be deducted by the association), and
- 3) Amounts held by an insurance company under an agreement to pay interest on them.

Government obligations. Interest on obligations of a state or political subdivision, the District of Columbia, or a U.S. possession, generally is not included in income. However, interest on certain private activity bonds, arbitrage bonds, and certain bonds not in registered form is included in income.

Portfolio interest. U.S. source interest income that is not connected with a U.S. trade or business and that is portfolio interest on obligations issued after July 18, 1984, is excluded from income. Portfolio interest is interest (including original issue discount) that is paid on obligations:

- 1) Not in registered form (bearer obligations) that are sold only to foreign investors, and the interest on which is payable only outside the United States and its possessions, and that has on its face a statement that any U.S. person holding the obligation will be subject to limitations under the U.S. income tax laws,
- 2) In registered form that are targeted to foreign markets and the interest on which is paid through financial institutions outside the United States, or
- 3) In registered form that are **not** targeted to foreign markets, if you furnish the payer of the interest (or the withholding agent) a statement that you are not a U.S. person. You can make this statement on a Form W-8, *Certificate of Foreign Status*, or on a substitute form similar to Form W-8. In either case, the statement must be signed under penalties of perjury, must certify that you are not a U.S. citizen or resident, and must include your name and address.

Portfolio interest does not include interest that you receive on an obligation issued by a corporation of which you own, directly or indirectly, 10% or more of the total voting power of all classes of voting stock. Portfolio interest does not include interest that you receive on an obligation issued by a partnership of which you own, directly or indirectly, 10% or more of the capital or profits interests.

Portfolio interest does not include contingent interest. Contingent interest is:

- 1) Interest that is determined by reference to—
 - a) Any receipts, sales, or other cash flow of the debtor or related person,
 - b) Income or profits of the debtor or related person,
 - c) Any change in value of any property of the debtor or a related person, or

- d) Any dividend, partnership distributions, or similar payments made by the debtor or a related person.
- 2) Any other type of contingent interest that is identified by the Secretary of the Treasury in regulations.

For the definition of “related person” in connection with any contingent interest, and for the exceptions that apply to interest described in item (1), see subparagraphs (B) and (C) of Internal Revenue Code section 871(h)(4).

Portfolio interest includes any contingent interest paid or accrued on any indebtedness with a fixed term that was issued—

- 1) On or before April 7, 1993, or
- 2) After April 7, 1993, pursuant to a written binding contract in effect on that date and at all times thereafter before that indebtedness was issued.

Services Performed for Foreign Employer

If you were paid by a foreign employer, your U.S. source income may be exempt from U.S. tax, but only if you meet one of the situations discussed next.

Employees of foreign persons, organizations, or offices. If three conditions exist, your performance of personal services in the United States during the time you are a nonresident alien is not considered to be from U.S. sources and is tax exempt. If you do not meet **any one** of the conditions, your income from personal services performed in the United States is considered to be from U.S. sources and is taxed according to the rules in chapter 4.

The three conditions are:

- 1) You perform personal services as an employee of or under a contract with a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in a trade or business in the United States; or you work for an office or place of business maintained in a foreign country or possession of the United States by a U.S. corporation, a U.S. partnership, or a U.S. citizen or resident,
- 2) You perform these services while you are a nonresident alien temporarily present in the United States for a period or periods of not more than a total of 90 days during the tax year, and
- 3) Your pay for these services is not more than \$3,000.

If your pay for these services is more than \$3,000, the entire amount is income from a trade or business within the United States. To find if your pay is more than \$3,000, do not include any amounts you get from your employer for advances or reimbursements of business travel expenses, if you were required to and did account to your employer for those expenses. If the advances or reimbursements are more than your expenses, include the excess in income paid to you for personal services performed.

A day means a calendar day during any part of which you are physically present in the United States.

Example 1. During 1997, Henry Smythe, a nonresident alien from a nontreaty country, worked for an overseas office of a domestic partnership. Henry, who uses the calendar year as his tax year, was temporarily present in the United States for 60 days during 1997 performing personal services for the overseas office of the partnership. That office paid him a total gross salary of \$2,800 for those services. During 1997, he was not engaged in a trade or business in the United States.

Example 2. The facts are the same as in Example 1, except that Henry's total gross salary for the services performed in the United States during 1997 was \$4,500. He received \$2,875 in 1997, and \$1,625 in 1998. During 1997, he was engaged in a trade or business in the United States because the compensation for his personal services in the United States was more than \$3,000.

Students and exchange visitors. Nonresident alien students and exchange visitors present in the United States under section 101(a)(15)(F), (J), (M), or (Q) of the Immigration and Nationality Act can exclude from gross income pay received from a foreign employer.

This group includes bona fide students, scholars, trainees, teachers, professors, research assistants, specialists, or leaders in a field of specialized knowledge or skill, or persons of similar description. It also includes the alien's spouse and minor children if they come with the alien or come later to join the alien.

A nonresident alien temporarily present in the United States under section 101(a)(15)(J) of the Immigration and Nationality Act includes an alien individual entering the United States as an **exchange visitor** under the Mutual Educational and Cultural Exchange Act of 1961.

Foreign employer. A foreign employer is:

- 1) A nonresident alien individual, foreign partnership, or foreign corporation, or
- 2) An office or place of business maintained in a foreign country or in a U.S. possession by a domestic corporation, a domestic partnership, or an individual who is a citizen or resident of the United States.

The term "foreign employer" does not include a foreign government. Pay from a foreign government that is exempt from U.S. income tax is discussed in chapter 10.

Income from certain annuities. Do not include in income any annuity received under a **qualified annuity plan**, or from a **qualified trust** exempt from U.S. income tax if:

- 1) You receive the annuity only because of personal services performed outside the United States while you were a nonresident alien; or personal services performed inside the United States while you were a nonresident alien that meets the three conditions described in *Employees of foreign persons, organizations, or offices*, earlier, and
- 2) At the time the first amount is paid as an annuity under the plan (or by the trust), 90% or more of the employees for whom contributions or benefits are provided under the annuity plan (or under

the plan of which the trust is a part) are citizens or residents of the United States.

If the annuity qualifies under condition (1) but not condition (2) above, you do not have to include the amount in income if:

- 1) You are a resident of a country that gives a substantially equal exclusion to U.S. citizens and residents, or
- 2) You are a resident of a beneficiary developing country under the Trade Act of 1974.

If you are not sure whether the annuity is from a qualified annuity plan or qualified trust, ask the person who made the payment.

Income affected by treaties. Income of any kind that is exempt from U.S. tax under a treaty to which the United States is a party is excluded from your gross income. Income on which the tax is only limited by treaty, however, is included in gross income. See chapter 9.

Gain From the Sale of Your Main Home

If you sold your main home after May 6, 1997, you may be able to exclude \$250,000 of the gain on the sale of your home. If you are married and file a joint return, you may be able to exclude \$500,000. For more information, see Publication 523.



This exclusion does not apply to nonresident aliens who are subject to the expatriation tax rules discussed in chapter 4.

Ownership and use test. To qualify for the exclusion you must have owned and used the home as your main home for at least two years during the five-year period ending on the date of sale.

Scholarships and Fellowship Grants

If you are a candidate for a degree, you may be able to exclude from your income part or all of the amounts you receive as a qualified scholarship. The rules discussed here apply to both resident and nonresident aliens.



If a nonresident alien receives a grant that is not from U.S. sources, it is not subject to U.S. tax. See Scholarships, Grants, Prizes, and Awards in chapter 2 to determine whether your grant is from U.S. sources.

Qualified scholarship. A qualified scholarship is any amount you receive as a scholarship or fellowship grant that you use according to the conditions of the grant for:

- 1) Tuition and fees required to enroll in, or to attend, an educational institution, or
- 2) Fees, books, supplies, and equipment that the educational institution requires for the courses of instruction.

Amounts you receive from a scholarship or fellowship that you use for other expenses,

such as room and board or travel, are not excludable from income.

Terms of grant. Your scholarship or fellowship can still qualify as tax-free even if the terms do not provide that it only be used for tuition and course-related expenses. It will qualify if you use the grant proceeds for tuition and course-related expenses. However, if the terms of the grant require its use for other purposes, such as room and board, or specify that the grant cannot be used for tuition or course-related expenses, the amounts received under the grant cannot be excluded from income.

Candidate for a degree. The term candidate for a degree means a student (whether full or part-time) who:

- 1) Attends a primary or secondary school or is pursuing a degree at a college or university, or
- 2) Attends an educational institution that is authorized and accredited to provide a program that is acceptable for full credit toward a bachelor's or higher degree, or to provide a program of training to prepare students for gainful employment in a recognized occupation.

Payment for services. You cannot exclude from income the portion of any scholarship or fellowship, including any tuition reduction, that represents payment for teaching, research, or other services which the grantor requires as a condition for receiving the scholarship or fellowship. This is true even if all candidates for a degree are required to perform the services as a condition for receiving the degree.

Example. On January 7, Maria Gomez is notified of a scholarship of \$2,500 for the spring semester. As a condition for receiving the scholarship, Maria must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for her services. Assuming that Maria meets all other conditions, she can exclude no more than \$1,500 from income as a qualified scholarship.

4.

How Income of Aliens Is Taxed

Introduction

Resident and nonresident aliens are taxed in different ways. Resident aliens are generally taxed in the same way as U.S. citizens. Nonresident aliens are taxed based on the source of their income and whether or not their income is effectively connected with a U.S. trade or business. The following discussions will help you determine if income you receive during the tax year is effectively connected with a U.S. trade or business and

how it is taxed.

Topics

This chapter discusses:

- Income that is effectively connected with a U.S. trade or business
- Income that is not effectively connected with a U.S. trade or business

Useful Items

You may want to see:

Publication

- 544** Sales and Other Dispositions of Assets
- 1212** List of Original Issue Discount Instruments

Form (and Instructions)

- 6251** Alternative Minimum Tax—Individuals
- W-8** Certificate of Foreign Status
- Schedule D (Form 1040)** Capital Gains and Losses

See chapter 12 for information about getting these publications and forms.

Resident Aliens

Resident aliens are generally taxed in the same way as U.S. citizens. This means that their worldwide income is subject to U.S. tax and must be reported on their U.S. tax return. Income of resident aliens is subject to the graduated tax rates that apply to U.S. citizens. Resident aliens use the Tax Table and Tax Rate Schedules located in the Form 1040 instructions, which apply to U.S. citizens.

Nonresident Aliens

A nonresident alien's income that is subject to U.S. income tax must be divided into two categories:

- 1) Income that **is** effectively connected with a trade or business in the United States, and
- 2) Income that **is not** effectively connected with a trade or business in the United States (discussed under *The 30% Tax*).

The difference between these two categories is that effectively connected income, after allowable deductions, is taxed at **graduated rates**. These are the same rates that apply to U.S. citizens and residents. Income that is not effectively connected is taxed at a **flat 30% (or lower treaty) rate**.



If you were formerly a U.S. citizen or resident alien, these rules may not apply. See Expatriation Tax, later in this chapter.

Trade or Business in the United States

Generally, you must be engaged in a trade or business during the tax year to be able to treat income received in that year as effectively connected with that trade or business. Whether you are engaged in a trade or business in the United States depends on the nature of your activities. The discussions that follow will help you determine whether you are engaged in a trade or business in the United States.

Personal Services

If you perform personal services in the United States at any time during the tax year, you usually are considered engaged in a trade or business in the United States.



Certain compensation paid to a nonresident alien by a foreign employer is not included in gross income. For more information, see Services Performed for Foreign Employer in chapter 3.

Other Trade or Business Activities

Other examples of being engaged in a trade or business in the United States follow.

Students and trainees. You are considered engaged in a trade or business in the United States if you are temporarily present in the United States as a nonimmigrant under subparagraphs (F), (J), (M), or (Q) of section 101(a)(15) of the Immigration and Nationality Act. Subparagraph (J) includes a nonresident alien individual admitted to the United States as an **exchange visitor** under the Mutual Educational and Cultural Exchange Act of 1961. The taxable part of any scholarship or fellowship grant that is U.S. source income is treated as effectively connected with a trade or business in the United States.

Business operations. If you own and operate a business in the United States selling services, products, or merchandise, you are, with certain exceptions, engaged in a trade or business in the United States.

Partnerships. If you are a member of a partnership that at any time during the tax year is engaged in a trade or business in the United States, you are considered to be engaged in a trade or business in the United States.

Beneficiary of an estate or trust. If you are the beneficiary of an estate or trust that is engaged in a trade or business in the United States, you are treated as being engaged in the same trade or business.

Trading in stocks, securities, and commodities. If your only U.S. business activity is trading in stocks, securities, or commodities (including hedging transactions) through a U.S. resident broker or other agent, you are not engaged in a trade or business in the United States.

For transactions in stocks or securities, this applies to any nonresident alien, including a dealer or broker in stocks and securities.

For transactions in commodities, this applies to commodities that are usually traded on an organized commodity exchange and to transactions that are usually carried out at such an exchange.

This discussion does not apply if you have a U.S. office or other fixed place of business at any time during the tax year through which, or by the direction of which, you carry out your transactions in stocks, securities, or commodities.

Trading for a nonresident alien's own account. You are not engaged in a trade or business in the United States if trading for your own account in stocks, securities, or commodities is your only U.S. business activity. This applies even if the trading takes place while you are present in the United States or is done by your employee or your broker or other agent.

This does not apply to trading for your own account if you are a dealer in stocks, securities or commodities. This does not necessarily mean, however, that as a dealer you are considered to be engaged in a trade or business in the United States. Determine that based on the facts and circumstances in each case or under the rules given above in *Trading in stocks, securities, and commodities*.

Effectively Connected Income

If you are engaged in a U.S. trade or business, all income, gain, or loss for the tax year that you get from **sources within the United States** (other than certain investment income) is treated as effectively connected income. This applies whether or not there is any connection between the income and the trade or business being carried on in the United States during the tax year.

Two tests, described later, determine whether certain items of investment income (such as interest, dividends, and royalties) are treated as effectively connected with that business.

In limited circumstances, some kinds of foreign source income may be treated as effectively connected with a trade or business in the United States. For a discussion of these rules, see *Foreign Income*, later.

Investment Income

Investment income from U.S. sources that may or may not be treated as effectively connected with a U.S. trade or business generally falls into three categories:

- 1) Fixed or determinable income (interest, dividends, rents, royalties, premiums, annuities, etc.),
- 2) Certain gains (some of which are considered capital gains), and
- 3) Capital gains (and losses).

Use the two tests, described next, to determine whether an item of U.S. source income falling in one of these categories and received during the tax year is effectively connected with your U.S. trade or business. If the tests indicate that the item of income is effectively connected, you must include it with your other effectively connected income. If the item of income is not effectively connected, include it with all other income discussed under *The 30% Tax*, later in this chapter.

Asset-use test. This test usually applies to income that is not directly produced by trade or business activities. Under this test, if an item of income is from assets (property) used in, or held for use in, the trade or business in

the United States, it is considered effectively connected.

An asset is used in, or held for use in, the trade or business in the United States if the asset is:

- 1) Held for the principal purpose of promoting the conduct of a trade or business in the United States,
- 2) Acquired and held in the ordinary course of the trade or business conducted in the United States (for example, an account receivable or note receivable arising from that trade or business), or
- 3) Otherwise held to meet the present needs of the trade or business in the United States and not its anticipated future needs.

Generally, stock of a corporation is not treated as an asset used in, or held for use in, a trade or business in the United States.

Business-activities test. This test usually applies when income, gain, or loss comes directly from the active conduct of the trade or business. The business-activities test is most important when:

- 1) Dividends or interest are received by a dealer in stocks or securities,
- 2) Royalties are received in the trade or business of licensing patents or similar property, or
- 3) Service fees are earned by a servicing business.

Under this test, if the conduct of the U.S. trade or business was a material factor in producing the income, the income is considered effectively connected.

Personal Service Income

You usually are engaged in a U.S. trade or business when you perform personal services in the United States. Personal service income you receive in a tax year in which you are engaged in a U.S. trade or business is effectively connected with a U.S. trade or business. Income received in a year other than the year you performed the services is also effectively connected if it would have been effectively connected if received in the year you performed the services. Personal service income includes wages, salaries, commissions, fees, per diem allowances, and employee allowances and bonuses. The income may be paid to you in the form of cash, services, or property.

If you engaged in a U.S. trade or business only because you perform personal services in the United States during the tax year, income and gains from assets, and gains and losses from the sale or exchange of capital assets are generally not effectively connected with your trade or business. However, if there is a **direct economic relationship** between your holding of the asset and your trade or business of performing personal services, the income, gain, or loss is effectively connected.

Transportation income. Transportation income is effectively connected if you meet the following two conditions:

- 1) You had a fixed place of business in the United States involved in earning the income, and

- 2) At least 90% of your U.S. source transportation income is attributable to regularly scheduled transportation.

If you meet both of these conditions, include your wages with your other effectively connected personal service income. "Regularly scheduled transportation" means that a ship or aircraft follows a published schedule with repeated sailings or flights at regular intervals between the same points for voyages or flights that begin or end in the United States. This definition applies to both scheduled and chartered air transportation. "Fixed place of business" generally means a place, site, structure, or other similar facility through which you engage in a trade or business.

If you do not meet the two conditions above, the income is not effectively connected and different rules apply. See *Transportation Tax*, later in this chapter.

Pensions. If you were engaged in a U.S. trade or business in a tax year because you performed personal services in the United States, and you later receive a pension or retirement pay as a result of these services, the retirement pay is effectively connected income in each year you receive it. This is true whether or not you are engaged in a U.S. trade or business in the year you receive the retirement pay.

Business Profits and Losses, and Sales Transactions

All profits or losses from U.S. sources that are from the operation of a business in the United States are effectively connected with a trade or business in the United States. For example, profit from the sale in the United States of inventory property purchased either in this country or in a foreign country is effectively connected trade or business income. A share of U.S. source profits or losses of a partnership that is engaged in a trade or business in the United States is also effectively connected with a trade or business in the United States.

Real Property Gain or Loss

Gains and losses from the sale or exchange of U.S. real property interests (whether or not they are capital assets) are taxed as if you are engaged in a trade or business in the United States. You must treat the gain or loss as effectively connected with that trade or business.

U.S. real property interest. This is any interest in real property located in the United States or the Virgin Islands or any interest in a domestic corporation that is a U.S. real property holding corporation. Real property includes:

- 1) Land and unsevered natural products of the land, such as growing crops, timber, mines, wells, and other natural deposits,
- 2) Improvements on land, including buildings, other permanent structures, and structural components of these, and
- 3) Personal property associated with the use of real property, such as farming, mining, forestry, or construction equipment or property used in lodging facilities or rented office space, unless the personal property is—

- a) Disposed of more than one year before or after the disposition of the real property, or
- b) Separately sold to persons unrelated either to the seller or to the buyer of the real property.

A corporation is a U.S. real property holding corporation if the fair market value of the corporation's U.S. real property interests are at least 50% of the total fair market value of:

- 1) The corporation's U.S. real property interests, plus
- 2) The corporation's interests in real property located outside the United States, plus
- 3) The corporation's other assets that are used in or held for use in a trade or business.

You generally are subject to tax on the sale of the stock in any domestic corporation unless you establish that the corporation is **not** a U.S. real property holding corporation.

A U.S. real property interest does not include a class of stock of a corporation that is regularly traded on an established securities market, unless you hold more than 5% of the fair market value of that class of stock. An interest in a foreign corporation owning U.S. real property generally is not a U.S. real property interest unless the corporation chooses to be treated as a domestic corporation.

Alternative minimum tax. There may be a minimum tax on your net gain from the disposition of U.S. real property interests. Figure the amount, if any, of this tax on Form 6251.

Withholding of tax. If you dispose of a U.S. real property interest, the buyer may have to withhold tax. See the discussion of *Tax Withheld on Real Property Sales*, in chapter 8.

Foreign Income

Under limited circumstances, you must treat three kinds of foreign source income as effectively connected with a trade or business in the United States. These circumstances are:

- 1) You have an office or other fixed place of business in the United States to which the income can be attributed,
- 2) That office or place of business is a material factor in producing the income, and
- 3) The income is produced in the ordinary course of the trade or business carried on through that office or other fixed place of business.

An office or other fixed place of business is a **material factor** if it significantly contributes to, and is an essential economic element in, the earning of the income.

The three kinds of foreign source income are:

- 1) Rents and royalties for the use of, or for the privilege of using, intangible personal property located outside the United States or from any interest in such property. Included are rents or royalties for the use, or for the privilege of using,

outside the United States, patents, copyrights, secret processes and formulas, goodwill, trademarks, trade brands, franchises, and similar properties if the rents or royalties are from the active conduct of a trade or business in the United States.

- 2) Dividends or interest from the active conduct of a banking, financing, or similar business in the United States, or from a corporation the principal business of which is trading in stocks or securities for its own account.
- 3) Income, gain, or loss from the sale outside the United States—through the U.S. office or other fixed place of business—of stock in trade, property that would be included in inventory if on hand at the end of the tax year, or property held primarily for sale to customers in the ordinary course of business. This will not apply if you sold the property for use, consumption, or disposition outside the United States and an office or other fixed place of business in a foreign country was a material factor in the sale.

Tax on Effectively Connected Income

Income you receive during the tax year that is effectively connected with your trade or business in the United States is, after allowable deductions, taxed at the rates that apply to U.S. citizens and residents.

Generally, you can receive effectively connected income only if you are a nonresident alien engaged in trade or business in the United States during the tax year. However, income you receive from the sale or exchange of property, the performance of services, or any other transaction in another tax year is treated as effectively connected in that year if it would have been effectively connected in the year the transaction took place or you performed the services.

Example. Ted Richards, a nonresident alien, entered the United States in August 1996 to perform personal services in the U.S. office of his overseas employer. He worked in the U.S. office until December 25, 1996, but did not leave this country until January 11, 1997. On January 7, 1997, he received his final paycheck for services performed in the United States during 1996. All of Ted's income during his stay here is U.S. source income.

During 1996, Ted was engaged in the trade or business of performing personal services in the United States. Therefore, all amounts paid him in 1996 for services performed in the United States during 1996 are effectively connected with that trade or business during 1996.

The salary payment Ted received in January 1997 is U.S. source income to him in 1997. It is effectively connected with a trade or business in the United States because he was engaged in a trade or business in the United States during 1996 when he performed the services that earned the income.

Real property income. You may be able to choose to treat all income from real property as effectively connected. See *Income From Real Property*, later in this chapter.

The 30% Tax

Tax at a 30% (or lower treaty) rate applies to certain items of income or gains from U.S. sources but only if the items are **not** effectively connected with your U.S. trade or business.

Fixed or Determinable Income

The 30% (or lower treaty) rate applies to the gross amount of U.S. source fixed or determinable annual or periodic gains, profits, or income.

Income is **fixed** when it is paid in amounts known ahead of time. Income is **determinable** whenever there is a basis for figuring the amount to be paid. Income can be **periodic** if it is paid from time to time. It does not have to be paid annually or at regular intervals. Income can be determinable or periodic even if the length of time during which the payments are made is increased or decreased.

Items specifically included as fixed or determinable income are interest (other than original issue discount), dividends, rents, premiums, annuities, salaries, wages, and other compensation. Other items of income, such as royalties, also may be subject to the 30% tax.



Some fixed or determinable income may be exempt from U.S. tax. See chapter 3 if you are not sure whether the income is taxable.

Original issue discount. If you sold, exchanged, or received a payment on a bond or other debt instrument that was issued at a discount **after** March 31, 1972, all or part of the original issue discount (OID) (other than portfolio interest) may be subject to the 30% tax. The amount of OID is the difference between the stated redemption price at maturity and the issue price of the debt instrument. The 30% tax applies in the following circumstances:

- 1) You received a payment on an obligation. In this case, the amount of OID subject to tax is the OID that accrued while you held the obligation minus the OID previously taken into account. But the tax on the OID cannot be more than the payment minus the tax on the interest payment on the obligation.
- 2) You sold or exchanged the obligation. The amount of OID subject to tax is the OID that accrued while you held the obligation minus the amount already taxed in (1) above.

