

Supplemental Tables of Income Tax Rates Under New Income Tax Conventions

Announcement 2003-62

The United States recently exchanged instruments of ratification for a new income tax treaty with the United Kingdom and new protocols for the income tax treaties with Australia and Mexico. The effective dates are as follows:

United Kingdom. The provisions for withholding tax at source are effective for amounts paid or credited after May 1, 2003. For all other taxes, the treaty is effective for tax periods beginning on or after January 1, 2004. Students who have

claimed treaty benefits under Article 21 of the former treaty can continue to apply those provisions.

A person entitled to benefits under the previous treaty with the United Kingdom can elect to have that treaty apply in its entirety for a twelve-month period following the date the new treaty would otherwise apply.

Australia. The provisions for withholding tax at source are effective for amounts paid or credited after July 1, 2003. For all other taxes, the protocol is effective for tax periods beginning on or after January 1, 2004.

Mexico. The provisions for withholding tax on dividends are effective for amounts paid or credited on or after

September 1, 2003. For all other taxes, the treaty is effective for tax periods beginning on or after January 1, 2004.

The tables below replace the entries in Tables 1 and 2 in Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities (For Withholding in 2003)*, and in Publication 901, *U.S. Tax Treaties*. The footnotes in those publications that relate to the column headings in these tables generally apply to these replacement entries.

The complete text of the U.K. treaty and the Australia and Mexico protocols are available on the IRS website at www.irs.gov.

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

Income code number		1	2	3	6	7	9	10	11	12	13	14
Country/Code												
Australia	AS	10 a,b,j	10 a,b,f,j	10 a,b,j	15 a,c	5 a,c,h	30	0 a	5 a	5 a	30	0 d
Mexico	MX	15 a,l	15 a,f,l	15 a	10 a,c,m	5 a,c,h,m	0 a	10 a	10 a	10 a	30	0 d
United Kingdom	UK	0 a,e,g	0 a,e,f,g	0 a,e,g	15 a	5 a,h	0 a	0 a,e	0 a,e	0 a,e	30	0 d,i,k

Income Codes

- 1 Interest paid by U.S. obligors — General
- 2 Interest on real property mortgages
- 3 Interest paid to controlling foreign corporations
- 6 Dividends paid by U.S. corporations — General
- 7 Dividends qualifying for direct dividend rate

- 9 Capital gains
- 10 Industrial royalties
- 11 Copyright royalties — Motion pictures and television
- 12 Copyright royalties — Other
- 13 Real property income and Natural resources royalties
- 14 Pensions and annuities

Footnotes

- a The exemption or reduction in rate does not apply if the recipient has a permanent establishment in the United States and the property giving rise to the income is effectively connected with this permanent establishment. Under certain treaties, the exemption or reduction in rate also does not apply if the property giving rise to the income is effectively connected with a fixed base in the United States from which the recipient performs independent personal services. Even with the treaty, if the income is not effectively connected with a trade or business in the United States by the recipient, the recipient will be considered as not having a permanent establishment in the United States under IRC section 894(b).
- b Interest paid to a financial institution is exempt.
- c The rate in column 6 applies to dividends paid by a regulated investment company (RIC) or real estate investment trust (REIT). However, that rate applies to dividends paid by a REIT only if the beneficial owner of the dividends is (a) an individual holding not more than a 10% interest in the REIT, (b) a person holding not more than 5% of any class of the REIT's stock and the dividends are paid on stock that is publicly traded, or (c) a person holding not more than a 10% interest in the REIT and the REIT is diversified.
- d Exemption does not apply to U.S. Government (federal, state, or local) pensions and annuities; a 30% rate applies to these pensions and annuities. U.S. Government pensions paid to an individual who is both a resident and national of Mexico or the United Kingdom are exempt from U.S. tax.
- e Exemption does not apply to amount paid under, or as part of, a conduit arrangement.
- f Exemption or reduced rate does not apply to an excess inclusion for a residual interest in a real estate mortgage investment conduit (REMIC).
- g The rate is 15% for interest determined with reference to (a) receipts, sales, income, profits, or other cash flow of the debtor or a related person, (b) any change in the value of any property of the debtor or a related person, or (c) any dividend, partnership distribution or similar payment made by the debtor to a related person.
- h Dividends paid by an 80-percent-owned corporate subsidiary are exempt if certain conditions are met.
- i Includes alimony.
- j The rate is 15% for interest determined with reference to the profits of the issuer or one of its associated enterprises.
- k Does not apply to annuities.
- l The rate is 4.9% for interest derived from (a) loans granted by banks and insurance companies and (b) bonds or securities that are regularly and substantially traded on a recognized securities market. The rate is 10% for interest not described in the preceding sentence and paid by (a) banks, or (b) the buyer of machinery and equipment to the seller due to a sale on credit.
- m Dividends paid by a trust, company, or other organization operated exclusively to administer or provide pension, retirement, or other employee benefits generally are exempt if certain conditions are met.

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

Country	Code	Category of personal services	Maximum presence in U.S.	Required Employer or Payer	Maximum Amount of Compensation	Article No.
		Purpose				
Australia		NO CHANGES — See Publication 515.				
Mexico		NO CHANGES — See Publication 515.				
United Kingdom	16	Independent personal services 6,7				
	17	Dependent personal services 1,2	183 days	Any foreign resident	No limit	14
	20	Public entertainment	No limit	Any U.S. or foreign resident	\$20,000 p.a.	16
	18	Teaching 3	2 years	U.S. educational institution	No limit	20A
	19	Studying and training: Remittances or allowances 4	No limit 5	Any foreign resident	No limit	20

Footnotes

- 1 The exemption does not apply if the employee's compensation is borne by a permanent establishment that the employer has in the United States.
- 2 Fees paid to a resident of the treaty country for services performed in the United States as a director of a U.S. corporation are subject to U.S. tax.
- 3 Does not apply to income for research work primarily for private benefit.
- 4 Applies only to full-time student or trainee.
- 5 Exemption applies to business apprentice only for a period not exceeding one year from the date of arrival in the U.S.
- 6 Treated as business profits under Article 7 of the treaty.
- 7 Does not apply to compensation paid to public entertainers if the gross receipts (including reimbursements) are more than \$20,000 in any year.