Report on your return the amount of OID shown on Form 1042-S if you bought the debt instrument at original issue. However, you must recompute your proper share of OID shown on Form 1042-S if any of the following apply:

- 1) You bought the obligation at a premium or paid an acquisition premium.
- 2) The obligation is a stripped bond or a stripped coupon (including zero coupon instruments backed by U.S. Treasury securities).
- 3) You receive a Form 1042-S as a nominee recipient.

For the definition of **premium** and **acquisition premium** and instructions on how to recompute OID, get Publication 1212.

If you held a bond or other debt instrument that was issued at a discount **before** April 1, 1972, write to the IRS for further information. See chapter 12.

Social Security Benefits

A nonresident alien must include 85% of any U.S. social security benefit (and the social security equivalent part of a tier 1 railroad retirement benefit) in U.S. source fixed or determinable annual or periodic income. This income is subject to the 30% tax, unless exempt by treaty.

Sales or Exchanges of Capital Assets

These rules apply only to those capital gains and losses from sources in the United States that are **not** effectively connected with a trade or business in the United States. These rules apply even if you are engaged in a trade or business in the United States. These rules do not apply to the sale or exchange of a U.S. real property interest or to the sale of any property that is effectively connected with a trade or business in the United States. See *Real Property Gain or Loss* earlier, under *Effectively Connected Income*.

A **capital asset** is everything you own except the following: inventory, business accounts or notes receivable, depreciable property used in a trade or business, real property used in a trade or business, certain copyrights, literary or musical or artistic compositions, letters or memoranda, or similar property, and certain U.S. Government publications.

A **capital gain** is a gain on the sale or exchange of a capital asset. A **capital loss** is a loss on the sale or exchange of a capital asset.

You may want to read Publication 544. However, use Publication 544 only to determine what is a sale or exchange of a capital asset, or what is treated as such. Specific tax treatment that applies to U.S. citizens or residents generally does not apply to you.

The following gains are subject to the 30% (or lower treaty) rate without regard to the 183-day rule.

- 1) Gains on the disposal of timber, coal, or domestic iron ore with a retained economic interest.
- 2) Gains on contingent payments received from the sale or exchange of patents, copyrights, and similar property after October 4, 1966.
- 3) Gains on certain transfers of all substantial rights to, or an undivided interest in, patents if the transfers were made before October 5, 1966.
- 4) Gains on the sale or exchange of original issue discount obligations.

183-day rule. If you have been in the United States for 183 days or more during the tax year, your capital gains from U.S. sources (other than gains listed earlier) that are more than your capital losses from U.S. sources are taxed at a 30% (or lower treaty) rate. This rule applies even if any of the transactions occur while you are **not** in the United States.

To determine the excess of gains over losses, consider only the amount of your gains and losses that would be recognized and taken into account if effectively connected with your trade or business in the

United States during the tax year. Take into account, in arriving at your net gain, all gains and losses treated under U.S. tax laws as gains or losses from the sales or exchanges of properties that are capital assets.

To determine the excess of gains over losses, you **cannot** take the deduction for a capital loss carryover into account.

Losses from sales or exchanges of capital assets that **exceed** similar gains are not allowed.

If you are not engaged in a trade or business in the United States and have not established a tax year for a prior period, your tax year will be the calendar year for purposes of the 183-day rule. Also, you must file your tax return on a calendar-year basis.

If you have been in the United States for **less than 183 days** during the tax year, capital gains (other than gains listed earlier) are tax exempt unless they are effectively connected with a trade or business in the United States during your tax year.

Reporting. You cannot offset losses that are not effectively connected against effectively connected gains. Report your gains and losses from the sales or exchanges of capital assets that are not connected with a trade or business in the United States on page 4 of Form 1040NR. Report gains and losses from sales or exchanges of capital assets (including real property) that are connected with a trade or business in the United States on a separate Schedule D (Form 1040), *Capital Gains and Losses*, and attach it to Form 1040NR.

Income from Real Property

If you are a nonresident alien and during the tax year you have income from real property located in the United States that you own or have an interest in and hold for the production of income, you can choose to treat all income from that property as income effectively connected with a trade or business in the United States. The choice applies to all income from real property located in the United States and held for the production of income and to all income from any interest in such property. This includes income from rents, royalties from mines, oil or gas wells, or other natural resources. It also includes gains from the sale or exchange of real property.

You can make this choice only for real property income that is not otherwise connected with your U.S. trade or business.

If you make the choice, you can claim deductions attributable to the real property income and only your net income from real property is taxed.

This choice does not treat a nonresident alien, who is not otherwise engaged in a U.S. trade or business, as being engaged in a trade or business in the United States during the year.

Making the choice. Make the initial choice by attaching a statement that you are making the choice to your return, or amended return, for the year of the choice. Include in your statement:

- 1) A complete list of all your real property, or any interest in real property, located in the United States,
- 2) The extent of your ownership in the property,
- 3) The location of the property,

- 4) A description of any major improvements to the property, and
- 5) Details of any previous choices and revocations of the real property income choice.

This choice stays in effect for all later tax years unless you revoke it with the consent of the Internal Revenue Service.

Transportation Tax

If you have transportation income that is not effectively connected (see *Transportation income*, earlier in this chapter), a 4% tax rate applies. If you receive transportation income subject to the 4% tax, you should figure the tax and show it on line 49 of Form 1040NR. Attach a statement to your return that includes the following information (if applicable):

- 1) Your name, taxpayer identification number, and tax year,
- 2) A description of the types of services performed (whether on or off board),
- 3) Names of vessels or registration numbers of aircraft on which you performed the services,
- 4) Amount of U.S. source transportation income derived from each type of service for each vessel or aircraft for the calendar year, and
- 5) Total amount of U.S. source transportation income derived from all types of services for the calendar year.

Expatriation Tax

The expatriation tax provisions apply to U.S. citizens who have renounced their citizenship and long-term residents who have ended their residency, if one of the principal purposes of the action is the avoidance of U.S. taxes. The expatriation tax applies to the 10-year period following the date of the action.

If you expatriated in 1997, you are presumed to have tax avoidance as a principal purpose if:

- 1) Your average annual net income tax for the last five tax years ending before the date of the action is more than \$106,000, or
- 2) Your net worth on the date of the action is \$528,000 or more.

Ruling request. If you are presumed to have tax avoidance as a principal purpose because you meet either of the previous tests, you may be eligible to request a ruling from the IRS that you did not expatriate to avoid U.S. taxes. You must request this ruling within one year from the date of expatriation. For information that must be included in your ruling request see section IV of Notice 97-19 in Internal Revenue Bulletin 1997-10.

Former U.S. citizen. If you are a former U.S. citizen, you are eligible to request a ruling if you are in one of the following categories:

- 1) You became at birth a U.S. citizen and a citizen of another country and continue to be a citizen of that other country,
- 2) You become (within a reasonable period after loss of U.S. citizenship) a citizen

of the country in which you, your spouse, or one of your parents were born,

- 3) You were present in the United States for no more than 30 days during each year of the 10-year period ending on the date of expatriation, or
- 4) You lost your U.S. citizenship before reaching age 18 1/2 .

Former long-term resident. If you are a former long-term resident, you are eligible to request a ruling if you are in one of the following categories:

- 1) On the day of expatriation, you are a citizen of:
 - a) The country in which you were born,
 - b) The country where your spouse was born, or
 - c) The country where either of your parents was born, and
 - d) you become (within a reasonable period after your expatriation) fully liable to tax in that country because of your residence.
- 2) You were present in the United States for no more than 30 days during each year of the 10-year period prior to expatriation, or
- 3) You ceased to be a long-term resident before reaching age 18 1/2.

Long-term residents. You are a long-term resident if you were a lawful permanent resident of the United States in at least 8 of the last 15 tax years ending with the year your residency ends. In determining if you meet the 8-year requirement, do not count any year that you are treated as a resident of a foreign country under a tax treaty and do not waive treaty benefits.

Your U.S. residency is considered to have ended when you cease to be a lawful permanent resident or you commence to be treated as a resident of another country under a tax treaty and do not waive treaty benefits.

Tax. If the expatriation tax applies to you, you are generally subject to tax on your U.S. source gross income and gains on a net basis at the graduated rates applicable to individuals (with allowable deductions), unless you would be subject to a higher tax under the 30% tax (discussed earlier) on income not connected with a U.S. trade or business. In making this determination, you may not claim that an income tax treaty in effect on August 21, 1996, reduces your tax liability under the 30% tax on any items of U.S. source income.

For this purpose, U.S. source gross income (defined in chapter 2) includes gains from the sale or exchange of (1) property (other than stock or debt obligations) located in the United States, and (2) stock issued by a U.S. domestic corporation, or debt obligations of U.S. persons or of the United States, a state or political subdivision thereof, or the District of Columbia.

It also includes any income or gain derived from stock in certain controlled foreign corporations if you owned, or were considered to own, at any time during the 2-year period ending on the date of expatriation, more than 50% of (1) the total combined voting power of all classes of that corporation's stock, or (2) the total value of the stock. Any exchange of

property is treated as a sale of the property at its fair market value on the date of the exchange and any gain is treated as U.S. source gross income in that tax year unless you enter into a gain recognition agreement under Notice 97-19.

Other information. For more information on the expatriation tax provisions, including exceptions to the tax and special U.S. source rules, see section 877 of the Internal Revenue Code.

Reporting Requirements

If you lost your U.S. citizenship, you must file Form 8854, *Expatriation Information Statement*, with the Department of State, a consular office, or a federal court at the time of loss of citizenship. If you end your long-term residency, you must file Form 8854 with the Internal Revenue Service when you file your tax return for the year your residency ends.

Penalties. If you fail to file Form 8854, you may have to pay a penalty equal to the greater of 5% of the expatriation tax or \$1,000. The penalty will be assessed for each year during which such failure continues for the 10-year period. The penalty will not be imposed if you can show that such failure is due to reasonable cause and not willful neglect. Form 8854 may not be available at the beginning of 1998. If you make a good faith effort to obtain Form 8854 but are unable to obtain the form, no penalties will be assessed if you file a complete statement that sets forth the information contained in Section IX of Notice 97-19.

Expatriation tax return. If you are subject to the expatriation tax, you must file Form 1040NR for each year of the 10-year period following expatriation. Complete line "P" on page 5 of Form 1040NR. See *Special Rules For Former U.S. Citizens And Former Long-Term U.S. Residents* in the instructions for Form 1040NR. You must attach a statement to Form 1040NR listing, by category (dividends, interest, etc.), all items of United States and foreign source income, whether or not taxable in the United States. If you are a former citizen and you have not filed Form 8854 or a statement containing the information set forth in Section IX of Notice 97-19, you should attach Form 8854 to your first Form 1040NR following expatriation.

If you fail to attach a complete statement in any year you are liable for any U.S. taxes, you will not be considered to have filed a true and accurate return. You will not be entitled to any tax deductions or credits if your tax liability for that year is later adjusted.

Interrupted Period of Residence

You are subject to tax under a special rule if you interrupt your period of U.S. residence with a period of nonresidence. This applies if:

- 1) You were a U.S. resident for a period that includes at least 3 consecutive calendar years,
- 2) You were a resident for at least 183 days in each of those years,
- 3) You ceased to be treated as a U.S. resident, and

- 4) You then again became a U.S. resident before the end of the third calendar year after the period described in (1) above.

Under this special rule, you are subject to tax on your U.S. source gross income and gains on a net basis at the graduated rates applicable to individuals (with allowable deductions), unless you would be subject to a higher tax under the 30% tax (discussed earlier) on income not connected with a U.S. trade or business.

Example. John Willow, a citizen of New Zealand, entered the United States on April 1, 1992, as a lawful permanent resident. On August 1, 1994, John ceased to be a lawful permanent resident and returned to New Zealand. During his period of residence, he was present in the United States for at least 183 days in each of three consecutive years (1992, 1993, and 1994). He returned to the United States on October 5, 1997, as a lawful permanent resident. He became a resident before the close of the third calendar year (1997) beginning after the end of his first period of residence (August 1, 1994). Therefore, he is subject to tax under the special rule for the period of nonresidence (August 2, 1994, through October 4, 1997) if it is more than the tax that would normally apply to him as a nonresident alien.

Reporting requirements. If you are subject to this tax for any year in the period you were a nonresident alien, you must file Form 1040NR for that year. The return is due by the due date (including extensions) for filing your U.S. income tax return for the year that you again become a U.S. resident. If you had filed returns for that period, you must file amended returns. You must attach a statement to your return that identifies the source of all of your U.S. and foreign gross income and the items of income subject to this special rule.

5.

Figuring Your Tax

Introduction

The information in this chapter is not as comprehensive for resident aliens as it is for nonresident aliens. Resident aliens should get publications, forms, and instructions for U.S. citizens, because the information for filing returns for resident aliens is generally the same as for U.S. citizens.

If you are both a nonresident alien and a resident alien in the same tax year, see chapter 6 for a discussion of dual-status aliens.

Topics

This chapter discusses:

- Filing status
- Identification numbers

- Deductions
- Exemptions
- Tax payments and credits
- Special rules for bona fide residents of American Samoa and Puerto Rico

Useful Items

You may want to see:

Publication

- 463** Travel, Entertainment, Gift, and Car Expenses
- 501** Exemptions, Standard Deduction, and Filing Information
- 521** Moving Expenses
- 526** Charitable Contributions
- 535** Business Expenses
- 597** Information on the United States-Canada Income Tax Treaty

Form (and Instructions)

- W-7** Application for IRS Individual Taxpayer Identification Number
- 1040** U.S. Individual Income Tax Return
- 1040NR** U.S. Nonresident Alien Income Tax Return
- 1040NR-EZ** U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents
- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses
- 3903** Moving Expenses
- 4563** Exclusion of Income for Bona Fide Residents of American Samoa

See chapter 12 for information about getting these publications and forms.

Tax Year

You must figure your income and file a tax return on the basis of an annual accounting period called a tax year. If you have not previously established a fiscal tax year, your tax year is the calendar year. A calendar year is 12 consecutive months ending on December 31. If you have previously established a regular fiscal year (12 consecutive months ending on the last day of a month other than December or a 52-53 week year) and are considered to be a U.S. resident for any calendar year, you will be treated as a U.S. resident for any part of your fiscal year that falls within that calendar year.

Filing Status

The rules for filing status are different for resident aliens and nonresident aliens.

Resident Aliens

Resident aliens can use the same filing statuses available to U.S. citizens. See your form instructions or Publication 501 for more information on filing status.

Joint return. Generally, you can file a joint return only if both you and your spouse were resident aliens for the entire tax year, or if you make one of the choices discussed in chapter 1 to treat your spouse as a resident alien for the entire tax year.

Qualifying widow(er). If your spouse died in 1995 or 1996, you have not remarried, and you have a dependent child living with you, you may qualify to file as a qualifying widow(er) and use the joint return tax rates. This applies only if you could have filed a joint return with your spouse for the year your spouse died.

Head of household. You can qualify as a head of household if you are unmarried or considered unmarried on the last day of the year and you pay more than half the cost of keeping up a home for you and a qualifying person. You must be a resident alien for the entire tax year.

You are considered unmarried for this purpose if your spouse was a nonresident alien at any time during the year and you do not make one of the choices discussed in chapter 1 to treat your spouse as a resident alien for the entire tax year.

Nonresident Aliens

If you are a nonresident alien filing Form 1040NR, you may be able to use one of the filing statuses discussed below. If you are filing Form 1040NR-EZ, you can only claim "Single nonresident alien" or "Married nonresident alien" as your filing status.

Joint return. Generally, you cannot file a joint return if either spouse was a nonresident alien at any time during the tax year.

However, nonresident aliens married to U.S. citizens or residents can choose to be treated as U.S. residents and file joint returns. For more information on these choices, see chapter 1.

Qualifying widow(er). You may be eligible to file as a qualifying widow(er) and use the joint return tax rates if:

- 1) You were a resident of Canada, Mexico, Japan, or South Korea, or a U.S. national (defined below),
- 2) Your spouse died in 1995 or 1996 and you have not remarried, and
- 3) You have a dependent child living with you.

See the instructions for Form 1040NR for the rules for filing as a qualifying widow(er) with a dependent child.

A **U.S. national** is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

Head of household. You cannot file as head of household if you are a nonresident alien at any time during the tax year. However, if you are married, your spouse can qualify as a head of household if:

- 1) Your spouse is a resident alien or U.S. citizen for the entire tax year,
- 2) You do not choose to be treated as a resident alien, and
- 3) Your spouse meets the other requirements for this filing status.

Married filing separately. Married nonresident aliens who are not married to U.S. citizens or residents generally must use the Tax Table column or the Tax Rate Schedule for married filing separate returns when determining the tax on income effectively connected with a U.S. trade or business. They normally cannot use the Tax Table column or the Tax Rate Schedule for single individuals. However, if you are a married resident of Canada, Mexico, Japan, or South Korea, or are a married U.S. national, you may be able to file as single if you lived apart from your spouse during the last 6 months of the year. See the instructions for Form 1040NR to see if you qualify. U.S. national was defined earlier in this section under *Qualifying widow(er)*.

Nonresident aliens who are married to U.S. citizens or residents can choose to be treated as a resident and file a joint return. For information on these choices, see chapter 1. If you do not make the choice to file jointly, use the Tax Table column or the Tax Rate Schedule for married individuals filing separately.

A nonresident alien estate or trust using Form 1040NR must use Tax Rate Schedule W in the Form 1040NR instructions when determining the tax on income effectively connected with a U.S. trade or business.

Special rules for aliens from certain U.S. possessions. A nonresident alien who is a bona fide resident of American Samoa or Puerto Rico for the entire tax year and who is temporarily working in the United States should read *Bona Fide Residents of American Samoa or Puerto Rico*, at the end of this chapter, for information about special rules.

Identification Number

A taxpayer identification number must be furnished on returns, statements, and other tax-related documents. For an individual, this is a social security number (SSN). If you do not have and are not eligible to get an SSN, the IRS will issue you an individual taxpayer identification number (ITIN). An employer identification number (EIN) is required if you are an employer or are engaged in a trade or business as a sole proprietor.

You must furnish a taxpayer identification number if you are:

- 1) An alien who has income effectively connected with the conduct of a U.S. trade or business at any time during the year,
- 2) An alien who has a U.S. office or place of business at any time during the year,

- 3) A nonresident alien spouse treated as a resident, as discussed in chapter 1, or
- 4) Any other alien who files a tax return, an amended return, or a refund claim (but not information returns).

Social security number. Generally, you can get an SSN if you have been lawfully admitted to the United States for permanent residence or under other immigration categories that authorize U.S. employment.

To apply for this number, get Form SS-5 from your local Social Security Administration office or call the SSA at 1-800-772-1213. The completed form should be returned to the SSA. It usually takes about 2 weeks to get an SSN.

Individual taxpayer identification number. If you are not eligible to obtain an SSN, you must get an ITIN. Enter your ITIN wherever an SSN is required on your tax return.



You cannot claim the earned income credit, discussed later, using an ITIN. You, your spouse if married, and any qualifying child must have SSNs.

ITINs are for tax use only. They do not affect your immigration status or your right to be legally employed in the United States.

To apply for an ITIN, file Form W-7 with the IRS. It usually takes about 30 days to get an ITIN.

In addition to those aliens who are required to furnish a taxpayer identification number and are not eligible for an SSN, a Form W-7 should be filed for:

- Alien individuals who are claimed as dependents and are not eligible for an SSN, and
- Alien individual spouses who are claimed as exemptions and are not eligible for an SSN.

Employer identification number. An individual may use an SSN (or ITIN) for individual taxes and an EIN for business taxes. To apply for an EIN, file Form SS-4 with the IRS.

Reporting Your Income

You must report each item of income that is taxable according to the rules in chapters 2, 3, and 4. For resident aliens, this includes income from sources both within and outside the United States. For nonresident aliens, this includes both income that is effectively connected with a trade or business in the United States (subject to graduated tax rates) and income from U.S. sources that is not effectively connected (subject to a flat 30% tax rate or lower tax treaty rate).

Deductions

Resident and nonresident aliens can claim similar deductions on their U.S. tax returns. However, nonresident aliens generally can claim only deductions related to income that is effectively connected with their U.S. trade or business.

Resident Aliens

You can claim the same deductions allowed to U.S. citizens if you are a resident alien for the entire tax year. While the discussion that follows contains some of the same general rules and guidelines that apply to you, it is specifically directed toward nonresident aliens. You should get Form 1040 and instructions for more information on how to claim your allowable deductions.

Nonresident Aliens

You can claim deductions to figure your effectively connected taxable income. You generally cannot claim deductions related to income that is not connected with your U.S. business activities. Except for personal exemptions, and certain itemized deductions, discussed later, you can claim deductions only to the extent they are connected with your effectively connected income.

Ordinary and necessary business expenses. You can deduct all ordinary and necessary expenses in the operation of your U.S. trade or business to the extent they relate to income effectively connected with that trade or business. The deduction for travel expenses while in the United States is discussed later under *Itemized Deductions*. For information about other business expenses, see Publication 535.

Losses. You can deduct losses resulting from transactions that you entered into for profit and that you were not reimbursed for by insurance, etc., to the extent that they relate to income that is effectively connected with a trade or business in the United States.

Individual retirement arrangement (IRA). You may qualify to establish your own retirement arrangement whether or not you are covered by a qualified retirement plan at work. You can contribute the smaller of \$2,000 or your taxable compensation effectively connected with your U.S. trade or business to an IRA each year. If you or your spouse are covered by a plan at work, or you are self employed and had a Keogh or SEP retirement plan, you can only deduct these contributions subject to certain limits.

For more information, see Publication 590, *Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and SIMPLE IRAs)*.

Moving expenses. If you are a nonresident alien temporarily in the United States earning taxable income for performing personal services, you can deduct moving expenses to the United States if:

- 1) You are a full-time employee for at least 39 weeks during the 12 months right after you move, or if you are self-employed, you work full time for at least 39 weeks during the first 12 months and 78 weeks during the first 24 months right after you move, and
- 2) Your new job location is at least 50 miles farther (by the shortest commonly traveled route) from your former home than your former job location was. If you had no former job location, the new job location must be at least 50 miles from your former home.

You cannot deduct the moving expense you have when returning to your home

abroad. A nonresident alien cannot deduct expenses of moving to a foreign job site.

Figure your deductible moving expenses to the United States on Form 3903, and deduct them on line 26 of Form 1040NR.

For more information on the moving expense deduction, see Publication 521.

Reimbursements. If you were reimbursed by your employer for allowable moving expenses, your employer should have excluded these reimbursements from your income. You can only deduct allowable moving expenses that were not reimbursed by your employer or that were reimbursed but the reimbursement was included in your income. For more information, see Publication 521.

Moving expense or travel expense. If you deduct moving expenses to the United States, you cannot also deduct travel expenses (discussed later under *Itemized Deductions*) while temporarily away from your tax home in a foreign country. Moving expenses are based on a change in your principal place of business while travel expenses are based on your temporary absence from your principal place of business.

Keogh and self-employed SEP plans. If you are self-employed, you may be able to deduct contributions to a qualified retirement plan that provides retirement benefits for yourself and your common-law employees, if any. To make deductible contributions for yourself, you must have net earnings from self-employment that are effectively connected with your U.S. trade or business.

Get Publication 560, *Retirement Plans for Small Business (SEP, Keogh, and SIMPLE Plans)*, for further information.

Penalty on early withdrawal of savings. You must include in income all effectively connected interest income you receive or that is credited to your account during the year. Do not reduce it by any penalty you must pay on an early withdrawal from a time savings account. However, if the interest income is effectively connected with your U.S. trade or business during the year, you can deduct on line 29 of Form 1040NR the amount of the early withdrawal penalty that the banking institution charged.

Exemptions

While resident aliens can claim personal exemptions and exemptions for dependents in the same way as U.S. citizens, nonresident aliens generally can claim only a personal exemption for themselves on their U.S. tax return.

Resident Aliens

You can claim personal exemptions and exemptions for dependents according to the dependency rules for U.S. citizens. You can claim an exemption for your spouse if your spouse had no gross income for U.S. tax purposes and was not the dependent of another taxpayer. You can claim this exemption even if you do not choose to file a joint return, and even if your spouse has not been a resident alien for a full tax year or is an alien who has not come to the United States.

You can claim an exemption for each person who qualifies as a dependent according to the rules for U.S. citizens. The de-

pendent must be a citizen or national (defined earlier) of the United States; or be a resident of the United States, Canada, or Mexico for some part of the calendar year in which your tax year begins. Get Publication 501, for more information.



Your spouse and each dependent must have either an SSN or an ITIN. See Identification Number earlier.

Phase-out of exemptions. If the adjusted gross income shown on your tax return is more than the amount shown for your filing status, your deduction for exemptions may be reduced or eliminated. Use the worksheet in your income tax return instructions to figure the amount, if any, you can deduct.

- \$90,900 if married filing separately,
- \$121,200 if single,
- \$151,500 if head of household,
- \$181,800 if married filing jointly or a qualifying widow(er) with dependent child.

Nonresident Aliens

Generally, if you are a nonresident alien engaged in a trade or business in the United States, you can claim only one personal exemption (\$2,650 for 1997). You may be able to claim an exemption for a spouse and a dependent if you are described in any of the following discussions.



Your spouse and each dependent must have either an SSN or an ITIN. See Identification Number earlier.

Residents of Mexico or Canada or U.S. nationals. If you are a resident of Mexico or Canada or a national of the United States (defined earlier), you can also claim a personal exemption for your spouse if your spouse had no gross income for U.S. tax purposes and was not the dependent of another taxpayer. In addition, you can claim exemptions for your dependents who meet certain tests. Residents of Mexico, Canada, or nationals of the United States must use the same rules as U.S. citizens to determine who is a dependent and for which dependents exemptions can be claimed. See Publication 501 for these rules. For purposes of these rules, dependents who are U.S. nationals meet the citizenship test discussed in Publication 501.

Residents of Japan or South Korea. Nonresident aliens who are residents of Japan or South Korea may be able to claim exemptions for a spouse and children. The tax treaties with Japan and Korea impose two additional requirements on Japanese or Korean residents:

- 1) The spouse and all children claimed must live with the alien in the United States at some time during the tax year, and
- 2) The additional deduction for the exemptions must be prorated based on the ratio of the alien's U.S. source gross income effectively connected with a U.S. trade or business for the tax year to the alien's entire income from all sources during the tax year.

Example. Mr. Sato, a nonresident alien who is a resident of Japan, lives temporarily in the United States with his wife and two children. During the tax year he receives U.S. compensation of \$9,000. He also receives \$3,000 of income from sources outside the United States that is not effectively connected with his U.S. trade or business. Thus, his total income for the year is \$12,000. Mr. Sato meets all requirements for claiming exemptions for his spouse and two children. The additional deduction is \$5,962.50 figured as follows:

$$\frac{\$9,000}{\$12,000} \times \$7,950^* = \$5,962.50$$

$$^* 3 \times \$2,650$$

Students and business apprentices from India. Students and business apprentices who are eligible for the benefits of Article 21(2) of the United States–India Income Tax Treaty may be able to claim exemptions for their spouse and dependents.

You can claim an exemption for your spouse if he or she had no gross income during the year and is not the dependent of another taxpayer.

You can claim exemptions for each of your dependents **not** admitted to the United States on F–2, J–2, or M–2 visas if they meet the same rules that apply to U.S. citizens. See Publication 501 for these rules.

List your spouse and dependents on line 7c of Form 1040NR. Also enter the total on the appropriate line to the right of line 7c.

Phase-out of exemptions. If the adjusted gross income shown on line 32 of Form 1040NR is more than the amount shown below for your filing status, your deduction for exemptions may be reduced or eliminated. Use the worksheet in the Form 1040NR instructions to figure the amount, if any, you can deduct.

- \$90,900 if married filing separately
- \$121,200 if single
- \$181,800 if a qualifying widow(er) with dependent child

Itemized Deductions

Nonresident aliens can claim some of the same itemized deductions that resident aliens can claim. However, nonresident aliens can claim itemized deductions only if they have income effectively connected with their U.S. trade or business.

Resident and nonresident aliens may not be able to claim all of their itemized deductions. If your adjusted gross income is more than \$121,200 (\$60,600 if married filing separately), use the worksheet in your income tax return instructions to figure the amount you can deduct.

If you are filing Form 1040NR–EZ, you can only claim a deduction for state or local income taxes. If you are claiming any other deduction, you must file Form 1040NR.

Resident Aliens

You can claim the same itemized deductions as U.S. citizens, using Schedule A of Form 1040. These deductions include certain medical and dental expenses, state and local income taxes and real estate taxes, interest you paid on a home mortgage, charitable contributions, casualty and theft losses, and miscellaneous deductions.

If you do not itemize your deductions, you can claim the standard deduction for your particular filing status. For further information, see Form 1040 and instructions.

Nonresident Aliens

You can deduct certain itemized deductions if you receive income effectively connected with your U.S. trade or business. These deductions include state and local income taxes, charitable contributions to U.S. organizations, casualty and theft losses, and miscellaneous deductions. Use Schedule A of Form 1040NR to claim itemized deductions.

Standard deduction. Nonresident aliens **cannot** claim the standard deduction. However, see *Students and business apprentices from India*, next.

Students and business apprentices from India. A special rule applies to students and business apprentices who are eligible for the benefits of Article 21(2) of the United States–India Income Tax Treaty. You can claim the standard deduction provided you do not claim itemized deductions.

Use Table 7, 8, or 9 in Publication 501 to figure your standard deduction. If you are married and your spouse files a return and itemizes deductions, you cannot take the standard deduction even if you were age 65 or older or blind.

If you are filing Form 1040NR, enter the standard deduction on line 3 of Schedule A (Form 1040NR). In the space to the left of line 3, write “Standard Deduction Allowed Under U.S.–India Income Tax Treaty.” Also enter the amount on line 34 of Form 1040NR. If you are filing form 1040NR–EZ, enter the amount on line 10.

State and local income taxes. If during the tax year, you receive income that is connected with a trade or business in the United States, you can deduct state and local income taxes you paid on that income.

Charitable contributions. You can deduct your charitable contributions or gifts to qualified organizations subject to certain limits. Qualified organizations include organizations that are religious, charitable, educational, scientific, or literary in nature, or that work to prevent cruelty to children or animals. Certain organizations that promote national or international amateur sports competition are also qualified organizations.

Foreign organizations. Contributions made directly to a foreign organization are not deductible. However, you can deduct contributions to a U.S. organization that transfers funds to a charitable foreign organization if the U.S. organization controls the use of the funds or if the foreign organization is only an administrative arm of the U.S. organization.

Gifts from which you benefit. If you receive a benefit as a result of making a contribution to a qualified organization, you can deduct only the amount of your contribution

that is more than the value of the benefit you receive.

If you pay more than the fair market value to a qualified organization for merchandise, goods, or services, the amount you pay that is more than the value of the item can be a charitable contribution. For the excess amount to qualify, you must pay it with the intent to make a charitable contribution.

Gifts of \$250 or more. You may deduct a gift of \$250 or more only if you have a written statement from the charitable organization showing:

- 1) The amount of any money contributed and a description (but not value) of any property donated, and
- 2) Whether the organization did or did not give you any goods or services in return for your contribution.

If you did receive any goods or services, a description and estimate of the value must be included. If you received only intangible religious benefits, the organization must state this, but it does not have to describe or value the benefit.

Gifts of appreciated property. If you contribute property with a fair market value that is more than your basis in it, you may have to reduce the fair market value by the amount of appreciation (increase in value) when you figure your deduction. Your basis in the property is generally what you paid for it. If you need more information about basis, get Publication 551.

Different rules apply to figuring your deduction, depending on whether the property is:

- 1) Ordinary income property, or
- 2) Capital gain property.

Limit. The amount you can deduct in a tax year is limited in the same way it is for a citizen or resident of the United States. For a discussion of limits on charitable contributions and other information, get Publication 526.

Casualty and theft losses. You can deduct your loss from fire, storm, shipwreck, or other casualty, or theft of property even though your property is not connected with a trade or business. However, the property must be located in the United States at the time of the casualty or theft. You can deduct theft losses only in the year in which you discover the loss.

You can deduct the fair market value of the property immediately before the casualty or theft, less its fair market value immediately after the casualty or theft (but not more than its cost or adjusted basis), reduced by any insurance or other compensation. The fair market value of property immediately after a theft is considered zero, since you no longer have the property. You cannot deduct the first \$100 of each casualty or theft loss to property held for personal use. You can deduct only the total of all casualty and theft losses for the year to the extent it is more than 10% of adjusted gross income (line 32, Form 1040NR) for the year.

If your property is covered by insurance, you should file a timely insurance claim for reimbursement. If you do not, you cannot deduct this loss as a casualty or theft loss.

Figure your deductible casualty and theft losses on Form 4684, *Casualties and Thefts*, and deduct them on line 8 of Schedule A, Form 1040NR.

Job expenses and other miscellaneous deductions. You can deduct job expenses, such as allowable unreimbursed travel expenses (discussed next), and other miscellaneous deductions. Generally, the allowable deductions must be related to effectively connected income. Deductible expenses include:

- Union dues,
- Safety equipment and small tools needed for your job,
- Dues to professional organizations,
- Subscriptions to professional journals, and
- Tax return preparation fees.

Most miscellaneous deductions are deductible only if they are more than 2% of your adjusted gross income (line 33, Form 1040NR). For more information on miscellaneous deductions, see the instructions for Form 1040NR.

Travel expenses. You may be able to deduct your ordinary and necessary travel expenses while you are temporarily performing personal services in the United States. Generally, a temporary assignment is one that is realistically expected to last (and does in fact last) for one year or less at a single location. You must be able to show you were present in the United States on an activity that required your temporary absence from your regular place of work.

For example, if you have established a "tax home" through regular employment in a foreign country, and intend to return to similar employment in the same country at the end of your temporary stay in the United States, you can deduct reasonable travel expenses you paid. You cannot deduct travel expenses for other members of your family or party.

Deductible travel expenses. If you qualify, you can deduct your expenses for:

- 1) Transportation—airfare, local transportation, including train, bus, etc.,
- 2) Lodging—rent paid, utilities (do not include telephone), hotel or motel room expenses, and
- 3) Meal expenses—actual expenses allowed if you keep records of the amounts, or, if you do not wish to keep detailed records, you are generally allowed a standard meal allowance amount depending on the date and area of your travel. You can deduct only 50% of unreimbursed meal expenses. The standard meal allowances rates are given in Publication 463.

Use Form 2106, or Form 2106-EZ to figure your allowable expenses that you claim on line 9 of Schedule A, Form 1040NR.



You cannot deduct an expense, or part of an expense, that is allocable to U.S. tax-exempt income, including income exempt by tax treaty.

Example. Irina Oak, a citizen of Poland, resided in the United States for part of the year to acquire business experience from a U.S. company. During her stay in the United States, she received a salary of \$8,000 from her Polish employer. She received no other U.S. source income. She spent \$3,000 on travel expenses, of which \$1,000 were for meals. None of these expenses were reim-

bursed. Under the tax treaty with Poland, she excludes \$5,000 of her salary from U.S. income tax. In filling out Form 2106-EZ, she must reduce her deductible meal expenses by half (\$500). She must reduce the remaining \$2,500 of travel expenses by 62.5% (\$1,563) because she excluded 62.5% (\$5,000 ÷ \$8,000) of her salary. She enters the remaining total of \$937 on line 9 of Schedule A (Form 1040NR). She completes the remaining lines according to the instructions for Schedule A.

More information. For more information about deductible expenses, reimbursements, and recordkeeping, get Publication 463.

Tax Payments and Credits

This discussion covers tax payments and credits for resident aliens, followed by a discussion of the payments and credits for non-resident aliens.

Resident Aliens

Resident aliens generally report tax withheld or other tax payments and claim tax credits using the same rules that apply to U.S. citizens. The following items are some of the credits you may be able to claim.

Child care credit. You may qualify for this credit if you pay someone to care for your dependent who is under age 13, or your disabled dependent or disabled spouse, so that you can work or look for work. Generally, you must be able to claim an exemption for your dependent.

For more information, get Publication 503, *Child and Dependent Care Expenses*, and Form 2441, *Child and Dependent Care Expenses*.

Credit for the elderly or the disabled. You may qualify for this credit if you are 65 or over or if you retired on permanent and total disability. For more information on this credit, get Publication 524, *Credit for the Elderly or the Disabled*, and Schedule R (Form 1040).

Foreign tax credit. You can claim a credit, subject to certain limits, for income tax you paid or accrued to a foreign country on foreign source income. You cannot claim a credit for taxes paid or accrued on excluded foreign earned income. To claim a credit for income taxes paid or accrued to a foreign country, file Form 1116, *Foreign Tax Credit (Individual, Estate, Trust or Nonresident Alien Individual)*, with your Form 1040.

For more information, get Publication 514, *Foreign Tax Credit for Individuals*.

Earned income credit. You may qualify for an earned income credit of up to \$2,210 if your child lived with you in the United States and your earned income and modified adjusted gross income were each less than \$25,760. If two or more children lived with you in the United States and your earned income and modified adjusted gross income were each less than \$29,290, your credit could be as much as \$3,656. If you do not have a qualifying child and your earned income and modified adjusted gross income were each less than \$9,770, your credit could be as much as \$332. If you are married, you must

file a joint return to qualify unless you lived apart from your spouse during the last 6 months of the year and you are eligible to file as head of household.



You, your spouse, and any qualifying child must have SSNs. You cannot claim this credit using an ITIN. See Identification Number earlier.

Advance earned income credit. You may be able to get advance payments of part of the credit for one child in 1998 instead of waiting until you file your 1998 tax return. Fill out the 1998 Form W-5, *Earned Income Credit Advance Payment Certificate*. If you expect to qualify for the credit in 1998, give the bottom part of the form to your employer. Your employer will include part of the credit regularly in your pay during 1998.

If you received advance payments of the earned income credit in 1997, you must file a tax return to report the payments. Your Form W-2 will show the amount you received.

Other information. There are other eligibility rules that are not discussed here. For more information, get Publication 596, *Earned Income Credit*.

Adoption credit. You may qualify to take a tax credit of up to \$5,000 for qualifying expenses paid after December 31, 1996, to adopt an eligible child. The credit can be as much as \$6,000 if the expenses are for the adoption of a child with special needs. To claim the adoption credit, file Form 8839, *Qualified Adoption Expenses*, with your Form 1040 or Form 1040A. For more information, get Publication 968, *Tax Benefits for Adoption*.

Nonresident Aliens

You can claim some of the same credits as resident aliens. You can also take credit for certain taxes you paid, are considered to have paid, or that were withheld from your income. However, these credits are allowed only if you receive effectively connected income.

Child care credit. You may qualify for this credit if you pay someone to care for your dependent who is under age 13, or your disabled dependent or disabled spouse, so that you can work or look for work. Generally, you must be able to claim an exemption for your dependent.

Married nonresident aliens can claim the credit only if they choose to file a joint return with a U.S. citizen or resident spouse as discussed in chapter 1, or if they qualify as certain married individuals living apart (see *Married Persons Who Live Apart* under *Filing Status*, in the Form 1040NR instructions).

The amount of your child and dependent care expense that qualifies for the credit in any tax year cannot be more than your earned income from the United States for that tax year. If you are married, the amount of the expense cannot be more than the lesser of your earned income or the earned income of your spouse. Earned income generally means wages, salaries, and professional fees for personal services performed.

For more information, get Publication 503.

Foreign tax credit. If you receive income from sources outside the United States that is effectively connected with a trade or business in the United States, you can claim a

credit for any income taxes paid or accrued to any foreign country or U.S. possession on that income.

If you do not have foreign source income effectively connected with a U.S. trade or business, you cannot claim credits against your U.S. tax for taxes paid or accrued to a foreign country or U.S. possession.

You cannot take any credit for taxes imposed by a foreign country or U.S. possession on your U.S. source income if those taxes were imposed because you are a citizen or resident of the foreign country or possession.

If you claim a foreign tax credit, attach to your return a Form 1116 which contains additional information about the credit and limits.

Credit for prior year minimum tax. If you paid alternative minimum tax in a prior year, get Form 8801, *Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts*, to see if you qualify for this credit.

Earned income credit. If you are a nonresident alien for any part of the tax year, you generally cannot get the earned income credit. However, if you are married and elect to file a joint return with a U.S. citizen or resident spouse as discussed in chapter 1, you may be eligible for the credit.



You, your spouse, and any qualifying child must have SSNs. You cannot claim this credit using an ITIN. See Identification Number earlier.

See Publication 596 for more information on the credit.

Adoption credit. You may qualify to take a tax credit of up to \$5,000 for qualifying expenses paid after December 31, 1996, to adopt an eligible child. The credit can be as much as \$6,000 if the expenses are for the adoption of a child with special needs. To claim the adoption credit, file Form 8839 with your Form 1040NR. For more information, get Publication 968.

Married nonresident aliens can claim the credit only if they choose to file a joint return with a U.S. citizen or resident spouse as discussed in chapter 1, or if they qualify as certain married individuals living apart (see *Married Persons Who Live Apart* under *Filing Status*, in the Form 1040NR instructions).

Regulated investment company credit. If you are a shareholder in a regulated investment company or mutual fund, you can claim a credit for your share of any taxes paid by the company on its undistributed capital gains. You will receive information on Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains*, which you must attach to your return.

Tax Withheld

You can claim certain amounts withheld during the year as a credit against your U.S. tax.

Withholding from wages. Any federal income tax withheld from your wages during the tax year while you were a nonresident alien is allowed as a credit against your U.S. income tax liability for the same year. You can claim the credit for income tax withheld whether or not you were engaged in trade or business in the United States during the year, and whether or not the wage payment (or any other payment) was connected with a trade or business in the United States.

Excess social security tax withheld. If you have two or more employers, you may be able to claim a credit against your U.S. income tax liability for social security tax withheld in excess of the maximum required. See *Social Security and Medicare Taxes* in chapter 8 for more information.

Tax withheld at the source. You can claim a credit for any tax withheld at the source on investment and other fixed or determinable annual or periodic income paid to you. Fixed or determinable income includes interest, dividend, rental, and royalty income that you do not claim to be effectively connected income. Wage or salary payments can be fixed or determinable income to you, but usually are subject to withholding as discussed above. Taxes on fixed or determinable income are withheld at a 30% rate or at a lower treaty rate.

Tax withheld on partnership income. If you are a foreign partner in a partnership, the partnership will withhold tax on your share of effectively connected taxable income from the partnership. The partnership will give you a statement on Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, showing the tax withheld. A partnership that is publicly traded may withhold on your actual distributions of effectively connected income. In this case the partnership will give you a statement on Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*. In either case, claim the tax withheld as a credit on line 59b of Form 1040NR.

Claiming tax withheld on your return. When you fill out your tax return, take extra care to enter the correct amount of any tax withheld shown on your information documents. The following table lists some of the more common information documents and shows where to find the amount of tax withheld.

Form Number	Location of Tax Withheld
RRB-1042S	Box 12
SSA-1042S	Box 9
W-2	Box 2
W-2c	Line 2
1042-S	Column (g)
8805	Line 11
8288-A	Box 2

Bona Fide Residents of American Samoa or Puerto Rico

If you are a nonresident alien who is a bona fide resident of American Samoa or Puerto Rico for the entire tax year, you generally are taxed the same as resident aliens. You should file Form 1040 and report all income from sources both in and outside the United States.

Residents of Puerto Rico. If you are a bona fide resident of Puerto Rico for the entire year, you can exclude from gross income all income from sources in Puerto Rico (other than amounts for services performed as an employee of the United States or any of its agencies).

If you report income on a calendar year basis and you do not have wages subject to withholding, file your return and pay your tax by June 15. You must also make your first payment of estimated tax by June 15. You **cannot** file a joint income tax return or make joint payments of estimated tax. However, if you are married to a U.S. citizen or resident, see *Nonresident Spouse Treated as a Resident* in chapter 1.

If you earn wages subject to the same withholding rules as U.S. citizens, your U.S. income tax return is due on April 15. Your first payment of estimated tax is also due by April 15. For information on withholding and estimated tax, see chapter 8.

You **cannot** claim exemptions for dependents who are residents of Puerto Rico unless the dependents are citizens of the United States.

Residents of American Samoa. If you are a bona fide resident of American Samoa for the entire year, you can exclude from gross income all income from sources in American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands (other than amounts for services performed as an employee of the United States or any of its agencies). You do this by filing Form 1040 and attaching Form 4563, to your return.

6.

Dual-Status Tax Year

Introduction

You have a dual-status tax year when you have been both a resident alien and a nonresident alien in the same year. Dual status does not refer to your citizenship, only to your resident status in the United States. In determining your U.S. income tax liability for a dual-status tax year, different rules apply for the part of the year you are a resident of the United States and the part of the year you are a nonresident.

The most common dual-status tax years are the years of arrival and departure. See *Dual Status Aliens* in chapter 1.

If you are married and choose to be treated as a U.S. resident for the entire year, as explained in chapter 1, the rules of this chapter do not apply to you for that year.

Topics

This chapter discusses:

- Income subject to tax
- Restrictions for dual-status taxpayers
- Exemptions
- How to figure the tax
- Forms to file
- When and where to file
- How to fill out a dual-status return

Useful Items

You may want to see:

Publication

- 503** Child and Dependent Care Expenses
- 514** Foreign Tax Credit for Individuals
- 524** Credit for the Elderly or the Disabled
- 575** Pension and Annuity Income

Form (and Instructions)

- 1040** U.S. Individual Income Tax Return
- 1040-C** U.S. Departing Alien Income Tax Return
- 1040ES** Estimated Tax for Individuals
- 1040-ES(NR)** U.S. Estimated Tax for Nonresident Alien Individuals
- 1040NR** U.S. Nonresident Alien Income Tax Return
- 1116** Foreign Tax Credit

See chapter 12 for information about getting these publications and forms.

Tax Year

You must figure your income and file a tax return on the basis of an annual accounting period called a tax year. If you have not previously established a fiscal tax year, your tax year is the calendar year. A calendar year is 12 consecutive months ending on December 31. If you have previously established a regular fiscal year (12 consecutive months ending on the last day of a month other than December, or a 52-53 week year) and are considered to be a U.S. resident for any calendar year, you will be treated as a U.S. resident for any part of your fiscal year that falls within that calendar year.

Income Subject to Tax

For the part of the year you are a resident alien, you are taxed on income from all sources. Income from sources outside the United States is taxable if you receive it while you are a resident alien. The income is taxable even if you earned it while you were a nonresident alien or if you became a nonresident alien after receiving it and before the end of the year.

For the part of the year you are a nonresident alien, you are taxed on income from U.S. sources and on certain foreign source income treated as effectively connected with a U.S. trade or business. (The rules for treating foreign source income as effectively connected are discussed in chapter 4 under *Foreign Income*.)

Income from sources outside the United States which is not effectively connected with a trade or business in the United States is not taxable if you receive it while you are a nonresident alien. The income is not taxable even if you earned it while you were a resident alien or if you became a resident alien or a U.S.

citizen after receiving it and before the end of the year.

Income from U.S. sources is taxable whether you receive it while a nonresident alien or a resident alien unless specifically exempt under the Internal Revenue Code or a tax treaty provision. Generally, tax treaty provisions apply only to the part of the year you were a nonresident.

When determining what income is taxed in the United States, you must consider exemptions under U.S. tax law as well as the reduced tax rates and exemptions provided by tax treaties between the United States and certain foreign countries. For a further discussion of tax treaties, see chapter 9.

Restrictions for Dual-Status Taxpayers

The following restrictions apply if you are filing a tax return for a dual-status tax year.

1) Standard deduction. You *cannot* use the standard deduction allowed on Form 1040. However, you can itemize any allowable deductions.

2) Exemptions. Your total deduction for the exemptions for your spouse and allowable dependents *cannot* be more than your taxable income (figured without deducting personal exemptions) for the period you are a resident alien.

3) Head of household. You *cannot* use the head of household Tax Table column or Tax Rate Schedule.

4) Joint return. You *cannot* file a joint return.

5) Tax rates. If you are married and a nonresident of the United States for all or part of the tax year and you do not choose to file jointly as discussed in chapter 1, you must use the Tax Table column or Tax Rate Schedule for married filing separately to figure your tax on income effectively connected with a U.S. trade or business. You *cannot* use the Tax Table column or Tax Rate Schedules for married filing jointly or single. However, if you are a married resident of Canada, Mexico, Japan, or South Korea, or are a married U.S. national, you may be able to file as single if you lived apart from your spouse during the last 6 months of the year. See the instructions for Form 1040NR to see if you qualify.

A **U.S. national** is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

Exemptions

As a dual-status taxpayer, you usually will be able to claim your own personal exemption. Subject to the general rules for qualification, you can claim exemptions for your spouse and dependents when you figure taxable income for the part of the year you are a resident alien. The amount you can claim for these exemptions is limited to your taxable

income (figured before subtracting exemptions) for the part of the year you are a resident alien. You cannot use exemptions (other than your own) to reduce taxable income to less than zero for that period.

Special rules apply to exemptions for the part of the tax year a dual-status taxpayer is a nonresident alien if the taxpayer is a resident of Canada, Mexico, Japan, or Korea, is a U.S. national, or is a student or business apprentice from India. For more information, see *Exemptions* in chapter 5.

How To Figure Tax

When you figure your U.S. tax for a dual-status year, you are subject to different rules for the part of the year you are a resident and the part of the year you are a nonresident.

Income

All income for your period of residence and all income that is effectively connected with a trade or business in the United States for your period of nonresidence, after allowable deductions, is added and taxed at the rates that apply to U.S. citizens and residents. Income that is not connected with a trade or business in the United States for your period of nonresidence is subject to the flat 30% rate or lower treaty rate. You cannot take any deductions against this income.

Social security and railroad retirement benefits. During the part of the year you are a nonresident alien, 85% of any U.S. social security benefits (and the equivalent portion of tier 1 railroad retirement benefits) you receive is subject to the flat 30% tax, unless exempt, or subject to a lower treaty rate. (See *The 30% Tax* in chapter 4.)

During the part of the year you are a resident alien, part of the social security and the equivalent portion of tier 1 railroad retirement benefits will be taxed at graduated rates if your modified adjusted gross income plus half these benefits is more than a certain base amount.

Use the *Social Security Benefits Worksheet* in the Form 1040 instructions to help you figure the taxable part of your social security and equivalent tier 1 railroad retirement benefits for the part of the year you were a resident alien.

If you received U.S. social security benefits while you were a **nonresident alien**, the Social Security Administration will send you a copy of Form SSA-1042S, *Social Security Benefit Statement*, showing your combined benefits for the entire year and the amount of tax withheld. You will not receive separate statements for the benefits received during your periods of U.S. residence and nonresidence. Therefore, it is important for you to keep careful records of these amounts. You will need this information to properly complete your return and determine your tax liability.

If you received railroad retirement benefits while you were a **nonresident alien**, the U.S. Railroad Retirement Board (RRB) will send you Form RRB-1042S, *Statement for Nonresident Alien Recipients of Payments by the Railroad Retirement Board*, and/or Form RRB-1099-R, *Annuities or Pensions by the Railroad Retirement Board*. If your country of legal residence changed or your rate of tax changed during the tax year, you may receive more than one form.

Credits

You can claim credit against your U.S. income tax liability for certain taxes you paid, are considered to have paid, or that were withheld from your income. These include:

- 1) Tax withheld from wages earned in the United States,
- 2) Taxes withheld at the source from various items of income from U.S. sources other than wages,
- 3) Tax paid with Form 1040-ES or Form 1040-ES(NR), and
- 4) Tax paid with Form 1040-C, at the time of departure from the United States.

As a dual-status alien, you generally can claim tax credits using the same rules that apply to resident aliens. There are certain restrictions that may apply. These restrictions are discussed here, along with a brief explanation of credits often claimed by individuals.

Child care credit. You may qualify for this credit if you pay someone to care for your dependent who is under age 13, or your disabled dependent or disabled spouse so that you can work or look for work. Generally, you must be able to claim an exemption for your dependent.

Married dual-status aliens can claim the credit only if they choose to file a joint return as discussed in chapter 1, or if they qualify as certain married individuals living apart.

The amount of your child and dependent care expense that qualifies for the credit in any tax year cannot be more than your earned income for that tax year—if married, the lesser of your earned income or the earned income of your spouse.

For more information, get Publication 503 and Form 2441.

Credit for the elderly or the disabled. You must be a U.S. citizen or resident to claim this credit. You cannot claim the credit if you were a nonresident alien at any time during your tax year. However, the credit can be taken by a dual-status alien who is married to a U.S. citizen or resident and chooses to be treated as a U.S. resident for the entire year. For further information about this credit, get Publication 524.

Foreign tax credit. If you have paid or are liable for the payment of income tax to a foreign country on income from foreign sources, you may be able to claim a credit for the foreign taxes.

If you claim the foreign tax credit, you must file Form 1116, with your income tax return. If you need more information, see the instructions for Form 1116 or get Publication 514.

Adoption credit. You may qualify to take a tax credit of up to \$5,000 for qualifying expenses paid after December 31, 1996, to adopt an eligible child. The credit can be as much as \$6,000 if the expenses are for the adoption of a child with special needs. To claim the adoption credit, file Form 8839 with the U.S. income tax return that you file. For more information, get Publication 968.

Married dual-status aliens can claim the credit only if they choose to file a joint return with a U.S. citizen or resident spouse as discussed in chapter 1, or if they qualify as certain married individuals living apart.

Forms To File

The U.S. income tax return you must file as a dual-status alien depends on whether you are a resident alien or a nonresident alien at the end of the tax year.

Resident at end of year. You must file Form 1040, *U.S. Individual Income Tax Return*, if you are a dual-status taxpayer who becomes a resident during the year and who is a U.S. resident on the last day of the tax year. Write "Dual-Status Return" across the top of the return. Attach a statement to your return to show the income for the part of the year you are a nonresident. You can use Form 1040NR or Form 1040NR-EZ as the statement, but be sure to mark "Dual-Status Statement" across the top.

Nonresident at end of year. You must file Form 1040NR or Form 1040NR-EZ if you are a dual-status taxpayer who gives up residence in the United States during the year and who is not a U.S. resident on the last day of the tax year. Write "Dual-Status Return" across the top of the return. Attach a statement to your return to show the income for the part of the year you are a resident. You can use Form 1040 as the statement, but be sure to mark "Dual-Status Statement" across the top.

Statement. Any statement must have your name, address, and taxpayer identification number on it. You do not need to sign a separate statement or schedule accompanying your return, since your signature on the return also applies to the supporting statements and schedules.

When and Where To File

If you are a **resident alien** on the last day of your tax year and report your income on a calendar year basis, you must file no later than April 15 of the year following the close of your tax year. If you report your income on other than a calendar year basis, file your return no later than the 15th day of the 4th month following the close of your tax year. In either case, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255.

If you are a **nonresident alien** on the last day of your tax year and report your income on a calendar year basis, you must file no later than June 15 following the close of your tax year. If you report your income on other than a calendar year basis, file your return no later than the 15th day of the 6th month following the close of your tax year. However, if you receive wages subject to the same withholding rules as U.S. citizens, you must file by the 15th day of the 4th month following the close of your tax year. In any case, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255.



TIP If the regular due date for filing falls on a Saturday, Sunday, or legal holiday, the due date is the next day which is not a Saturday, Sunday, or legal holiday.

Illustration of Dual-Status Return

Sam R. Brown is single and a subject of the United Kingdom. He temporarily entered the United States with an H-1 visa to develop a new product line for the Major Product Co. He arrived in the United States March 18, 1997, and left May 25, 1997, returning to his home in England.

The Major Product Co. later offered Sam a permanent job, and he returned to the United States with a permanent visa on September 10, 1997.

During Sam's temporary assignment in the United States, the Major Product Co. paid him \$6,500. He accounted to his employer for his expenses for travel, meals, and lodging while on temporary assignment, and was reimbursed for his expenses. This amount was not included on his wage statement, Form W-2, given to him when he left the United States.

After Sam became permanently employed, his wages for the rest of the year were \$21,800, including reimbursement of his moving expenses. He received a separate Form W-2 for this period. His other income received in 1997 was:

Interest income paid by the U.S. Bank (not effectively connected):

March 31	\$45
June 30	\$48
September 30	\$68
December 31	\$89

Dividend income paid by Major Product Co. (not effectively connected):

April 3	\$120
July 3	\$120
October 2	\$120

Interest income (in U.S. dollars) paid by the U.K. Bank:

March 31	\$90
June 30	\$110
September 30	\$118
December 31	\$120

Sam paid the following expenses while he was in the United States:

Moving expenses incurred and paid in September	\$8,300
VA State income tax	\$612
Contributions to U.S. charities	\$310

Before Sam left the United States in May, he filed Form 1040-C (see chapter 11). He owed no tax when he left the United States.

Sam fills in Form 1040 and the statement, Form 1040NR, as follows.

Sam prints his name, social security number, and address on page 1 of Form 1040. He checks "Yes" for the Presidential Election Campaign Fund and "Single" under filing status. He also checks the exemption block for himself and prints "Dual-Status Return" across the top of the form.

Sam prints his name, address, and social security number on page 1 of Form 1040NR. He prints "Dual-Status Statement" across the top of the form.

Sam reports on Form 1040 all income received during the period he was a resident of the United States and the income received during the period he was a nonresident alien that was effectively connected with his U.S. trade or business. This income is taxed at the graduated rates. For information purposes,

he also reports on Form 1040NR his salary while he was a nonresident.

Sam reports on Form 1040 the interest income credited to his account by the U.S. Bank and the U.K. Bank in September and December, while he was a U.S. resident. If any of the interest income received while he was a nonresident alien was effectively connected with his U.S. trade or business, he would also report these amounts on Form 1040. If he had paid foreign income tax on the interest income received from the U.K. Bank, he would claim a foreign tax credit on Form 1116.

The dividend income includes only the October dividend, which was received while Sam was a U.S. resident. The dividend income received during his period of nonresidence was not effectively connected with his U.S. trade or business and, therefore, not taxed at the graduated rates.

Sam reports on the attached statement, Form 1040NR, the not effectively connected U.S. income received while he was a nonresident alien. He reports the April and July dividends from the Major Product Co. on line 66a, page 4. He figures the tax on his dividend income and carries it forward to line 46 on Form 1040NR. (The rate of tax on this income is limited to 15% by Article 10 of the U.S.—U.K. income tax treaty. Treaty rates vary from country to country, so be sure to check the provisions in the treaty you are claiming.)

Sam also reports \$36, the amount of tax withheld at source by the Major Product Co. on line 66a, Form 1040NR, and carries it forward to line 58a. Later he will report the amount on Form 1040.

Sam is not required to report the interest credited to his account by the U.S. Bank during the period he was a nonresident alien.

Interest on deposits with U.S. banks that is not effectively connected with a U.S. trade or business generally is treated as income from sources in the United States but is not taxable to a nonresident alien. He checks the "Yes" box on page 5, item L, of Form 1040NR, and explains why this income is not included on his return.

The interest income received from the U.K. Bank while Sam was a nonresident alien is foreign source income and not taxable on his U.S. return.

Sam completes all applicable items on page 5 of Form 1040NR. This provides the dates of arrival and departure, types of visas, and information concerning tax treaty benefits that he has claimed.

Sam completes Form 3903 (not illustrated) to figure his moving expense deduction and reports the total on line 25, Form 1040.

Sam cannot claim the standard deduction because he has a dual-status tax year. He reports his itemized deductions on Schedule A (Form 1040). The only itemized deduction he had while he was a nonresident alien was the state income tax withheld from his pay. For information purposes, he lists this amount on line 1, Schedule A, Form 1040NR, in addition to including it on Schedule A, Form 1040.

Sam totals his itemized deductions on line 28, Schedule A (Form 1040). He reports the amount from line 28 of Schedule A (Form 1040) on line 35, Form 1040.

Sam enters \$2,650 for one personal exemption on line 37, Form 1040. He subtracts the amount on line 37 from the amount on line 36 to figure his taxable income, line 38.

Sam is now ready to figure the tax on his income taxed at the graduated rates. He uses

the column in the Tax Table for single individuals. To this tax (\$2,539), he must add the tax on the income not effectively connected (\$36), the income taxed at the 30% or lower treaty rate. Since there is no line on Form 1040 for this computation, he reports the two amounts in the margin in the *Tax Computation* area of Form 1040.

Sam reports the total amount of tax withheld (\$2,700) from his wages on line 54, Form 1040. He includes in this amount the tax withheld at source (\$36 from line 58a, Form 1040NR) on dividends paid to him while he was a nonresident alien. He also writes a brief explanation.

For information purposes, Sam also reports on line 52, Form 1040NR, the amount of tax withheld (\$345) from wages earned while he was a nonresident alien.

Sam compares the total tax on line 53, Form 1040, to the total payments on line 60, to see if he has overpaid his tax or if he owes an additional amount. Since the amount of tax withheld and the amount of tax paid at source are more than his total tax, he has overpaid his tax. He subtracts the amount on line 53 from the amount on line 60 to figure his refund.

Sam checks to be sure that he has completed all parts of Form 1040 that apply to him. He also checks to see if he has completed the necessary parts of the Form 1040NR that he is attaching as a statement. He then signs and dates the return and enters his occupation.



Sam mails the return to the:

Internal Revenue Service Center
Philadelphia, PA 19255.

Form 1040 U.S. Individual Income Tax Return 1997

Department of the Treasury—Internal Revenue Service

IRS Use Only—Do not write or staple in this space.

OMB No. 1545-0047

Label section containing personal information: Name (Sam R. Brown), Social Security Number (000-00-0000), Home address (2617 Rwyler Place, Anytown, WA 22000), and marital status (Single).

Filing Status section: Single (checked), Married filing joint return, Married filing separate return, Head of household, Qualifying widow(er).

Exemptions section: Spouse (checked), Dependents (none), Other (none).

Table for Exemptions claimed, listing dependent names, relationships, and dates of birth.

Main income table with columns for line number, description (Wages, Tax-exempt interest, Dividends, etc.), and amount.

Adjusted Gross Income: 28,815

Total number of exemptions claimed: 1

For Privacy Act and Paperwork Reduction Act Notice, see page 38.

Tax Computation section: Taxable income (348), Credits (37), Other taxes (48), Payments (55), Refund (61), Amount you owe (64).

Credits section: Credit for child and dependent care expenses (40), Credit for the elderly or the disabled (41), Adoption credit (42), Foreign tax credit (43), Other (44).

Other Taxes section: Self-employment tax (47), Alternative minimum tax (48), Social security and Medicare tax (49), Tax on qualified retirement plans (50), Advance earned income credit (51), Household employment taxes (52), Federal income tax withheld (54), 1997 estimated tax payments (55).

Payments section: Amount paid with Form 14868 (57), Excess social security and RRTA tax withheld (58), Other payments (59), Estimated tax payments (63).

Refund section: Amount of refund (61), Amount of refund you owe (62), Amount of refund you owe (63).

Amount you owe section: Estimated tax payments (63), Amount you owe (64), Sign Here (65), Paid Preparer's Use Only (66).

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SCHEDULES A&B
(Form 1040)

Schedule A—Itemized Deductions

(Schedule B is on back)

OMB No. 1545-0074

1997

Attachment
Sequence No. 07

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

Name(s) shown on Form 1040

Sam R. Brown

Your social security number

000 : 00 : 0000

Medical and Dental Expenses	1	Caution: Do not include expenses reimbursed or paid by others.			
	2	Medical and dental expenses (see page A-1)	1		
	3	Enter amount from Form 1040, line 33, [2]			
	4	Multiply line 2 above by 7.5% (.075)	3		
	5	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4	
Taxes You Paid	5	State and local income taxes	612		
	6	Real estate taxes (see page A-2)			
	7	Personal property taxes			
	8	Other taxes. List type and amount ▶			
	9	Add lines 5 through 8		612	
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098			
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see page A-3 and show that person's name, identifying no., and address ▶			
	12	Points not reported to you on Form 1098. See page A-3 for special rules.			
	13	Investment interest. Attach Form 4952 if required. (See page A-3.)			
	14	Add lines 10 through 13			
Gifts to Charity	15	Gifts by cash or check. If you made any gift of \$250 or more, see page A-3.	310		
	16	Other than by cash or check. If any gift of \$250 or more, see page A-3. You MUST attach Form 8283 if over \$500			
	17	Carryover from prior year			
	18	Add lines 15 through 17		310	
Casualty and Theft Losses	19	Casualty or theft loss(es). Attach Form 4684. (See page A-4.)			
Job Expenses and Most Other Miscellaneous Deductions	20	Unreimbursed employee expenses—job travel, union dues, job education, etc. You MUST attach Form 2106 or 2106-EZ if required. (See page A-4.) ▶			
	21	Tax preparation fees			
	22	Other expenses—investment, safe deposit box, etc. List type and amount ▶			
	23	Add lines 20 through 22			
	24	Enter amount from Form 1040, line 33, [24]			
	25	Multiply line 24 above by 2% (.02)			
	26	Subtract line 25 from line 23. If line 25 is more than line 23, enter -0-			
Other Miscellaneous Deductions	27	Other—from list on page A-5. List type and amount ▶			
Total Itemized Deductions	28	Is Form 1040, line 33, over \$121,200 (over \$60,600 if married filing separately)? NO. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 27. Also, enter on Form 1040, line 35, the larger of this amount or your standard deduction. YES. Your deduction may be limited. See page A-5 for the amount to enter.		922	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Cat. No. 11330X

Schedule A (Form 1040) 1997

Dual Status STATEMENT

1040NR

U.S. Nonresident Alien Income Tax Return

OMB No. 1545-0089

1997

Form
Department of the Treasury
Internal Revenue Service

For the year January 1–December 31, 1997, or other tax year

beginning , 1997, and ending , 19

Your first name and initial Sam R.	Last name Brown	Identifying number (see page 6) 000-00-0000
Present home address (number, street, and apt. no., or rural route). If a P.O. box, see page 6 of instructions. 2617 Rewter Place		Check if: <input type="checkbox"/> Individual <input type="checkbox"/> Estate or Trust
City, town or post office, state, and ZIP code. If a foreign address, see page 6 of instructions. Anytown, VA 22000		For Paperwork Reduction Act Notice, see page 17 of instructions.
Country ▶ USA		
Of what country were you a citizen or national during the tax year? ▶ United Kingdom		
Give address outside the United States to which you want any refund check mailed. If same as above, write "Same." N/A		Give address in the country where you are a permanent resident. If same as above, write "Same." Same
Filing Status and Exemptions for Individuals (See page 6 of the instructions.)		
Filing status. Check only one box.		7a Yourself 7b Spouse
1 <input type="checkbox"/> Single resident of Canada or Mexico, or a single U.S. national		
2 <input type="checkbox"/> Other single nonresident alien		
3 <input type="checkbox"/> Married resident of Canada or Mexico, or a married U.S. national } If you check box 7b, enter your spouse's identifying number ▶		
4 <input type="checkbox"/> Married resident of Japan or the Republic of Korea		
5 <input type="checkbox"/> Other married nonresident alien		
6 <input type="checkbox"/> Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 6 of inst.)		
Caution: Do not check box 7a if your parent (or someone else) can claim you as a dependent. Do not check box 7b if your spouse had any U.S. gross income.		
7c Dependents:		
(1) First name	Last name	(2) Dependent's identifying number (3) Dependent's relationship to you (4) No. of months lived in your home in 1997
*Applies generally only to residents of Canada, Mexico, Japan, and the Republic of Korea and to U.S. nationals. (See page 6 of instructions.)		
**Applies generally only to residents of Canada and Mexico and to U.S. nationals. (See page 6 of instructions.)		
d Total number of exemptions claimed		
8 Wages, salaries, tips, etc. Attach Form(s) W-2	8	6,500
9a Taxable interest income	9a	
b Tax-exempt interest. DO NOT include on line 9a.	9b	
10 Dividend income	10	
11 Taxable refunds, credits, or offsets of state and local income taxes (see page 7)	11	
12 Scholarship and fellowship grants. Attach explanation (see page 7)	12	
13 Business income or (loss). Attach Schedule C or C-EZ (Form 1040)	13	
14 Capital gain or (loss). If required, attach Schedule D (Form 1040)	14	
15 Other gains or (losses). Attach Form 4797	15	
16a Total IRA distributions	16a	16b Taxable amount (see page 8)
17a Total pensions and annuities	17a	17b Taxable amount (see page 8)
18 Rental real estate, royalties, partnerships, trusts, etc. Attach Schedule E (Form 1040)	18	
19 Farm income or (loss). Attach Schedule F (Form 1040)	19	
20 Unemployment compensation	20	
21 Other income. List type and amount—see page 9	21	
22 Total income exempt by a treaty from page 5, Item M	22	
23 Add lines 8, 9a, 10–15, 16b, and 17b–21. This is your total effectively connected income. ▶	23	6,500
24 IRA deduction (see page 9)	24	
25 Medical savings account deduction. Attach Form 8853	25	
26 Moving expenses. Attach Form 3903	26	
27 Self-employed health insurance deduction	27	
28 Keogh and self-employed SEP and SIMPLE plans	28	
29 Penalty on early withdrawal of savings	29	
30 Scholarship and fellowship grants excluded	30	
31 Add lines 24 through 30. These are your total adjustments	31	-0-
32 Subtract line 31 from line 23. Enter here and on line 33. This is your adjusted gross income. ▶	32	

Attach Copy B of your Forms W-2, W-2G, and 1099-R here

Enclose, but do not attach, any payment with your return.

Income Effectively Connected With U.S. Trade/Business Adjustments

Cat. No. 11364D

Form 1040NR (1997)

33	Amount from line 32 (adjusted gross income)	33	
33	Itemized deductions from page 3, Schedule A, line 17	34	195
35	Subtract line 34 from line 33. If line 34 is more than line 33, enter -0-	35	
36	Exemptions (see page 10)	36	
37	Taxable income. Subtract line 36 from line 35. If line 36 is more than line 35, enter -0-	37	
38	Tax. See instructions. Check if total includes any tax from a Form(s) 8814 b Form 4972	38	

39	Credit for child and dependent care expenses. Attach Form 2441	39	
40	Adoption credit. Attach Form 8839	40	
41	Foreign tax credit. Attach Form 1116	41	
42	Other. Check if from a Form 3800 b Form 8396 c Form 8801 d Form (Specify)	42	
43	Add lines 39 through 42	43	
44	Subtract line 43 from line 38. If line 43 is more than line 38, enter -0-	44	

45	Alternative minimum tax (see page 11). Attach Form 6251	45	
46	Tax on income not effectively connected with a U.S. trade or business from page 4, line 79	46	36
47	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	47	
48	Tax on qualified retirement plans (including IRAs) and MSAs. Attach Form 5329 if required	48	
49	Transportation tax (see page 12). Attach Schedule H (Form 1040)	49	
50	Household employment taxes. Attach Schedule H (Form 1040)	50	
51	Add lines 44 through 50. This is your total tax	51	

52	Federal income tax withheld from Forms W-2, 1099, 1042-S, etc.	52	345
53	1997 estimated tax payments and amount applied from 1996 return	53	
54	Amount paid with Form 4868 (extension request)	54	
55	Excess social security and RRTA tax withheld (see page 13)	55	
56	Other payments. Check if from a Form 2439 b Form 4136	56	
57	Credit for amount paid with Form 1040-C	57	
58	U.S. tax withheld at source:	58a	36
	a From page 4, line 76	58b	
	b By partnerships under section 1446 (from Form(s) 8805 or 1042-S)	58c	
59	U.S. tax withheld on dispositions of U.S. real property interests:	59a	
	a From Form(s) 8288-A	59b	
	b From Form(s) 1042-S	59c	
60	Add lines 52 through 59b. These are your total payments	60	381

61	If line 60 is more than line 51, subtract line 51 from line 60. This is the amount you OVERPAID	61	
62a	Amount of line 61 you want REFUNDED TO YOU. If you want it directly deposited, see page 13 and fill in 62b, c, and d	62a	
	b Routing number		
	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number		
63	Amount of line 61 you want APPLIED TO YOUR 1998 ESTIMATED TAX	63	

64	If line 51 is more than line 60, subtract line 60 from line 51. This is the AMOUNT YOU OWE. For details on how to pay, including what to write on your payment, see page 13	64	
65	Estimated tax penalty (see page 13). Also include on line 64	65	

Schedule A—Itemized Deductions (See pages 14 and 15.)

1	State income taxes	1	195
2	Local income taxes	2	
3	Add lines 1 and 2	3	195

4	Gifts to U.S. Charities	4	
5	Other than cash or check. If you made any gift of \$250 or more, see page 14. If you made any gift of \$250 or more, see page 14. If over \$500, you MUST attach Form 8283	5	
6	Carryover from prior year	6	
7	Add lines 4 through 6	7	

8	Casualty and Theft Losses	8	
9	Unreimbursed employee expenses—job travel, union dues, job education, etc. You MUST attach Form 2106 or Form 2106-EZ, if required. See page 15	9	
10	Miscellaneous Deductions	10	
11	Tax preparation fees	11	
12	Other expenses. See page 15 for expenses to deduct here. List type and amount	12	
13	Add lines 9 through 11	13	
14	Enter the amount from Form 1040NR, line 33	14	
15	Multiply line 13 by 2% (.02)	15	
16	Subtract line 14 from line 12. If line 14 is more than line 12, enter -0-	16	

17	Total Itemized Deductions	17	195
Is Form 1040NR, line 33, over \$121,200 (over \$60,600 if you checked filing status box 3, 4, or 5 on page 1 of Form 1040NR)?			
No. Your deduction is not limited. Add the amounts in the far right column for lines 3 through 16. Enter the total here and on Form 1040NR, line 34.			
Yes. Your deduction may be limited. See page 15 for the amount to enter here and on Form 1040NR, line 34.			

Other Information (If an item does not apply to you, enter "N/A.")

A What country issued your passport? United Kingdom

B Were you ever a U.S. citizen? Yes No

C Give the purpose of your visit to the United States ▶
 Temporary assignment

D Type of entry visa and visa number ▶ H-1
 and type of current visa ▶ Permanent

E Date you first entered the United States ▶ 3-18-97

F Did you give up your permanent residence as an immigrant in the United States this year? Yes No

G Dates you entered and left the United States during the year. Residents of Canada or Mexico entering and leaving the United States at frequent intervals, give name of country only.
 Entered: March 18, 1997
 Departed: May 25, 1997
 Entered: Sept. 10, 1997

H Give number of days (including vacation and nonwork days) you were present in the United States during:
 1995: 0, 1996: 0, and 1997: 182

I If you are a resident of Canada, Mexico, Japan, or the Republic of Korea, or a U.S. national, did your spouse contribute to the support of any child claimed on Form 1040NR, line 7c? Yes No
 If "Yes," enter amount ▶ \$..... N/A

J Did you file a U.S. income tax return for any year before 1997? Yes No
 If "Yes," give the latest year and form number ▶

K To which Internal Revenue office did you pay any amounts claimed on Form 1040NR, lines 53, 54, and 57? N/A

L Have you excluded any gross income other than foreign source income not effectively connected with a U.S. trade or business? Yes No
 If "Yes," show the amount, nature, and source of the excluded income. Also, give the reason it was excluded. (Do not include amounts shown in item M.) ▶
 \$93 U.S. bank interest not effectively connected with a U.S. trade or business

M If you are claiming the benefits of a U.S. income tax treaty with a foreign country, give the following information. See page 16 for additional information.
 • Country ▶ United Kingdom
 • Type and amount of effectively connected income exempt from tax. Also, identify the applicable tax treaty article. Do not enter exempt income on lines 8-15, 16b, and 17b-21 of Form 1040NR.
 For 1997 (also, include this exempt income on line 22 of Form 1040NR) ▶
 For 1996 ▶
 For 1997 ▶
 Additional income of \$240 taxed at 15% under Article 10
 For 1996 ▶ N/A

N If you are subject to tax in that country on any of the income you claim is entitled to the treaty benefits? Yes No
 • Did you have a permanent establishment or fixed base (as defined by the tax treaty) in the United States at any time during 1997? Yes No
 If you file this return to report community income, give your spouse's name, address, and identifying number.
 N/A

O If you file this return for a trust, does the trust have a U.S. business? Yes No
 If "Yes," give name and address ▶
 N/A

P Is this an "expatriation return" (see page 16)? Yes No
 If "Yes," are you attaching the annual information statement (see page 16)? Yes No
 If you are not attaching the annual information statement, attach explanation.

Tax on Income Not Effectively Connected With a U.S. Trade or Business

Attach Forms 1042-S, SSA-1042S, RRB-1042S, 1001 or similar form.

Nature of income	(a) U.S. tax withheld at source	Enter amount of income under the appropriate rate of tax (see page 15)				(e) Other (specify)	
		(b) 10%	(c) 15%	(d) 30%%%	
66 Dividends paid by:							
a U.S. corporations	66a 36		240				
b Foreign corporations	66b						
67 Interest:							
a Mortgage	67a						
b Paid by foreign corporations	67b						
c Other	67c						
68 Industrial royalties (patents, trademarks, etc.)	68						
69 Motion picture or T.V. copyright royalties	69						
70 Other royalties (copyrights, recording, publishing, etc.)	70						
71 Real property income and natural resources royalties	71						
72 Pensions and annuities	72						
73 Social security benefits	73						
74 Gains (include capital gain from line 82 below)	74						
75 Other (specify) ▶	75						
76 Total U.S. tax withheld at source. Add column (a) of lines 66a through 75. Enter the total here and on Form 1040NR, line 58a	76 36						
77 Add lines 66a through 75 in columns (b)-(e)	77		240				
78 Multiply line 77 by rate of tax at top of each column	78		36				
79 Tax on income not effectively connected with a U.S. trade or business. Add columns (b)-(e) of line 78. Enter the total here and on Form 1040NR, line 46	79						36

Capital Gains and Losses From Sales or Exchanges of Property

Enter only the capital gains and losses from property sales or exchanges that are from sources within the United States and not effectively connected with a U.S. business. Do not include a gain or loss on disposing of a U.S. real property interest. Report these gains and losses on Schedule D (Form 1040). Report property sales or exchanges that are effectively connected with a U.S. business on Schedule D (Form 1040), Form 4797, or both.	80 (a) Kind of property and description (if necessary, attach statement of descriptive details not shown below)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price	(e) Cost or other basis	(f) LOSS		(g) GAIN	
						If (e) is more than (d), subtract (d) from (e)	(d)	If (d) is more than (e), subtract (e) from (d)	(e)
81 Add columns (f) and (g) of line 80									81 ()
82 Capital gain. Combine columns (f) and (g) of line 81. Enter the net gain here and on line 74 above (if a loss, enter -0-) ▶									82

7.

What, When, and Where To File

Introduction

What return you must file, as well as when and where you file that return, depends on your status at the end of the tax year as a resident or a nonresident alien.

Topics

This chapter discusses:

- Forms aliens must file
- When and where to file
- Amended returns and claims for refund
- Transportation of currency or monetary instruments

Useful Items

You may want to see:

Forms (and Instructions)


- 1040** U.S. Individual Income Tax Return
- 1040A** U.S. Individual Income Tax Return
- 1040EZ** Income Tax Return for Single and Joint Filers With No Dependents
- 1040NR** U.S. Nonresident Alien Income Tax Return
- 1040NR-EZ** U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents
- 4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

See chapter 12 for information about getting these forms.

Resident Aliens

Resident aliens should file Form 1040EZ, 1040A, or 1040 at the address shown in the instructions for that form. The due date for filing the return and paying any tax due is April 15 of the year following the year for which you are filing a return.

You are allowed an automatic extension to June 15 to file if your main place of business and the home you live in are outside the United States and Puerto Rico on April 15. You can get an extension of time to August 15 to file your return if you file Form 4868 by April 15 (June 15 if you qualify for the June 15 extension). See the instructions for the form you are filing for more information.

 **TIP** If the due date for filing falls on a Saturday, Sunday, or legal holiday, the due date is the next day which is not a Saturday, Sunday, or legal holiday.

Nonresident Aliens

Nonresident aliens who are required to file an income tax return should use Form 1040NR or, if qualified, Form 1040NR-EZ.

You must file a return if you are:


- 1) A nonresident alien individual engaged or considered to be engaged in a trade or business in the United States during 1997.
You must file even if:
 - a) Your income did not come from a trade or business conducted in the United States,
 - b) You have no income from U.S. sources, or
 - c) Your income is exempt from tax.

- 2) A nonresident alien individual not engaged in a trade or business in the United States with U.S. income on which the tax liability was not satisfied by the withholding of tax at the source,
- 3) A representative or agent responsible for filing the return of an individual described in (1) or (2), or
- 4) A fiduciary for a nonresident alien estate or trust.

Note. If you were a nonresident alien student or trainee who was temporarily present in the United States under an "F," "J," "M," or "Q" visa, you are considered engaged in a trade or business in the United States. You must file Form 1040NR (or Form 1040NR-EZ) only if you have income that is subject to tax under Section 871.

You must also file if you want to:

- 1) Claim a refund of overwithheld or overpaid tax, or
- 2) Claim the benefit of any deductions or credits. For example, if you have no U.S. business activities but have income from real property that you choose to treat as effectively connected income (discussed in chapter 4), you must timely file a true and accurate return to take any allowable deductions against that income. For information on what is timely, see *When to file for deductions and credits*, later under *When and Where To File*.

 **CAUTION** Even if you have left the United States and filed a Form 1040-C on departure, you still must file an annual U.S. income tax return. If you are married and both you and your spouse are required to file, you must each file a **separate** form.

Form 1040NR-EZ

You can use Form 1040NR-EZ if **all** of the following conditions are met.

- 1) You do not claim any dependents.
- 2) You cannot be claimed as a dependent on someone else's return.
- 3) If you were married, you cannot claim an exemption for your spouse.
- 4) You were under age 65 on January 1, 1998, and not blind at the end of 1997.
- 5) Your taxable income is less than \$50,000.


- 6) You do not claim any itemized deductions (other than for state and local income taxes).
- 7) You had only wages, salaries, tips, taxable refunds of state and local income taxes, and scholarship or fellowship grants. (If you had taxable interest or dividend income, you cannot use this form.)
- 8) You are not claiming any adjustments to income other than scholarship and fellowship grants excluded.
- 9) You are not claiming any credits.
- 10) You do not have any "other taxes" (other than social security and Medicare tax on tip income not reported to employer or household employment taxes).

If you do not qualify to file Form 1040NR-EZ, you must file Form 1040NR.

When and Where To File

If you are an employee and you receive wages subject to U.S. income tax withholding, file by the 15th day of the 4th month after your tax year ends. If you file for the 1997 calendar year, your return is due April 15, 1998.

If you are not an employee who receives wages subject to U.S. income tax withholding, you must file by the 15th day of the 6th month after your tax year ends. For the 1997 calendar year, file your return by June 15, 1998. For information on when and where to make estimated tax payments, see chapter 8.

 File Form 1040NR-EZ and Form 1040NR with the:

Internal Revenue Service Center
Philadelphia, PA 19255.

When to file for deductions and credits.

To get the benefit of any allowable deductions or credits, you must timely file a true and accurate return. For this purpose, a return is timely if it is filed within 16 months of the due date just discussed. However, if you did not file a 1996 tax return and 1997 is not the first year for which you are required to file one, your 1997 return is timely for this purpose if it is filed by the earlier of:

- 1) The date that is 16 months after the due date for filing your 1997 return, or
- 2) The date the IRS notifies you that your 1997 return has not been filed and that you cannot claim certain deductions and credits.

The allowance of the following credits is not affected by this time requirement:

- 1) Credit for withheld taxes,
- 2) Credit for excise tax on certain uses of gasoline and special fuels, and
- 3) Credit for tax paid by a regulated investment company on capital gains.

Protective return. If your activities in the United States were limited and you do not believe that you had any gross income effectively connected with a U.S. trade or business during the year, you can file a protective re-

turn (Form 1040NR) by the deadline explained above. By filing a protective return, you protect your right to receive the benefit of deductions and credits in the event it is later determined that some or all of your income is effectively connected. You are not required to report any effectively connected income or any deductions on the protective return, but you must give the reason the return is being filed.

If you believe some of your activities resulted in effectively connected income, file your return reporting that income and related deductions by the regular due date. To protect your right to claim deductions or credits resulting from other activities, attach a statement to that return explaining that you wish to protect your right to claim deductions and credits if it is later determined that the other activities produced effectively connected income.

You can follow the same procedure if you believe you have no U.S. tax liability because of a U.S. tax treaty. Be sure to also complete items L and M on page 5 of Form 1040NR.

Aliens from the Virgin Islands.



If you are a bona fide resident of the Virgin Islands and work temporarily in the United States, you must pay your income taxes to the Virgin Islands and file your income tax returns with the:

Virgin Islands Bureau of Internal Revenue
9601 Estate Thomas
Charlotte Amalie, St. Thomas
U.S. Virgin Islands 00802.

Report all income from U.S. sources, as well as income from other sources, on your return. For information on filing Virgin Islands returns, contact the Virgin Islands Bureau of Internal Revenue.

Chapter 8 discusses withholding from U.S. wages of Virgin Islanders.

Aliens from Guam or the Commonwealth of the Northern Mariana Islands. If you are a resident of Guam or the Commonwealth of the Northern Mariana Islands (CNMI) on the last day of your tax year, you must file your return and pay any tax due to Guam or the CNMI. Report all income, including income from U.S. sources, on your return. It is not necessary to file a separate U.S. income tax return.



Guam residents should file their Guam returns with the:

Department of Revenue and Taxation
Government of Guam
P.O. Box 23607
GMF, GU 96921.

Residents of the CNMI should file their CNMI income tax returns with the:

Division of Revenue and Taxation
Commonwealth of the Northern Mariana Islands
P.O. Box 5234 CHRB
Saipan, MP 96950.

If you are a resident of the United States on the last day of your tax year, you should file your return with, and pay any balance of your tax due on income derived from all

sources to the Internal Revenue Service Center, Philadelphia, PA 19255.

Penalties. The law imposes penalties for filing your tax return late or for late payment of any tax due. However, a penalty is not charged if you can show that there was reasonable cause for your filing or paying late.

You may be subject to additional penalties for:

- 1) Not supplying a taxpayer identification number when required,
- 2) Filing a frivolous income tax return, or
- 3) Not including a tax shelter identification number on a return when required.

Amended Returns and Claims for Refund

If you find changes in your income, deductions, or credits after you mail your return, file Form 1040X, *Amended U.S. Individual Income Tax Return*. Attach Form 1040NR showing the changes to your original return and write "Amended" across the top. Ordinarily, an amended return claiming a refund must be filed within 3 years from the date your return was filed or within 2 years from the time the tax was paid, whichever is later. A return filed before the final due date is considered to have been filed on the due date.

Transportation of Currency or Monetary Instruments

Form 4790, *Report of International Transportation of Currency or Monetary Instruments*, must be filed by each person who physically transports, mails, or ships, or causes to be physically transported, mailed, or shipped, currency or other monetary instruments in a total amount of more than \$10,000 at one time from the United States to any place outside the United States, or into the United States from any place outside the United States. The filing requirement also applies to each person who attempts to transport, mail, or ship the currency or monetary instruments or attempts to cause them to be transported, mailed, or shipped.

The term "monetary instruments" means coin or currency of the United States or of any other country, travelers' checks in any form, money orders, investment securities in bearer form or otherwise in such form that title to them passes upon delivery, and negotiable instruments (except warehouse receipts or bills of lading) in bearer form or other in such form that title to them passes upon delivery. The term includes bank checks and money orders which are signed but on which the name of the payee has been omitted, but does not include bank checks, travelers' checks, or money orders made payable to the order of a named person which have not been endorsed or which contain restrictive endorsements.

A transfer of funds through normal banking procedures (wire transfer) that does not involve the physical transportation of currency or bearer monetary instruments is not required to be reported on Customs Form 4790.

Filing requirements for Customs Form 4790 are the following.

Recipients. Each person who receives currency or other monetary instruments from a place outside the United States must file

Customs Form 4790 within 15 days after receipt, with the Customs officer in charge at any port of entry or departure, or by mail with the:

Commissioner of Customs
Attention: Currency Transportation
Reports
1301 Constitution Ave., N.W.
Washington, DC 20229.

Shippers or mailers. If the currency or other monetary instrument does not accompany the person entering or departing the United States, Customs Form 4790 can be filed by mail with the Commissioner of Customs at the above address, on or before the date of entry, departure, mailing, or shipping.

Travelers. Travelers must file Customs Form 4790 with the Customs officer in charge at any Customs port of entry or departure, when entering or departing the United States.

Penalties. Civil and criminal penalties are provided for failure to file a report, or if the report contains material omissions or misstatements and for structuring the transportation of currency or monetary instruments to avoid filing a report. Also, the entire amount of the currency or monetary instrument may be subject to seizure and forfeiture.

More information regarding the filing of Customs Form 4790 can be found in the instructions on the back of the form.

8.

Paying Tax Through Withholding or Estimated Tax

Introduction

This chapter discusses how to pay your U.S. income tax as you earn or receive income during the year. In general, the federal income tax is a pay as you go tax. There are two ways to pay as you go:

- **Withholding.** If you are an employee, your employer probably withholds income tax from your pay. Tax may also be withheld from certain other income—including pensions, bonuses, commissions, and gambling winnings. In each case, the amount withheld is paid to the Internal Revenue Service (IRS) in your name, and
- **Estimated tax.** If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. People who are in business for themselves generally will have to pay their tax this way. You may have to pay estimated tax if you receive income such as dividends, interest, rent, and royalties. Estimated tax is used to pay not only income tax, but self-

employment tax and alternative minimum tax as well.

Topics

This chapter discusses:

- How to notify your employer of your alien status
- Income subject to withholding of income tax
- Exemptions from withholding
- Social security and Medicare taxes
- Estimated tax rules

Useful Items

You may want to see:

Publication

- 515** Withholding of Tax on Nonresident Aliens and Foreign Corporations
- 533** Self-Employment Tax
- 901** U.S. Tax Treaties

Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- W-4P** Withholding Certificate for Pension or Annuity Payments
- W-8** Certificate of Foreign Status
- 1040-ES(NR)** U.S. Estimated Tax for Nonresident Alien Individuals
- 1078** Certificate of Alien Claiming Residence in the United States
- 4224** Exemption From Withholding of Tax on Income Effectively Connected With the Conduct of a Trade or Business in the United States
- 8233** Exemption From Withholding on Compensation for Independent Personal Services of a Nonresident Alien Individual
- 8288-B** Application for Withholding Certificate for Dispositions by Foreign Persons of U.S. Real Property Interests

See chapter 12 for information about getting these publications and forms.

Notification of Alien Status

You must let your employer know whether you are a resident or a nonresident alien so your employer can withhold the correct amount of tax from your wages.

If you are a resident alien under the rules discussed in chapter 1, you should file Form 1078 with your employer. If you are a nonresident alien under those rules, you do not have to file a form, but it would be helpful if you told your employer that you are a nonresident alien.

If you are a resident alien and you receive income other than wages (such as dividends and royalties) from sources within the United

States, you should file Form 1078 with the withholding agent (generally, the payer of the income) so the agent will not withhold tax on the income at the 30% (or lower treaty) rate. If you receive such income as a nonresident alien it is usually subject to withholding at the 30% (or lower treaty) rate.

Withholding from Compensation

The following discussion generally applies only to nonresident aliens. Tax is withheld from resident aliens in the same manner as U.S. citizens.

Wages and other compensation paid to a nonresident alien for services performed as an employee are usually subject to graduated withholding at the same rates as resident aliens and U.S. citizens. Therefore, your compensation, unless it is specifically excluded from the term "wages" by law, or is exempt from tax by treaty, is subject to graduated withholding.

Withholding on Wages

If you are an employee and you receive wages subject to graduated withholding, you will be required to fill out a Form W-4, *Employee's Withholding Allowance Certificate*. Nonresident aliens should use the following instructions instead of the instructions on the Form W-4.

Because of the restrictions on a nonresident alien's filing status, the limited number of personal exemptions a nonresident alien is allowed, and the fact that a nonresident alien cannot claim the standard deduction, you should fill out Form W-4 following these instructions.

- 1) Check only "Single" marital status (regardless of your actual marital status).
- 2) Claim only one allowance, unless you are a resident of Canada, Mexico, Japan, or South Korea, or a U.S. national.
- 3) Request that your employer withhold an additional amount of \$4.00 per week. If your wages are paid based on a two-week pay period, the additional amount will be \$8.00.
- 4) Do **not** claim "Exempt" withholding status.

A **U.S. national** is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans, and Northern Mariana Islanders who chose to become U.S. nationals instead of U.S. citizens.

See *Reduced Withholding on Scholarships and Fellowship Grants* later, for how to fill out Form W-4 if you receive a U.S. source scholarship or fellowship grant.

Students and business apprentices from India. If you are eligible for the benefits of Article 21(2) of the United States-India Income Tax Treaty, you may claim additional withholding allowances for the standard deduction and your spouse. You may also claim an additional withholding allowance for each of your dependents not admitted to the United States on F-2, J-2, or M-2 visas. You do not have to request additional withholding.

Withholding on Pensions

If you receive a pension as a result of personal services performed in the United States, the pension income is treated as effectively connected with a U.S. trade or business. This income will be subject to graduated withholding under the pension withholding rules that apply to U.S. citizens and resident aliens.

You must fill out a Form W-4P, *Withholding Certificate for Pension or Annuity Payments*, using the following guidelines. Check only "Single" marital status, and claim only one withholding allowance unless you are a resident of Canada, Mexico, Japan, or South Korea, or a U.S. national.

A nonresident alien who receives periodic pension payments or nonperiodic pension distributions outside of the United States can choose to not have tax withheld under the graduated withholding rules. However, if you make this choice, the 30% (or lower treaty rate) withholding tax will apply.

Withholding on Tip Income

Tips you receive during the year for services performed in the United States are subject to U.S. income tax. Include them in taxable income. In addition, tips received while working for one employer, amounting to \$20 or more in a month, are subject to graduated withholding.

Independent Contractors

If there is no employee-employer relationship between you and the person for whom you perform services, your compensation is subject to the 30% (or lower treaty) rate of withholding. However, if you are engaged in a trade or business in the United States during the tax year, your compensation for personal services as an independent contractor (independent personal services) may be entirely or partly exempt from withholding if you reach an agreement with the Internal Revenue Service on the amount of withholding required. Also, the final payment to you during the tax year for independent personal services may be entirely or partly exempt from withholding if you are engaged in a trade or business in the United States during the year and you file the forms and provide the information required by the IRS.

Withholding Agreement

An agreement that you reach with the IRS regarding withholding from your compensation for independent personal services is effective for payments covered by the agreement after it is agreed to by all parties. You must agree to timely file an income tax return for the current tax year.

Central withholding agreements. If you are a nonresident alien entertainer or athlete performing or participating in athletic events in the United States, you may be able to enter into a withholding agreement with the IRS for reduced withholding provided certain requirements are met. Under no circumstances will such a withholding agreement reduce taxes withheld to less than the anticipated amount of income tax liability.

Nonresident alien entertainers or athletes requesting a central withholding agreement must submit the following information.

- 1) A list of the names and addresses of the nonresident aliens to be covered by the agreement.
- 2) Copies of all contracts that the aliens or their agents and representatives have entered into regarding the time period and performances or events to be covered by the agreement including, but not limited to, contracts with:
 - a) Employers, agents, and promoters,
 - b) Exhibition halls,
 - c) Persons providing lodging, transportation, and advertising, and
 - d) Accompanying personnel, such as band members or trainers.
- 3) An itinerary of dates and locations of all events or performances scheduled during the period to be covered by the agreement.
- 4) A proposed budget containing itemized estimates of all gross income and expenses for the period covered by the agreement, including any documents to support these estimates.
- 5) The name, address, and telephone number of the person the IRS should contact if additional information or documentation is needed.
- 6) The name, address, and employer identification number of the agent or agents who will be the central withholding agents for the aliens and who will enter into a contract with the IRS. A central withholding agent ordinarily receives contract payments, keeps books of account for the aliens covered by the agreement, and pays expenses (including tax liabilities) for the aliens during the period covered by the agreement.

When the IRS approves the estimated budget and the designated central withholding agents, the Associate Chief Counsel (International) will prepare a withholding agreement. The agreement must be signed by each withholding agent, each nonresident alien covered by the agreement, and the Assistant Commissioner (International).

Generally, each withholding agent must agree to withhold income tax from payments made to the nonresident alien; to pay over the withheld tax to the IRS on the dates and in the amounts specified in the agreement; and to have the IRS apply the payments of withheld tax to the withholding agent's Form 1042 account. Each withholding agent will be required to file Form 1042 and Form 1042-S for each tax year in which income is paid to a nonresident alien covered by the withholding agreement. The IRS will credit the withheld tax payments, posted to the withholding agent's Form 1042 account, in accordance with the Form 1042-S. Each nonresident alien covered by the withholding agreement must agree to file Form 1040NR or Form 1040NR-EZ.



A request for a central withholding agreement should be sent to the following address at least 90 days before the agreement is to take effect:

Internal Revenue Service
 Chief, Special Procedures Section
 CP:IN:D:C:SS:TS
 Room 4417
 950 L'Enfant Plaza South, S.W.
 Washington, DC 20024

Final payment exemption. Your final payment of compensation during the tax year for independent personal services may be entirely or partly exempt from withholding. This exemption is available only once during your tax year and applies to a maximum of \$5,000 of compensation. To obtain this exemption, you or your agent must give the following statements and information to the IRS district director.

- 1) A statement by each withholding agent from whom you have received gross income effectively connected with a trade or business in the United States during the tax year, showing the amount of income paid and the tax withheld. Each statement must be signed by the withholding agent and verified by a declaration that it is made under penalties of perjury.
- 2) A statement by the withholding agent from whom you expect to receive the final payment of compensation, showing the amount of the payment and the amount of tax that would be withheld if a final payment exemption were not granted. This statement must also be signed by the withholding agent and verified by a declaration that it is made under penalties of perjury.
- 3) A statement by you that you do not intend to receive any other income effectively connected with a trade or business in the United States during the current tax year.
- 4) The amount of tax that has been withheld or paid under any other provision of the Internal Revenue Code or regulations for any income effectively connected with your trade or business in the United States during the current tax year.
- 5) The amount of your outstanding tax liabilities, if any, including interest and penalties, from the current tax year or prior tax periods.
- 6) Any provision of an income tax treaty under which a partial or complete exemption from withholding may be claimed, the country of your residence, and a statement of sufficient facts to justify an exemption under the treaty.
- 7) A statement signed by you, and verified by a declaration that it is made under penalties of perjury, that all the information given is true and that to your knowledge no relevant information has been omitted.

If satisfied with the information, the IRS will determine the amount of your tentative income tax for the tax year on gross income effectively connected with your trade or business in the United States. Ordinary and necessary business expenses can be taken into account if proven to the satisfaction of the Assistant Commissioner (International).

The IRS will send you a letter, directed to the withholding agent, showing the amount of the final payment of compensation that is

exempt from withholding and the amount that can be paid to you because of the exemption. You must give two copies of the letter to the withholding agent and must also attach a copy of the letter to your income tax return for the tax year for which the exemption is effective.

Allowance for Personal Exemption

Withholding on payments for independent personal services is generally based on the amount of your compensation payment minus the value of **one** exemption (\$2,700 for 1998).

To determine the income for independent personal services performed in the United States to which the 30% (or lower treaty) rate will apply, one personal exemption is allowed a nonresident alien who is **not** a U.S. national and is **not** a resident of Canada, Mexico, Japan, or South Korea. For purposes of 30% withholding, the exemption is prorated at \$7.40 a day in 1998 for the period that labor or personal services are performed in the United States. To claim an exemption from withholding on the personal exemption amount, fill out the applicable parts of Form 8233 and give it to the withholding agent.

Example. Eric Schmidt, who is a resident of Germany, worked under a contract with a U.S. firm (not as an employee) in the United States for 100 days during 1998 before returning to his country. He earned \$6,000 for the services performed (not considered wages) in the United States. Eric is married and has three dependent children. His wife is not employed and has no income subject to U.S. tax. The deduction to be allowed against the income for his personal services performed within the United States in 1998 is \$740 (100 days × \$7.40), and withholding at 30% is applied against the balance. Thus, \$1,578 in tax is withheld from Eric's earnings (30% of \$5,260).

Residents of Canada, Mexico, Japan, or South Korea, or U.S. nationals. If you are a nonresident alien who is a resident of Canada, Mexico, Japan, or South Korea, or who is a national of the United States, you are subject to the same 30% withholding on your compensation for independent personal services performed in the United States. However, if you are a U.S. national or a resident of Canada or Mexico, you are allowed the same personal exemptions as U.S. citizens. For the 30% (or lower treaty rate) withholding, you can take \$7.40 per day for each allowable exemption in 1998. If you are a resident of Japan or Korea, you are allowed personal exemptions for yourself and for your spouse and children who live with you in the United States at any time during the tax year. However, the additional exemptions for your spouse and children must be further prorated as explained in chapter 5 under *Exemptions*.

Students and business apprentices from India. If you are eligible for the benefits of Article 21(2) of the United States-India Income Tax Treaty, you are allowed an exemption for your spouse. You are also allowed an exemption for each dependent not admitted to the United States on F-2, J-2, or M-2 visas. For the 30% (or lower treaty rate) withholding on compensation for independent personal services performed in the

United States, you are allowed \$7.40 per day for each allowable exemption in 1998.

Residents of Canada or Mexico Engaged in Transportation-Related Employment

Certain residents of Canada or Mexico who enter or leave the United States at frequent intervals are not subject to withholding on their wages. These persons either:

- 1) Perform duties in transportation service between the United States and Canada or Mexico, or
- 2) Perform duties connected to the construction, maintenance, or operation of a waterway, viaduct, dam, or bridge crossed by, or crossing, the boundary between the United States and Canada or the boundary between the United States and Mexico.



This employment is subject to withholding of social security and Medicare taxes unless the services are performed for a railroad.

To qualify for the exemption from withholding during a tax year, a Canadian or Mexican resident must give the employer a statement in duplicate with name, address, and identification number, and certifying that the resident:

- 1) Is not a U.S. citizen or resident,
- 2) Is a resident of Canada or Mexico, whichever applies, and
- 3) Expects to perform duties previously described during the tax year in question.

The statement can be in any form, but it must be dated and signed by the employee, and must include a written declaration that it is made under the penalties of perjury.

Certain Residents of Puerto Rico

If you are a nonresident alien employee who is a resident of Puerto Rico, wages for services performed in Puerto Rico are generally not subject to withholding unless you are an employee of the United States or any of its agencies in Puerto Rico.

Residents of the U.S. Virgin Islands

Nonresident aliens who are bona fide residents of the Virgin Islands are not subject to withholding of U.S. tax on income earned while temporarily employed in the United States. This is because those persons pay their income tax to the Virgin Islands. To avoid having tax withheld on income earned in the United States, bona fide residents of the Virgin Islands should write a letter, in duplicate, to their employers, stating that they are bona fide residents of the Virgin Islands and expect to pay tax on all income to the Virgin Islands.

Withholding from Other Income

Other income subject to 30% withholding generally includes fixed or determinable income such as interest (other than portfolio interest), dividends, pensions and annuities, and gains from certain sales and exchanges, discussed in chapter 4. It also includes 85% of social security benefits paid to nonresident aliens.

Income (other than compensation) that is effectively connected with your U.S. trade or business is not subject to withholding at the 30% (or lower treaty) rate. You must file Form 4224 with the payer of the income.

Special rules for withholding on partnership income, scholarships, and fellowships are explained next.

Tax Withheld on Partnership Income

If you are a foreign partner in a U.S. or foreign partnership, the partnership will withhold tax on your share of effectively connected taxable income from the partnership. The partnership will give you a statement on Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, showing the tax withheld. A partnership that is publicly traded may withhold on your actual distributions of effectively connected income. In this case the partnership will give you a statement on Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*. In either case, the withholding rate is 39.6%. Claim the tax withheld as a credit on line 58b of Form 1040NR.

If you are a foreign partner responsible for withholding, see *Partnership Withholding on Effectively Connected Income* in Publication 515.

Reduced Withholding on Scholarships and Fellowship Grants

There is no withholding on a **qualified scholarship** received by a candidate for a degree. See chapter 3.

If you are a nonresident alien student or grantee with an "F," "J," "M," or "Q" visa, and you receive a U.S. source grant or scholarship that is not fully exempt, the withholding agent (usually the payer of the scholarship) withholds tax at 14% (or lower treaty rate) of the taxable part of the grant or scholarship. However, if you are not a candidate for a degree and the grant does not meet certain requirements, tax will be withheld at the 30% (or lower treaty) rate.

To reduce the amount subject to the 14% rate, you should fill out Form W-4 and the *Personal Allowances Worksheet* (attached to Form W-4) every year and give it to the withholding agent. Use the following procedures to complete the worksheet.

Line A. Enter the total of the following amounts on line A.

Include the prorated part of your allowable personal exemption. Figure the amount by multiplying the number of days you expect to be in the United States in 1998 by the daily exemption amount (7.40).

Include expenses that will be deductible on your return. These include away-from-home expenses (meals, lodging, and transportation), certain state and local income taxes, charitable contributions, and casualty losses, discussed earlier under *Itemized Deductions* in chapter 5. They also include business expenses, moving expenses, and the IRA deduction discussed under *Deductions* in chapter 5.

Include the part of your grant or scholarship that is not taxable under U.S. law or under a tax treaty.

Line B. Enter -0-, unless the following applies.

If you are a student who qualifies under Article 21(2) of the United States-India income tax treaty, and you are not claiming deductions for away-from-home expenses or other itemized deductions (discussed earlier), enter the standard deduction on line B. The standard deduction amount for 1998 is \$4,250 if you are single or \$3,550 if you are married.

Lines C and D. Enter -0- on both lines unless the following applies.

If you are a resident of Canada, Mexico, Japan, South Korea, or a U.S. national, an additional daily exemption amount may be allowed for your spouse and each of your dependents.

If you are a resident of India who is eligible for the benefits of Article 21(2) of the United States-India income tax treaty, you can claim an additional daily exemption amount for your spouse. You can also claim an additional amount for each of your dependents **not** admitted to the United States on F-2, J-2, or M-2 visas.

Enter any additional amount for your spouse on line C. Enter any additional amount for your dependents on line D.

Line G. No entries should be made on lines E and F. Add the amounts on lines A through D and enter the total on line G.

Form W-4. Complete lines 1 through 4 of Form W-4. Sign and date the form and give it with the *Personal Allowances Worksheet* to your withholding agent.

If you file a Form W-4 to reduce or eliminate the withholding on your scholarship or grant, you must file an annual U.S. income tax return to be allowed the exemptions and deductions you claimed on that form. If you are in the United States during more than one tax year, you must attach a statement to your yearly Form W-4 indicating that you have filed a U.S. income tax return for the previous year. If you have not been in the United States long enough to be required to file a return, you must attach a statement to your Form W-4 saying you will file a U.S. income tax return when required.

After the withholding agent has accepted your Form W-4, tax will be withheld on your scholarship or grant as if it were wages. The gross amount of the income is reduced by the amount on line G of the worksheet and the withholding tax is figured on the remainder.

You will receive a Form 1042-S from the withholding agent (usually the payer of your grant) showing the gross amount of your scholarship or fellowship grant less the withholding allowance amount, the tax rate, and the amount of tax withheld. Use this form to file your annual U.S. income tax return.

Income Entitled to Tax Treaty Benefits

If a tax treaty between the United States and your country provides an exemption from, or a reduced rate of, withholding for certain items of income, you should notify the payer of the income (the withholding agent) of your foreign status to claim the benefits of the treaty. Generally, you do this by filing Form 1001, *Ownership, Exemption, or Reduced Rate Certificate*, with the withholding agent. However, do not use Form 1001 for dividends or compensation for personal services. For dividends, the payor can rely on your address of record as the basis for allowing you the benefit of the treaty. The rules that apply to compensation for personal services are discussed next.

Independent contractors. If you perform personal services as an independent contractor (rather than an employee) and you can claim an exemption from withholding on that personal service income because of a tax treaty, submit Form 8233 to each withholding agent from whom amounts will be received.

Students, teachers, and researchers. Alien students, teachers, and researchers who perform dependent personal services (as employees) can also use Form 8233 to claim exemption from withholding of tax on compensation for services that is exempt from U.S. tax under a U.S. tax treaty.

Attach the appropriate statement shown in *Appendix A* (for students) or *Appendix B* (for teachers and researchers) at the end of this publication to the Form 8233 and give it to the withholding agent. For newly ratified treaties not listed in the appendices, attach a statement in a format similar to those for other treaties.

Employees. If you are not a student, teacher, or researcher, but you perform services as an employee and your pay is exempt from U.S. income tax under a tax treaty, you can avoid having tax withheld from your wages. Give a statement to your employer, in duplicate, for the tax year giving your name, address, taxpayer identification number, and country of which you are a resident, and certifying that:

- 1) You are not a citizen or resident of the United States, and
- 2) Your compensation is exempt from U.S. income tax and why it is exempt.

The statement should indicate the tax treaty and provision under which you claim the exemption and should show the facts you rely on to prove you meet the requirements of a treaty provision. These can be found in the applicable tax treaty article.

Date and sign the statement. Identify the tax year to which it applies and the compensation to which it relates. Include a declaration that you make the statement under the penalties of perjury.

Special events and promotions. Withholding at the full 30% rate is required for payments made to a nonresident alien or foreign corporation for gate receipts (or television or

other receipts) from rock music festivals, boxing promotions, and other entertainment or sporting events, unless the withholding agent has been specifically advised otherwise by letter from the IRS. This is true even if the income may be exempt from taxation by provisions of a tax treaty. One reason for this is that the partial or complete exemption is usually based on factors that cannot be determined until after the close of the tax year.



The required letter should be requested from the:

Internal Revenue Service
Assistant Commissioner (International)
Attn: CP:IN:D:C:SS:TS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024.

Entertainers and athletes can also apply for reduced withholding on the basis of their net income after expenses. See *Central withholding agreements* earlier under *Withholding from Compensation*.



You will be required to pay U.S. tax, at the time of your departure from the United States, on any income for which you incorrectly claimed a treaty exemption. For more details on treaty provisions that apply to compensation, see Publication 901.

Tax Withheld on Real Property Sales

If you are a nonresident alien and you dispose of a U.S. real property interest, the transferee (buyer) of the property generally must withhold a tax equal to 10% of the amount realized on the disposition. Withholding is also required on certain distributions and other transactions by domestic or foreign corporations, partnerships, trusts, and estates. These rules are covered in Publication 515 under *U.S. Real Property Interest*.

If you are a partner in a domestic partnership, and the partnership disposes of a U.S. real property interest at a gain, tax will be withheld by the partnership on the amount of gain allocable to its foreign partners. Your share of the income and tax withheld will be reported to you on Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, or Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding* (in the case of a publicly traded partnership).

Withholding is **not** required in the following situations.

- 1) The property is acquired by the buyer for use as a residence and the amount realized (purchase price) is not more than \$300,000.
- 2) The property disposed of is an interest in a domestic corporation if any class of stock of the corporation is regularly traded on an established securities market.
- 3) The property disposed of is an interest in a corporation that is not regularly traded on an established market, if you

give the buyer a copy of a statement issued by the corporation certifying that the interest is not a U.S. real property interest.

- 4) You (the seller) give the buyer a certification stating, under penalties of perjury, that you are not a foreign person, and containing your name, U.S. taxpayer identification number, and home address (or office address, in the case of an entity).
- 5) The buyer receives a withholding certificate from the Internal Revenue Service.
- 6) You give the buyer written notice that you are not required to recognize any gain or loss on the transfer because of a nonrecognition provision in the Internal Revenue Code or a provision in a U.S. tax treaty. The buyer must file a copy of the notice with the: Director, Philadelphia Service Center, 11601 Roosevelt Blvd., Philadelphia, PA 19255 Attn: Drop Point 543X.
- 7) The amount you realize on the transfer of a U.S. real property interest is zero.
- 8) The property is acquired by the United States, a U.S. state or possession, a political subdivision, or the District of Columbia.

The certifications in (3) and (4) must be disregarded by the buyer if the buyer has actual knowledge, or receives notice from a seller's or buyer's agent, that they are false.

The tax required to be withheld on a disposition can be reduced or eliminated under a withholding certificate issued by the IRS. Either you or the buyer can request a withholding certificate.

A withholding certificate can be issued due to:

- 1) A determination by the IRS that reduced withholding is appropriate because either:
 - a) The amount required to be withheld would be more than the transferor's maximum tax liability, or
 - b) Withholding of the reduced amount would not jeopardize collection of the tax,
- 2) The exemption from U.S. tax of all gain realized by the transferor, or
- 3) An agreement for the payment of tax providing security for the tax liability, entered into by the transferee or transferor.

Get Publication 515 and Form 8288-B for information on procedures to request a withholding certificate.

Credit for tax withheld. The buyer must report and pay over the withheld tax within 20 days after the transfer using Form 8288, *U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests*. This form is filed with the IRS with two copies of Form 8288-A, *Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests*. Copy B of this statement will be stamped received by the IRS and returned to you (the seller). You must file Copy B with your tax return to take credit for the tax withheld.

Social Security and Medicare Taxes

If you work as an employee in the United States, you must pay social security and Medicare taxes in most cases. Your payments of these taxes contribute to your coverage under the U.S. social security system. Social security coverage provides retirement benefits and medical insurance (Medicare) benefits to individuals who meet certain eligibility requirements.

In most cases, the first \$65,400 of taxable wages received in 1997 for services performed in the United States is subject to social security tax. All taxable wages are subject to Medicare tax. Your employer deducts these taxes from each wage payment. Your employer must deduct these taxes even if you do not expect to qualify for social security or Medicare benefits. You can claim a credit for excess social security tax on your income tax return if you have more than one employer and the amount deducted from your combined wages for 1997 is more than \$4,054.80. Use the worksheet in chapter 3 of Publication 505 to figure your credit.

If any one employer deducted more than \$4,054.80, you cannot claim a credit for that amount. Ask your employer to refund the excess.

In general, U.S. social security and Medicare taxes apply to payments of wages for services performed as an employee in the United States, regardless of the citizenship or residence of either the employee or the employer. In limited situations, these taxes apply to wages for services performed outside the United States. Your employer should be able to tell you if social security and Medicare taxes apply to your wages. You cannot make voluntary payments if no taxes are due.

Students and Exchange Visitors

Generally, services performed by you as a nonresident alien temporarily in the United States as a nonimmigrant under subparagraph "F," "J," "M," or "Q" of section 101(a)(15) of the Immigration and Nationality Act are not covered under the social security program if the services are performed to carry out the purpose for which you were admitted to the United States. This means that there will be no withholding of social security or Medicare taxes from the pay you receive for these services. These types of services are very limited, and generally include only on-campus work, practical training, and economic hardship employment.

However, you are covered under the social security program for these services if you are considered a resident alien as discussed in chapter 1, even though your nonimmigrant classification (F, J, M, or Q) remains the same. Social security and Medicare taxes will be withheld from your pay.

Nonresident Alien Students

If you are a nonresident alien admitted to the United States as a student, you generally are not permitted to work for a wage or salary or to engage in business while you are in the United States. In some cases, a student is granted permission to work and it is so noted

on the student's copy of Immigration Form I-20, *Certificate of Eligibility for Nonimmigrant Student Status*, or Form I-688B, *Employment Authorization Document*. Social security and Medicare taxes are not withheld from pay for the work unless the student is considered a resident alien.



Any student who is enrolled and regularly attending classes at a school may be exempt from social security and Medicare taxes on pay for services performed for that school.

The Immigration and Naturalization Service (INS) permits on-campus work for students in "F-1" status if it does not displace a U.S. resident. On-campus work means work performed on the school's premises. On-campus employment includes work performed at an off-campus location that is educationally affiliated with the school. On-campus work under the terms of a scholarship, fellowship, or assistantship is considered part of the academic program of a student taking a full course of study and is permitted by the INS. In this case, there will be no notation on Form I-20 concerning the work and no Form I-688B will be issued. Social security and Medicare taxes are not withheld from pay for this work unless the student is considered a resident alien.

Employment due to severe economic necessity is sometimes permitted for students in "F-1" status. This requires approval by a designated school official. Students granted permission to work due to severe economic necessity will be issued Form I-688B by INS. Social security and Medicare taxes are not withheld from pay for this work unless the student is considered a resident alien.

Students who have been in "F-1" status (except students in English language programs) for at least one academic year (or nine consecutive months) can accept employment for practical training related to the course of study upon approval of the designated school official and after authorization by the INS. If the training is required or for credit or is part of a work-study or cooperative education program, it can be authorized by the school with a notation on Form I-20. Otherwise, such training is considered optional and requires approval by the school and the issuance of Form I-688B by INS and is limited to 12 months. Students in "M-1" status who have completed a course of study can accept employment or practical training for up to six months and must have a Form I-688B issued by INS. Social security and Medicare taxes are not withheld from "F-1" or "M-1" students' pay for these services unless the student is considered a resident alien.

In all other cases, any services performed by a nonresident alien student are not considered as performed to carry out the purpose for which the student was admitted to the United States. Social security and Medicare taxes will be withheld from pay for the services unless the pay is exempt under the Internal Revenue Code.

Exchange Visitors

Nonresident aliens are admitted to the United States as nonimmigrant exchange visitors under section 101(a)(15)(J) of the Immigration and Nationality Act through the sponsorship of approved organizations and institutions that are responsible for establishing a program for the exchange visitor and for any

later modification of that program. Generally, an exchange visitor who has the permission of the sponsor can work for the same reasons as the students discussed above. In these cases, permission is granted by a letter from the exchange visitor's sponsor or by endorsement from the program sponsor on Form IAP-66, *Certificate of Eligibility*.

Social security and Medicare taxes are not withheld on pay for services of an exchange visitor who has been given permission to work and who possesses or obtains a letter of authorization from the sponsor unless the exchange visitor is considered a resident alien.

In all other cases, services performed by an exchange visitor are not considered as performed to carry out the purpose for which the visitor was admitted to the United States. Social security and Medicare taxes are withheld from pay for the services unless the pay is exempt under the Internal Revenue Code.

Your spouse or child may be permitted to work in the United States with the prior approval of the INS and issuance of Form I-688B.

Nonresident aliens admitted to the United States as participants in cultural exchange programs under section 101(a)(15)(Q) of the Immigration and Nationality Act may be exempt from social security and Medicare taxes. Aliens with "Q" visas are aliens whose employment or training affords the opportunity for culture-sharing with the American public. They are allowed to work in the United States for a specific employer in an approved cultural exchange program. The employer must be the petitioner through whom the alien obtained the "Q" visa. Social security and Medicare taxes are not withheld from pay for this work unless the alien is considered a resident alien. Aliens with "Q" visas are not permitted to engage in employment outside the exchange program activities.

Refund of Taxes Withheld in Error

If social security or Medicare taxes were withheld in error from pay you receive that is not subject to these taxes, contact the employer who withheld the taxes for reimbursement. If you are unable to get a full refund of the amount from your employer, file a claim for refund with the Internal Revenue Service on Form 843, *Claim for Refund and Request for Abatement*, and attach a copy of your Form W-2, *Wage and Tax Statement*, to prove the amount of social security and Medicare taxes withheld. Also attach a copy of your visa (if not stamped on Form I-94), INS Form I-94, *Arrival/Departure Record*, and INS Form I-538, *Application by Nonimmigrant Student (FI) for Extension to Stay, School Transfer or Permission to Accept or Continue Employment*. You must also attach a statement from your employer indicating the amount of the reimbursement your employer provided and the amount of the credit or refund your employer claimed or you authorized your employer to claim. If you cannot obtain this statement from your employer, you must provide this information on your **own** statement and explain why you are not attaching a statement from your employer.

File the claim for refund (with attachments) with the IRS office where your employer's returns were filed. If you do not know where your employer's returns were filed, file your claim with the Internal Revenue Service Center, Philadelphia, PA 19255.

Binational Social Security Agreements

The United States has entered into bilateral social security agreements with foreign countries to coordinate social security coverage and taxation of workers employed for part or all of their working careers in one of the countries. These agreements are commonly referred to as totalization agreements. Agreements with Austria, Belgium, Canada, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom are in effect. Other agreements are also expected to enter into force in the future. Under these agreements dual coverage and dual contributions (taxes) for the same work are eliminated. The agreements will generally make sure that social security taxes are paid only to one country.

Generally, under these agreements, you will be subject to social security taxes only in the country where you are working. However, if you are temporarily sent to work in another country and your pay would normally be subject to social security taxes in both countries, the agreement may provide that you can remain covered only by the social security system of the country from which you were sent. More information on any specific agreement can be obtained by contacting the U.S. Social Security Administration.

To establish that your pay is subject only to foreign social security taxes and is exempt from U.S. social security taxes (including the Medicare tax) as a result of an agreement, you or your employer should request a statement from the appropriate agency of the foreign country. This will usually be the same agency to which you or your employer pay your foreign social security taxes. The foreign agency will be able to tell you what information is needed for them to issue the statement. Your employer should keep a copy of the statement because it may be needed to show why you are exempt from U.S. social security taxes.

You or your employer will need to request a statement from the foreign agency if you are working in a foreign country and would normally be subject to U.S. social security taxes, but are exempt as a result of an agreement. However, some of the countries with which the United States has agreements will not issue statements in these cases.



If the foreign agency refuses to issue the necessary statement, either you or your employer should request a statement that your wages are not covered by the U.S. social security system from the:

U.S. Social Security Administration
Office of International Policy
P.O. Box 17741
Baltimore, MD 21235.



Only wages paid on or after the effective date of the agreement can be exempt from U.S. social security taxes.

Self-Employment Tax

Nonresident aliens are not subject to self-employment tax. Self-employment tax is the social security and Medicare taxes for individuals who are self-employed. Residents of the Virgin Islands, Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, or American Samoa are considered U.S. residents for this purpose and are subject to the self-employment tax.

Resident aliens must pay self-employment tax under the same rules that apply to U.S. citizens. However, although a U.S. citizen employed by an international organization, a foreign government, or a wholly-owned instrumentality of a foreign government is subject to the self-employment tax on income earned in the United States, a resident alien employed by such an organization or government does not have to pay self-employment tax.

If you are self-employed in both the United States and in a country with which the United States has a social security agreement (as discussed above), or you temporarily transfer your business activity to or from one of these countries, you may be exempt from self-employment tax as a result of the agreement. To establish your exemption, you should write to the foreign agency to which you pay your foreign social security tax if you are in the foreign country. If you are in the United States, write to the Social Security Administration, Office of International Policy, P.O. Box 17741, Baltimore, MD 21235, for a determination of your social security tax liability under the agreement.

Self-employment income you receive while you are a resident alien is subject to self-employment tax even if it was paid for services you performed as a nonresident alien.

Example. Bill Jones is an author engaged in the business of writing books. Bill had several books published in a foreign country while he was a citizen and resident of that country. During 1997, Bill entered the United States as a resident alien. After becoming a U.S. resident, he continued to receive royalties from his foreign publisher. Bill reports his income and expenses on the cash basis (he reports income on his tax return when received and deducts expenses when paid). Bill's 1997 self-employment income includes the royalties received after he became a U.S. resident even though the books were published while he was a nonresident alien.

Deduction for one-half of self-employment tax. If you must pay self-employment tax, you can deduct one-half of the self-employment tax paid in figuring your adjusted gross income. Get Publication 533 for more information.

Estimated Tax Form 1040-ES(NR)

You may have income from which no U.S. income tax is withheld. Or the amount of tax withheld may not equal the income tax you estimate you will owe at the end of the year. If so, you may have to pay estimated tax.

Generally, you must make estimated tax payments for 1998 if you expect to owe at least \$1,000 in tax and you expect your with-

holding and credits to be less than the smaller of:

- 1) 90% of the tax to be shown on your 1998 income tax return, or
- 2) 100% of the tax shown on your 1997 income tax return (if your 1997 return covered all 12 months of the year).

A nonresident alien should use Form 1040-ES(NR) to figure and pay estimated tax.

How to estimate your tax for 1998. If you filed a 1997 return on Form 1040NR or Form 1040NR-EZ and expect your income, number of exemptions, and total deductions for 1997 to be nearly the same, you should use your 1997 return as a guide to complete the *Estimated Tax Worksheet* in the Form 1040-ES(NR) instructions. If you did not file a return for 1997, or if your income, exemptions, deductions, or credits will be different for 1998, you must estimate these amounts. Figure your estimated tax liability using the Tax Rate Schedule in the 1998 Form 1040-ES(NR) instructions for your filing status.

Note. If you expect to be a resident of Puerto Rico during the entire year, use Form 1040-ES.

When to pay estimated tax. Make your first estimated tax payment by the due date for filing the previous year's Form 1040NR or Form 1040NR-EZ. If you have wages subject to the same withholding rules that apply to U.S. citizens, you must file Form 1040NR or Form 1040NR-EZ and make your first estimated tax payment by April 15, 1998. If you do not have wages subject to withholding, file your income tax return and make your first estimated tax payment by June 15, 1998.

If your first estimated tax payment is due April 15, 1998, you can pay your estimated tax in full at that time, or in equal installments by April 15, 1998, June 15, 1998, September 15, 1998, and January 15, 1999. If your first payment is not due until June 15, 1998, you can pay your estimated tax in full at that time, or $\frac{1}{2}$ of your estimated tax by June 15, 1998, $\frac{1}{4}$ of the tax by September 15, 1998, and $\frac{1}{4}$ by January 15, 1999.

Fiscal year. If your return is not on a calendar year basis, your due dates are the 15th day of the 4th, 6th, and 9th months of your fiscal year, and the 1st month of the following fiscal year. If any date falls on a Saturday, Sunday, or legal holiday, use the next day that is not a Saturday, Sunday, or legal holiday.

Changes in income, deductions, or exemptions. Even if you are not required to make an estimated tax payment in April or June, your circumstances may change such that you will have to make estimated tax payments later. This can happen if you receive additional income or if any of your deductions are reduced or eliminated. If so, see the instructions for Form 1040-ES(NR) and Publication 505 for information on figuring your estimated tax.

Amended estimated tax. If, after you have made estimated tax payments, you find your estimated tax is substantially increased or decreased because of a change in your income or exemptions, you should adjust your remaining estimated tax payments. To do

this, see the instructions for Form 1040-ES(NR) and Publication 505.

Addition to tax for failure to pay estimated income tax. You will be subject to an addition to tax (penalty) for underpayment of installments of estimated tax except in certain situations. These exceptions are explained on Form 2210, *Underpayment of Estimated Tax by Individuals, Estates, and Trusts*.

9. Tax Treaty Benefits

Introduction

If you are a nonresident alien from a country with which the United States has an income tax treaty, you may qualify for certain benefits. Most treaties require that the alien be a resident of the treaty country to qualify. However, some treaties require that the alien be a national or a citizen of the treaty country.

You can generally arrange to have withholding tax reduced or eliminated on wages and other income that is eligible for tax treaty benefits. See *Income Entitled to Tax Treaty Benefits* in chapter 8.

Topics

This chapter discusses:

- Typical tax treaty benefits
- How to obtain copies of tax treaties
- How to claim tax treaty benefits on your tax return

Useful Items

You may want to see:

Publication

- 901** U.S. Tax Treaties

Form (and Instructions)

- 1040NR** U.S. Nonresident Alien Income Tax Return
- 1040NR-EZ** U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents
- 8833** Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)

See chapter 12 for information about getting these publications and forms.

Treaty Income

A nonresident alien's treaty income is the gross income on which the tax is limited by a tax treaty. Treaty income includes, for example, dividends from sources in the United States that are subject to tax at a tax treaty rate not to exceed 15%. Nontreaty income is

the gross income other than treaty income of a nonresident alien.

Figure the tax on treaty income on each separate item of income at the reduced rate that applies to that item under the terms of the treaty.

To determine tax on nontreaty income, figure a partial tax on nontreaty income either at the flat 30% rate or the graduated rate, depending upon whether or not the income is effectively connected with your trade or business in the United States.

Your tax liability is the sum of the tax on treaty income plus the partial tax on nontreaty income, but cannot be more than the tax liability figured as if the tax treaty had not come into effect.

Example. Arthur Banks is a nonresident alien who is single and a resident of a foreign country that has a tax treaty with the United States. He received gross income of \$25,500 during the tax year from sources within the United States, consisting of the following items:

Dividends on which the tax is limited to a 15% rate by the tax treaty	\$1,400
Compensation for personal services on which the tax is not limited by the tax treaty	24,100
Total gross income	\$25,500

Arthur was engaged in business in the United States during the tax year. His dividends are not effectively connected with that business. He has no deductions other than his own personal exemption.

His tax liability, figured as though the tax treaty had not come into effect, is \$3,641, determined as follows:

Total compensation	\$24,100
Less: Personal exemption	2,650
Taxable income	\$21,450
Tax determined by graduated rate (Tax Table column for single taxpayers)	\$3,221
Plus: Tax on gross dividends (\$1,400 × 30%)	420
Tax determined as though treaty had not come into effect	\$3,641

Arthur's tax liability, figured by taking into account the reduced rate on dividend income as provided by the tax treaty, is \$3,431, determined as follows:

Tax determined by graduated rate (same as figured above)	\$3,221
Plus: Tax on gross dividends (\$1,400 × 15%)	210
Tax on compensation and dividends ...	\$3,431

His tax liability, therefore, is limited to \$3,431, the tax liability figured using the tax treaty rate on the dividends.

Some Typical Tax Treaty Benefits

Some general information follows concerning possible tax treaty benefits for income from certain activities in the United States. However, tax treaty benefits also cover such income as dividends, interest, rentals, royalties, pensions, and annuities. If you are a resident

of a treaty country and receive this type of income, you should consult the applicable treaty. Get Publication 901, *U.S. Tax Treaties*, for more information on tax treaties.

The following provisions give a general explanation of some benefits found in many tax treaties. Table 9-1, *Tax Treaty Articles*, on the following page, shows where to find the provision in each treaty.

Provision A—Personal Services

Nonresident aliens from treaty countries who are in the United States for a short stay and also meet certain other requirements may be exempt from tax on their compensation received for personal services performed in the United States. Many tax treaties require that the nonresident alien claiming this exemption be present in the United States for a total of not more than 183 days during the tax year. Other tax treaties specify different periods of maximum presence in the United States, such as 180 days or 90 days. Spending part of a day in the United States counts as a day of presence.

Tax treaties may also require that:

- 1) The compensation cannot be more than a specific amount (frequently \$3,000), and
- 2) The individual have a foreign employer; that is, an individual, corporation, or entity of a foreign country.

Provision B—For Teachers and Professors

Nonresident alien teachers or professors who are residents of certain treaty countries and who temporarily visit the United States for the primary purpose of teaching at a university or other accredited educational institution are not subject to U.S. income tax on compensation received for such teaching for the first 2 and sometimes 3 years after their arrival in the United States. Many treaties also provide exemption for engaging in research.

Generally, it must be the primary purpose of the teacher or professor to teach, lecture, instruct, or engage in research. A substantial part of that person's time must be devoted to those duties. The normal duties of a teacher include not only formal classroom work involving regularly scheduled lectures, demonstrations, or other student-participation activities, but also the less formal method of presenting ideas in seminars or other informal groups and in joint efforts in the laboratory.

Provision C—For Employees of Foreign Governments

All treaties have provisions for the exemption of income earned by certain employees of foreign governments. However, a difference exists among treaties as to who qualifies for this benefit. Under many treaties, aliens admitted to the United States for permanent residence do not qualify. Under most treaties, aliens who are not nationals or subjects of the foreign country do not qualify. Employees of foreign governments should read the pertinent treaty carefully to determine whether they qualify for benefits. Chapter 10 of this publication also has advice for employees of foreign governments.

Table 9-1. Tax Treaty Articles

Country	A	B	C	D	E
Australia	14,15		19	20	
Austria	X	XII	XI	XIII	
Barbados	14,15		19	20	13
Belgium	14,15	20	19	21	13
Canada	XIV,XV		XIX	XX	XIII
China, People's Rep. of ¹	13,14	19	18	20	12
Commonwealth of Independent States ²	VI	VI	VI	VI	III
Cyprus	17,18		22	21	16
Czech Republic	14,15	21	20	21	13
Denmark	XI	XIV	X	XIII	
Egypt	15,16	22	21	23	14
Finland	14,15		19	20	13
France	14,15	20	19	21	13
Germany	14,15	20	19	20	13
Greece	X	XII	XI	XIII	
Hungary	13,14	17	16	18	12
Iceland	18,19	21	23	22	16
India	15,16	22	19	21	13
Indonesia	15,16	20	18	19	14
Ireland	XI	XVIII	X	XIX	
Israel	16,17	23	22	24	15
Italy	14,15	20	19	21	13
Jamaica	14,15	22	20	21	13
Japan	17,18	19	21	20	16
Kazakistan	14,15		17	19	13
Korea	18,19	20	22	21	16
Luxembourg	XII	XIII	XI	XIV	
Mexico	14,15		20	21	13
Morocco	14,15		17	18	13
Netherlands	15,16	21	20	22	14
New Zealand	14,15		19	20	13
Norway	13,14	15	17	26	12
Pakistan	XI	XII	IX	XIII	
Philippines	15,16	21	20	22	14
Poland	15,16	17	19	18	14
Portugal	15,16	22	21	23	14
Romania	14,15	19	18	20	13
Russia	13,14		16	18	19
Slovak Republic	14,15	21	20	21	13
Spain	15,16		21	22	13
Sweden	14,15		20	21	13
Switzerland	X	XII	XI	XIII	
Trinidad and Tobago	17	18	20	19	
Tunisia	14,15		19	20	13
United Kingdom	14,15	20	19	21	13

¹ The U.S.-China tax treaty does not apply to Hong Kong.

² The U.S.-U.S.S.R income tax treaty applies to the following countries: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Provision D—For Students, Apprentices, and Trainees

Students, apprentices, and trainees generally are exempt from tax on remittances (including scholarship and fellowship grants) received from abroad for study and maintenance. Also, under certain circumstances, a limited amount of compensation received by students, apprentices, and trainees may be exempt from tax.

Provision E—Capital Gains

Most treaties provide for the exemption of gains from the sale or exchange of personal property. Generally, gains from the sale or exchange of real property located in the United States is taxable.

The conditions for claiming the exemptions vary under each tax treaty. You should read the treaty for your country of residence to find out what the conditions are.

Tax Treaty Articles Table

Table 9-1 shows where to find the provision in each treaty. The columns are lettered A to E, representing the five provisions. The numerals represent the number of the tax treaty article.

Example. Giovanni Azari, a teacher from Italy, sees that provision B might cover his situation. He finds column B of Table 9-1 and going down to the line for Italy he finds that he should read Article 20 of the United States-Italy income tax treaty, as he may qualify to exempt from U.S. tax the income he receives for teaching in the United States.

Obtaining Copies of Tax Treaties

Use Table 9-1 to see which countries have tax treaties with the United States. The tax treaties are published in the *Internal Revenue Bulletins* (I.R.B.) or *Cumulative Bulletins* (C.B.), which contain official matters of the Internal Revenue Service.

Regulations implementing some treaties were issued as Treasury Decisions (T.D.). Other treaties are explained by Treasury explanation. Publication 901 contains a list of tax treaties showing where the applicable T.D. or Treasury explanations are printed.

You can subscribe to the I.R.B. and buy volumes of the C.B. from the Government Printing Office. Copies are also available in most IRS offices and you are welcome to read them there. Many public libraries and business organizations subscribe to commercial tax services that publish the treaties and regulations or explanations. You may find it convenient to use those sources.

Reporting Treaty Benefits Claimed

If you claim treaty benefits that override or modify any provision of the Internal Revenue Code, and by claiming these benefits your tax is, or might be, reduced, you must attach a fully completed Form 8833 to your tax return. See *Exceptions*, below, for the situations where you are not required to file Form 8833.

You must file a U.S. tax return and Form 8833 if you claim the following treaty benefits.

- 1) A reduction or modification in the taxation of gain or loss from the disposition of a U.S. real property interest based on a treaty.
- 2) A change to the source of an item of income or a deduction based on a treaty.
- 3) A credit for a specific foreign tax for which foreign tax credit would not be allowed by the Internal Revenue Code.

You must also file Form 8833 if you receive payments or income items totaling more than \$100,000 and you determine your country of residence under a treaty and not under the rules for residency discussed earlier in this publication.

These are the more common situations for which Form 8833 is required.

Exceptions. You do not have to file Form 8833 for any of the following situations.

- 1) You claim a reduced rate of withholding tax under a treaty on interest, dividends, rent, royalties, or other fixed or determinable annual or periodic income ordinarily subject to the 30% rate.
- 2) You claim a treaty reduces or modifies the taxation of income from dependent personal services, pensions, annuities, social security and other public pensions, or income of artists, athletes, students, trainees, or teachers. This includes taxable scholarship and fellowship grants.
- 3) You claim a reduction or modification of taxation of income under an International Social Security Agreement or a Diplomatic or Consular Agreement.
- 4) You are a partner in a partnership or a beneficiary of an estate or trust and the partnership, estate, or trust reports the required information on its return.
- 5) The payments or items of income that are otherwise required to be disclosed total no more than \$10,000.

Penalty for failure to provide required information on Form 8833. If you are required to report the treaty benefits but do not, you are subject to a penalty of \$1,000 for each failure.

10.

Employees of Foreign Governments and International Organizations

Employees of foreign governments (including foreign municipalities) have two ways to get exemption of their governmental wages from U.S. income tax:

- 1) By a provision in a tax treaty or consular convention between the United States and their country, or
- 2) By meeting the requirements of U.S. tax law.

Employees of international organizations can only exempt their wages by meeting the requirements of U.S. tax law.

The exemption discussed in this chapter applies only to pay received for services per-

formed for a foreign government or international organization. Other U.S. income received by persons who qualify for this exemption may be fully taxable or given favorable treatment under an applicable tax treaty provision. The proper treatment of this kind of income (interest, dividends, etc.) is discussed earlier in this publication.

Exemption Under Tax Treaty

If you are from a country that has a tax treaty with the United States, you should first look at the treaty to see if there is a provision that exempts your income. To locate the specific provisions, see column C of Table 9–1, which lists tax treaty articles for employees of foreign governments. The income of U.S. citizens and resident aliens working for foreign governments usually is not exempt. However, in a few instances, the income of a U.S. citizen with dual citizenship may qualify. Often the exemption is limited to the income of persons who also are nationals of the foreign country involved.

Resident aliens from France. The United States and France have come to an agreement to relieve double taxation of U.S. permanent residents who receive wages and pensions for governmental services performed for the government of France. Generally, if you received income of this type in 1997, the income is taxable only in the United States. If you receive income of this type in 1998 and subsequent years, the income is taxable in the United States and France. However, the United States will allow a credit for taxes paid to France on this income.

Exemption Under U.S. Tax Law

Employees of foreign countries who do not qualify under a tax treaty provision and employees of international organizations should see if they can qualify for exemption by meeting the following requirements of U.S. tax law.

If you are not a citizen of the United States, or if you are a citizen of the United States but also a citizen of the Philippines, and you work for a foreign government in the United States, your foreign government salary is exempt from U.S. tax if you perform services similar to those performed by U.S. Government employees in that foreign country and that foreign government grants an equivalent exemption. If you work for an international organization in the United States, your salary from that source is exempt from U.S. tax.

Certification. To qualify for the exemption under U.S. tax law, the foreign government for which you work must certify to the De-

partment of State that you are their employee and that you perform services similar to those performed by employees of the United States in your country. However, see the following discussion that may affect your qualifying for this exemption.

Aliens who file the waiver provided by section 247(b) of the Immigration and Nationality Act to keep their immigrant status no longer qualify for the exemption from U.S. tax under U.S. tax law from the date of filing the waiver with the Attorney General.

However, aliens who are exempt from U.S. tax by an income tax treaty, consular agreement, or international agreement between the United States and their country do not lose the exemption if they sign the waiver.

If the international agreement creating the international organization for which you work provides that alien employees are exempt from U.S. income tax, your exemption is **not** affected by the filing of a section 247(b) waiver. Two international organizations that have such a provision are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank).



*Only employees of international organizations and foreign governments who are **not** U.S. citizens qualify for the exemption of wages under U.S. tax law. The one exception to this rule is a U.S. citizen who is also a citizen of the Philippines. In addition, the statutory exception applies only to current employees and not to former employees. Pensions received by former employees living in this country do not qualify for exemption.*

An international organization is an organization designated by the President of the United States through Executive Order to qualify for the privileges, exemptions, and immunities provided in the International Organizations Immunities Act.

Aliens should find out if they have been made known to, and have been accepted by, the Secretary of State as officers or employees of that organization, or if they have been designated by the Secretary of State, before formal notification and acceptance, as prospective officers or employees.

Employees of an international organization claiming exemption should know the number of the Executive Order covering their organization and should have some written evidence of their acceptance or designation by the Secretary of State.

The exemption is denied when, because the Secretary of State determines the alien's presence in the United States is no longer desirable, an employee leaves the United States (or after a reasonable time allowed for leaving the United States). The exemption is also denied when a foreign country does not allow similar exemptions to U.S. citizens. Then the Secretary of State can withdraw the privileges, exemptions, and immunities from the nationals of that foreign country.

Departing Aliens and the Sailing or Departure Permit

Introduction

Before leaving the United States, all aliens (except those listed under *Aliens Not Required To Obtain Sailing or Departure Permits*) must obtain a certificate of compliance. This document, also popularly known as the **sailing permit** or **departure permit**, is part of the income tax form you must file before leaving. You will receive a sailing or departure permit after filing a Form 1040-C or Form 2063. These forms are discussed in this chapter.

Topics

This chapter discusses:

- Who needs a sailing permit
- How to get a sailing permit
- Forms you file to get a sailing permit

Useful Items

You may want to see:

Form (and Instructions)

- 1040-C** U.S. Departing Alien Income Tax Return
- 2063** U.S. Departing Alien Income Tax Statement

See chapter 12 for information about getting these forms.

Aliens Required To Obtain Sailing or Departure Permits

You generally must pay all U.S. income tax due on your income subject to U.S. tax during the tax year up to the date you leave when you file for your sailing or departure permit. Any taxes due for past years will also have to be paid. However, in some situations, if you can demonstrate to the Internal Revenue Service that your departure does not endanger the collection of tax, you can receive a sailing or departure permit without paying tax at that time.

If you try to leave the United States without a sailing or departure permit, and cannot show that you qualify to leave without it, you may be subject to an income tax examination by an IRS employee at the point of departure. You must then complete the necessary income tax returns and statements and, ordinarily, pay any taxes due.

Aliens Not Required To Obtain Sailing or Departure Permits

If you are included in one of the following categories, you do not have to get a sailing or departure permit before leaving the United States.

(1) Representatives of foreign governments with diplomatic passports, whether accredited to the United States or other countries, members of their households, and servants accompanying them.

Servants who are leaving, but not with a person with a diplomatic passport, must get a sailing or departure permit. However, they can get a sailing or departure permit on Form 2063 without examination of their income tax liability by presenting a letter from the chief of their diplomatic mission certifying that:

- 1) Their name appears on the "White List" (a list of employees of diplomatic missions), and
- 2) They do not owe to the United States any income tax, and will not owe any tax up to and including the intended date of departure.

The statement must be presented to an IRS office.

(2) Employees of international organizations and foreign governments (other than diplomatic representatives exempt under category (1) and members of their households:

- 1) Whose compensation for official services is exempt from U.S. tax under U.S. tax laws (described in chapter 10), and
- 2) Who receive no other income from U.S. sources.

(3) Alien students, industrial trainees, and exchange visitors, including their spouses and children, who enter on an F-1, F-2, H-3, H-4, J-1, J-2, or Q visa only and who receive no income from U.S. sources while in the United States under those visas other than:

- 1) Allowances to cover expenses incident to study or training in the United States, such as expenses for travel, maintenance, and tuition,
- 2) The value of any services or food and lodging connected with this study or training,
- 3) Income from employment authorized by the Immigration and Naturalization Service (INS), or
- 4) Certain interest income that is not effectively connected with a U.S. trade or business. (See *Interest* in chapter 3.)

(4) Alien students, including their spouses and children, who enter on an M-1 or M-2 visa only and who receive no income from U.S. sources while in the United States on those visas, other than—

- 1) Income from employment authorized by the Immigration and Naturalization Service (INS), or
- 2) Certain interest income that is not effectively connected with a U.S. trade or business. (See *Interest* in chapter 3.)

(5) Certain other aliens temporarily in the United States who have received no taxable income during the tax year up to and including the date of departure or during the preceding tax year. If the IRS has reason to believe that an alien has received income subject to tax and that the collection of income tax is jeopardized by departure, it may then require the alien to obtain a sailing or departure permit. Aliens covered by this paragraph are:

- 1) Alien military trainees who enter the United States for training under the sponsorship of the Department of Defense and who leave the United States on official military travel orders,
- 2) Alien visitors for business on a B-1 visa, or both a B-1 visa and a B-2 visa, who do not remain in the United States or a U.S. possession for more than 90 days during the tax year,
- 3) Alien visitors for pleasure on a B-2 visa,
- 4) Aliens in transit through the United States or any of its possessions on a C-1 visa, or under a contract, such as a bond agreement, between a transportation line and the Attorney General, and
- 5) Aliens who enter the United States on a border-crossing identification card; or for whom passports, visas, and border-crossing identification cards are not required, if they are visitors for pleasure, or visitors for business who do not remain in the United States or a U.S. possession for more than 90 days during the tax year; or if they are in transit through the United States or any of its possessions.

(6) Alien residents of Canada or Mexico who frequently commute between that country and the United States for employment, and whose wages are subject to the withholding of U.S. tax.

If you are in one of these categories and do not have to get a sailing or departure permit, you must be able to support your claim for exemption with proper identification or give the authority for the exemption.

Exceptions. If you are an alien in category (1) or (2) above, who filed the waiver under section 247(b) of the Immigration and Nationality Act, you must get a sailing or departure permit.

If you are an alien in category (1) or (2), whose income is exempt from U.S. tax because of an income tax treaty or international agreement, you do not lose this tax exemption by signing the section 247(b) waiver. But you must get a sailing or departure permit even though your income is exempt.

Getting a Sailing or Departure Permit

The following discussion covers when and where to get your sailing permit.

Where to get a sailing or departure permit. It is advisable for aliens who have been working in the United States to get the permit from an IRS office in the area of their employment, but it also can be obtained from an IRS office in the area of their departure.

When to get a sailing or departure permit. You should get your sailing or departure permit at least 2 weeks before you plan to leave. You cannot apply earlier than 30 days before your planned departure date. Do not wait until the last minute in case there are unexpected problems.

Papers to submit. Getting your sailing or departure permit will go faster if you bring to the IRS office papers and documents related to your income and your stay in the United States. Bring the following records with you if they apply.

- 1) Your passport and alien registration card or visa.
- 2) Copies of your U.S. income tax returns filed for the past 2 years. If you were in the United States for less than 2 years, bring the income tax returns you filed for that period.
- 3) Receipts for income taxes paid on these returns.
- 4) Receipts, bank records, canceled checks, and other documents that prove your deductions, business expenses, and dependents claimed on your returns.
- 5) A statement from each employer showing wages paid and tax withheld from January 1 of the current year to the date of departure if you were an employee. If you were self-employed, you must bring a statement of income and expenses up to the date you plan to leave.
- 6) Proof of estimated tax payments for the past year and this year.
- 7) Documents showing any gain or loss from the sale of personal property, including capital assets and merchandise.
- 8) Documents relating to scholarship or fellowship grants including verification of the grantor, source, and purpose of the grant.
- 9) Documents indicating you qualify for any special tax treaty benefits claimed.

Forms To File

If you must get a sailing or departure permit, you must file Form 2063 or Form 1040-C. Employees in the IRS office can assist in filing these forms. Both forms have a "certificate of compliance" section. When the certificate of compliance is signed by an agent of the District Director, it certifies that your U.S. tax obligations have been satisfied according to available information. Your Form 1040-C copy of the signed certificate, or the one detached from Form 2063, is your sailing or departure permit.

Form 2063. This is a short form that asks for certain information but does not include a tax computation. The following departing aliens can get their sailing or departure permits by filing Form 2063.

- 1) Aliens, whether resident or nonresident, who have had no taxable income for the tax year up to and including the date of departure and for the preceding year, if the period for filing the income tax return for that year has not expired.
- 2) Resident aliens who have received taxable income during the tax year or preceding year and whose departure will not hinder the collection of any tax. However, if the IRS has information indicating that the aliens are leaving to avoid paying their income tax, they must file a Form 1040-C.

Aliens in either of these categories who have not filed an income tax return or paid income tax for any tax year must file the return and pay the income tax before they can be issued a sailing or departure permit on Form 2063.

The sailing or departure permit detached from Form 2063 can be used for all departures during the current year. However, the IRS may cancel the sailing or departure permit for any later departure if they believe the collection of income tax is jeopardized by that later departure.

Form 1040-C. If you must get a sailing or departure permit and you do not qualify to file Form 2063, you must file Form 1040-C.

Ordinarily, all income received or reasonably expected to be received during the tax year up to and including the date of departure must be reported on Form 1040-C and the tax on it must be paid. When you pay any tax shown as due on the Form 1040-C, and you file all returns and pay all tax due for previous years, you will receive a sailing or departure permit. However, the IRS may permit you to furnish a bond or an employer letter guaranteeing payment instead of paying the taxes for certain years. See *Bond or Employer Letter To Ensure Payment*, discussed later. The sailing or departure permit issued under the conditions in this paragraph is only for the specific departure for which it is issued.

If you submit an employer letter guaranteeing payment of tax with your Form 1040-C, you do not need to fill out the form in detail. Just fill out the identifying information on the form, sign it, and attach the letter. The IRS office where you submit the form will then issue your sailing or departure permit.

Returning to the United States. If you furnish the IRS with information showing, to the satisfaction of the IRS, that you intend to return to the United States and that your departure does not jeopardize the collection of income tax, you can get a sailing or departure permit by filing Form 1040-C without having to pay the tax shown on it. You must, however, file all income tax returns that have not yet been filed as required, and pay all income tax that is due on these returns.

Your Form 1040-C must include all income received and reasonably expected to be received during the entire year of departure. The sailing or departure permit issued with this Form 1040-C can be used for all departures during the current year. However, the Service may cancel the sailing or depart-

ure permit for any later departure if the payment of income tax appears to be in jeopardy.

Joint return on Form 1040-C. Departing husbands and wives who are nonresident aliens cannot file joint returns. However, if both spouses are resident aliens, they can file a joint return on Form 1040-C if:

- 1) Both spouses can reasonably be expected to qualify to file a joint return at the normal close of their tax year, and
- 2) The tax years of the spouses end at the same time.

Bond or Employer Letter To Ensure Payment

Usually, you must pay the tax shown as due on Form 1040-C when you file it. However, if you pay all taxes due that you owe for prior years, you can furnish a bond or an employer letter guaranteeing payment instead of paying the income taxes shown as due on the Form 1040-C or the tax return for the preceding year if the period for filing that return has not expired.

The bond must equal the tax due plus interest to the date of payment as figured by the IRS. Information about the form of bond and security on it can be obtained from your IRS office.

Paying Taxes and Obtaining Refunds

Except when a bond or an employer letter is furnished, or the IRS is satisfied that your departure does not jeopardize the collection of income tax, you must pay all tax shown as due on the Form 1040-C at the time of filing it. If the tax computation on Form 1040-C results in an overpayment, there is no tax to pay at the time you file that return. However, the IRS cannot provide a refund at the time of departure. If you are due a refund, you must file either Form 1040NR or Form 1040NR-EZ at the end of the tax year.

Filing Annual U.S. Income Tax Returns

Form 1040-C is not an annual U.S. income tax return. If an income tax return is required by law, that return must be filed even though a Form 1040-C has already been filed. Chapters 5 and 7 discuss filing an annual U.S. income tax return. The tax paid with Form 1040-C should be taken as a credit against the tax liability for the entire tax year on your annual U.S. income tax return.

12.

How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

You can write to the IRS with your tax questions. The address for assistance is:

Internal Revenue Service
Assistant Commissioner (International)
Attn: CP:IN:D:CS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Appendix A

This appendix contains the statements nonresident alien students must file with Form 8233, *Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual*, to claim a tax treaty exemption from withholding of tax on compensation for dependent personal services. See chapter 8 for more information on withholding.

Belgium, Iceland, Japan, Korea, Norway, Poland, and Romania

I was a resident of _____ [insert the name of the country under whose treaty you claim exemption] on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and _____ [insert the name of the country under whose treaty you claim exemption] in an amount not in excess of \$2,000 for any tax year. I have not previously claimed an income tax exemption under this treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

I will be present in the United States only for such period of time as may be reasonably or customarily required to effectuate the purpose of this visit.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date.

People's Republic of China

I was a resident of the People's Republic of China on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am present in the United States solely for the purpose of my education or training.

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and the People's Republic of China in an amount not in excess of \$5,000 for any tax year.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study or training]. I am claiming this exemption only for such period of time as is reasonably necessary to complete the education or training.

Cyprus

I was a resident of Cyprus on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Cyprus in an amount not in excess of \$2,000 for any tax year. I have not previously claimed an income tax exemption under that treaty for income received as a student before the date of my arrival in the United States.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date, and for such additional period of time as is necessary to complete, as a full-time student, educational requirements as a candidate for a

postgraduate or professional degree from a recognized educational institution.

Egypt

I was a resident of Egypt on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Egypt in an amount not in excess of \$3,000 for any tax year. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

I will be present in the United States only for such period of time as may be reasonably or customarily required to effectuate the purpose of this visit.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date, and for such period of time as is necessary to complete, as a full-time student, educational requirements as a candidate for a postgraduate or professional degree from a recognized educational institution.

Germany

I was a resident of the Federal Republic of Germany on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States as a student or business apprentice for the purpose of full-time study or training at _____ [insert the name of the accredited university, college, school or other educational institution]; or, I am temporarily present in the United

States as a recipient of a grant, allowance, or award from _____ [insert the name of the nonprofit organization or government institution providing the grant, allowance, or award].

I will receive compensation for dependent personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and the Federal Republic of Germany in an amount not in excess of \$5,000 for any tax year, provided that such services are performed for the purpose of supplementing funds otherwise available for my maintenance, education, or training.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of four tax years beginning with the tax year that includes my arrival date.

Indonesia

I was a resident of Indonesia on the date of my arrival in the United States. I am not a United States citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States solely for the purpose of study at _____ [insert the name of the university or other accredited educational institution at which you study]; or, I am temporarily present in the United States as a recipient of a grant, allowance or award from _____ [insert the name of the nonprofit organization or government institution providing the grant, allowance, or award] for the primary purpose of study, research, or training.

I will receive compensation for services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Indonesia in an amount not in excess of \$2,000 for my tax year, provided such services are performed in connection with my studies or are necessary for my maintenance.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years be-

ginning with the tax year that includes my arrival date.

Morocco

I was a resident of Morocco on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Morocco in an amount not in excess of \$2,000 for any tax year. I have not previously claimed an income tax exemption under that treaty for income received as a student before the date of my arrival in the United States.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years, beginning with the tax year that includes my arrival date.

Pakistan

I am a resident of Pakistan. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States solely as a student at _____ [insert the name of the recognized university, college or school in the United States at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption

from withholding of federal income tax under the tax treaty between the United States and Pakistan in an amount not in excess of \$5,000 for any tax year.

Philippines

I was a resident of the Philippines on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other recognized educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Philippines in an amount not in excess of \$3,000 for any tax year. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

I will be present in the United States only for such period of time as may be reasonably or customarily required to effectuate the purpose of this visit.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date.

Spain

I was a resident of Spain on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying or training at _____ [insert the name of the university or other accredited educational institution at which you study or train]; or, I am temporarily present in the United States as a recipient of a grant, allowance, or award from _____ [insert the name of the nonprofit organization or government institution providing the grant, allowance or award].

I will receive compensation for services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Spain in an amount not in excess of \$5,000 for any tax year.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the United States educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date.

Trinidad and Tobago

I was a resident of Trinidad and Tobago on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the primary purpose of studying at _____ [insert the name of the university or other accredited educational institution at which you study].

I will receive compensation for personal services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Trinidad and Tobago in an amount not in excess of \$2,000

for any tax year. I have not previously claimed an income tax exemption under this treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

I will be present in the United States only for such period of time as may be reasonably or customarily required to effectuate the purpose of this visit.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the U.S. educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years.

Tunisia

I was a resident of Tunisia on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am temporarily present in the United States for the purpose of full-time study, training, or research at _____ [insert the name of the university or other accredited educational institution at which you study, train, or perform research].

I will receive compensation for services performed in the United States. This compensation qualifies for exemption from withholding of federal income tax under the tax treaty between the United States and Tunisia in an amount not in excess of \$4,000 for any tax year.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning study at the United States educational institution]. The treaty exemption is available only for compensation paid during a period of five tax years beginning with the tax year that includes my arrival date.

Appendix B

This appendix contains the statements nonresident alien teachers and researchers must file with Form 8233, *Exemption From Withholding on Compensation From Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual*, to claim a tax treaty exemption from withholding of tax on compensation for dependent personal services. See chapter 8 for more information on withholding.

Austria, Denmark, Ireland, Pakistan, and Switzerland

I am a resident of _____ [insert the name of the country under whose treaty you claim exemption]. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am a professor or teacher visiting the United States for the purpose of teaching at _____ [insert the name of the educational institution at which you teach], which is a recognized educational institution. I will receive compensation for my teaching activities.

The teaching compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and _____ [insert the name of the country under whose treaty you claim exemption]. I have not previously claimed an income tax exemption under this treaty for income received as a teacher or student before the date of my arrival in the United States.

I arrived in the United States on _____ [insert the date of your last arrival into the United States before beginning the teaching services for which exemption is claimed]. The treaty exemption is available only for compensation paid during a period of two years beginning on that date.

Belgium and Japan

I was a resident of _____ [insert the name of the country under whose treaty you claim the exemption] on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by the U.S. government, or by a

university or other recognized educational institution in the United States, to come to the United States for the purpose of teaching or engaging in research at _____ [insert the name of the educational institution], which is a recognized educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during the entire tax year (or during the portion of the year from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and _____ [insert the name of the country under whose treaty you claim exemption]. I have not previously claimed an income tax exemption under this treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which the exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

People's Republic of China

I was a resident of the People's Republic of China on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am visiting the United States for the purpose of teaching, giving lectures, or conducting research at _____ [insert the name of the educational institution or scientific research institution at which you teach, lecture, or conduct research], which is an accredited educational institution or scientific research institution. I will receive compensation for my teaching, lecturing, or research activities.

The teaching, lecturing, or research compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and the People's

Republic of China. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, lecturer, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States _____ [insert the date of your last arrival in the United States before beginning your teaching, lecturing, or research activities]. The treaty exemption is available only for compensation received during a maximum aggregate period of three years.

Commonwealth of Independent States

I am a resident of _____ [insert name of C.I.S member]. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by a governmental agency or institution in the United States, or by an educational or scientific research institution in the United States, to come to the United States for the purpose of teaching, engaging in research, or participating in scientific, technical, or professional conferences at _____ [insert the name of the governmental agency or institution, educational or scientific institution, or organization sponsoring a professional conference], which is a governmental agency or institution, an educational or scientific institution, or an organization sponsoring a professional conference. I will receive compensation for my teaching, research, or conference activities.

The teaching, research, or conference compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and the former Union of Soviet Socialist Republics. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, conference participant, or student before the date of my arrival in the United States.

Any research I perform will not be undertaken primarily for the benefit of a private person or commercial enterprise of the United States or a foreign trade organization of _____ [insert

name of C.I.S. member], unless the research is conducted on the basis of intergovernmental agreements on cooperation.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching, research, or conference services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

Egypt, Hungary, Korea, Philippines, Poland, and Romania

I was a resident of _____ [insert the name of the country under whose treaty you claim exemption] on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by the U.S. government (or by a political subdivision or local authority thereof), or by a university or other recognized educational institution in the United States for a period not expected to exceed two years for the purpose of teaching or engaging in research at _____ [insert the name of the educational institution], which is a recognized educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during the entire tax year (or for the portion of the year from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and _____ [insert the name of the country under whose treaty you claim exemption]. I have not previously claimed an income tax exemption under this treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only

for compensation received during a period of two years beginning on that date.

Germany

I am a resident of the Federal Republic of Germany. I am not a United States citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am a professor or teacher visiting the United States for the purpose of advanced study, teaching, or research at _____ [insert the name of the accredited university, college, school, or other educational institution, or a public research institution or other institution engaged in research for the public benefit]. I will receive compensation for my teaching, research, or study activities.

The compensation received during the entire tax year (or during the period from _____ to _____) for these activities qualifies for exemption from withholding of federal tax under the tax treaty between the United States and the Federal Republic of Germany. I have not previously claimed an income tax exemption under that treaty for income received as a student, apprentice, or trainee during the immediately preceding period. (If, however, following the period in which the alien claimed benefits as a student, apprentice, or trainee, that person returned to the Federal Republic of Germany and resumed residence and physical presence before returning to the United States as a teacher or researcher, that person may claim the benefits of this treaty.)

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival into the United States before beginning the services for which the exemption is claimed]. The treaty exemption is available only for compensation paid during a period of two years beginning on that date.

Greece

I am a resident of Greece. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am a professor or teacher visiting the United States for the purpose of teaching at _____ [insert the name of the other educational institution at which you teach], which is an educational

institution. I will receive compensation for my teaching activities.

The teaching compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and Greece. I have not previously claimed an income tax exemption under that treaty for income received as a teacher or student before the date of my arrival in the United States.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of three years beginning on that date.

Iceland and Norway

I was a resident of _____ [insert the name of the country under whose treaty you claim exemption] on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by the U.S. government, or by a university or other recognized educational institution in the United States for a period not expected to exceed two years for the purpose of teaching or engaging in research at _____ [insert the name of the educational institution], which is a recognized educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation qualifies for exemption from withholding of federal tax under the tax treaty between the United States and _____ [insert the name of the country under whose treaty you claim exemption]. I have not previously claimed an income tax exemption under this treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will not be undertaken primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

India

I was a resident of India on the date of my arrival in the United States. I am not a United States citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am visiting the United States for the purpose of teaching or conducting research at _____ [insert the name of the university, college, or other recognized educational institution]. I will receive compensation for my teaching or study activities.

The teaching or research compensation received during the entire tax year (or during the period from _____ to _____) for these activities qualifies for exemption from withholding of federal tax under the tax treaty between the United States and India.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival into the United States before beginning the services for which the exemption is claimed]. The treaty exemption is available only for compensation paid during a period of two years beginning on that date.

Indonesia

I was a resident of Indonesia on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by _____ [insert the name of the university, college, school, or other similar educational institution] to come to the United States solely for the purpose of teaching or engaging in research at that educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and Indonesia. I have not previously claimed an income tax exemption under that treaty for income received as a teacher or researcher before the date specified in the next paragraph.

I arrived in the United States on _____ [insert the date of your arrival into the United States before beginning the teaching or research services for which the exemption is claimed]. The treaty exemption is available only for compensation paid dur-

ing a period of two years beginning on that date.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

Italy

I was a resident of Italy on the date of my arrival in the United States. I am not a U.S. citizen. I have not been accorded the privilege of residing permanently in the United States as an immigrant.

I am a professor or teacher visiting the United States for the purpose of teaching or performing research at _____ [insert the name of the educational institution or medical facility at which you teach or perform research], which is an educational institution or a medical facility primarily funded from governmental sources. I will receive compensation for my teaching or research activities.

The compensation received during the entire tax year (or during the period from _____ to _____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and Italy. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the general interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on _____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

Jamaica

I was a resident of Jamaica on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I am visiting the United States for the purpose of teaching or conducting research for a period not expected to exceed two years at _____ [insert the name of the educational institution at which you teach or conduct research], which is a recognized educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during

the entire tax year (or during the period from ____ to ____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and Jamaica. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

I arrived in the United States on ____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation paid during a period of two years beginning on that date.

Luxembourg

I am a resident of Luxembourg. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by ____ [insert the name of the educational institution where you teach or engage in research], which is a recognized educational institution, to come to the United States for the purpose of teaching or engaging in research at that institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during the entire tax year (or during the period from ____ to ____) qualifies for exemption from with-

holding of federal tax under the tax treaty between the United States and Luxembourg. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will not be carried on for the benefit of any person using or disseminating the results for purposes of profit.

I arrived in the United States on ____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

Trinidad and Tobago

I was a resident of Trinidad and Tobago on the date of my arrival in the United States. I am not a U.S. citizen. I have not been lawfully accorded the privilege of residing permanently in the United States as an immigrant.

I have accepted an invitation by the U.S. government, or by a university or other educational institution in the United States, to come to the United States for the purpose of teaching or engaging in research at ____ [insert the name of the educational institution], which is an educational institution approved by an appropriate governmental

education authority. No agreement exists between the government of the United States and the government of Trinidad and Tobago for the provision of my services. I will receive compensation for my teaching or research services.

The teaching or research compensation received during the entire tax year (or for the period from ____ to ____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and Trinidad and Tobago. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the public interest and not primarily for the private benefit of a specific person or persons.

I arrived in the United States on ____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date.

United Kingdom

I was a resident of the United Kingdom on the date of my arrival in the United States. I am not a U.S. citizen. I have not been accorded the privilege of residing permanently in the United States as an immigrant.

I am a professor or teacher visiting the United States for a period of not more than two years for the purpose of teaching or engaging in research at ____ [insert the name of the educational institution], which is a recognized educational institution. I will receive compensation for my teaching or research activities.

The teaching or research compensation received during the entire tax year (or during the period from ____ to ____) qualifies for exemption from withholding of federal tax under the tax treaty between the United States and the United Kingdom. I have not previously claimed an income tax exemption under that treaty for income received as a teacher, researcher, or student before the date of my arrival in the United States.

Any research I perform will be undertaken in the public interest and not primarily for the benefit of any private person or persons.

I arrived in the United States on ____ [insert the date of your last arrival in the United States before beginning the teaching or research services for which exemption is claimed]. The treaty exemption is available only for compensation received during a period of two years beginning on that date. The entire treaty exemption is lost retroactively if my stay in the United States exceeds two years.

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