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## **Sec. 871. - Tax on nonresident alien individuals**

**(a)**

Income not connected with United States business - 30 percent tax

**(1)** Income other than capital gains

Except as provided in subsection (h), there is hereby imposed for each taxable year a tax of 30 percent of the amount received from sources within the United States by a nonresident alien individual as -

**(A)**

interest (other than original issue discount as defined in section 1273), dividends, rents, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, and other fixed or determinable annual or periodical gains, profits, and income,

**(B)**

gains described in section 631(b) or (c),

and gains on transfers described in section 1235 made on or before October 4, 1966,

**(C)**

in the case of -

**(i)**

a sale or exchange of an original issue discount obligation, the amount of the original issue discount accruing while such obligation was held by the nonresident alien individual (to the extent such discount was not theretofore taken into account under clause (ii)), and

**(ii)**

a payment on an original issue discount obligation, an amount equal to the original issue discount accruing while such obligation was held by the nonresident alien individual (except that such original issue discount shall be taken into account under this clause only to the extent such discount was not theretofore taken into account under this clause and only to the extent that the tax thereon does not exceed the payment less the tax imposed by subparagraph (A) thereon), and

**(D)**

gains from the sale or exchange after October 4, 1966, of patents, copyrights,

secret processes and formulas, good will, trademarks, trade brands, franchises, and other like property, or of any interest in any such property, to the extent such gains are from payments which are contingent on the productivity, use, or disposition of the property or interest sold or exchanged,

but only to the extent the amount so received is not effectively connected with the conduct of a trade or business within the United States.

**(2) Capital gains of aliens present in the United States 183 days or more**

In the case of a nonresident alien individual present in the United States for a period or periods aggregating 183 days or more during the taxable year, there is hereby imposed for such year a tax of 30 percent of the amount by which his gains, derived from sources within the United States, from the sale or exchange at any time during such year of capital assets exceed his losses, allocable to sources within the United States, from the sale or exchange at any time during such year of capital assets. For purposes of this paragraph, gains and losses shall be taken into account only if, and to the extent that, they would be recognized and taken into account if such gains and losses were effectively connected with the conduct of a trade or business within the United States, except that such gains and losses shall be determined without regard to section 1202 and such losses shall be determined without the benefits of the capital loss carryover provided in section

1212. Any gain or loss which is taken into account in determining the tax under paragraph (1) or subsection (b) shall not be taken into account in determining the tax under this paragraph. For purposes of the 183-day requirement of this paragraph, a nonresident alien individual not engaged in trade or business within the United States who has not established a taxable year for any prior period shall be treated as having a taxable year which is the calendar year.

### **(3) Taxation of social security benefits**

For purposes of this section and section 1441 -

#### **(A)**

85 percent of any social security benefit (as defined in section 86(d)) shall be included in gross income (notwithstanding section 207 of the Social Security Act), and

#### **(B)**

section 86 shall not apply.

For treatment of certain citizens of possessions of the United States, see section 932(c). [\[1\]](#)

#### **(b)**

Income connected with United States business - graduated rate of tax

#### **(1) Imposition of tax**

A nonresident alien individual engaged in trade or business within the United States during the taxable year shall be taxable as provided in section 1 or 55 on his taxable income which is effectively connected with the conduct of a trade or business within the United States.

**(2) Determination of taxable income**

In determining taxable income for purposes of paragraph (1), gross income includes only gross income which is effectively connected with the conduct of a trade or business within the United States.

**(c) Participants in certain exchange or training programs**

For purposes of this section, a nonresident alien individual who (without regard to this subsection) is not engaged in trade or business within the United States and who is temporarily present 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, as amended ([8 U.S.C. 1101](#)(a)(15)(F), (J), (M), or (Q)), shall be treated as a nonresident alien individual engaged in trade or business within the United States, and any income described in the second sentence of section 1441(b) which is received by such individual shall, to the extent derived from sources within the United States, be treated as effectively connected with the conduct of a trade or business within the United States.

**(d) Election to treat real property income as income connected with United States business**

**(1) In general**

A nonresident alien individual who during the taxable year derives any income -

**(A)**

from real property held for the production of income and located in the United States, or from any interest in such real property, including

**(i)**

gains from the sale or exchange of such real property or an interest therein,

**(ii)**

rents or royalties from mines, wells, or other natural deposits, and

**(iii)**

gains described in section 631(b) or (c), and

**(B)**

which, but for this subsection, would not be treated as income which is effectively connected with the conduct of a trade or business within the United States,

may elect for such taxable year to treat all such income as income which is effectively connected with the conduct of a trade or business within the United States. In such

case, such income shall be taxable as provided in subsection (b)(1) whether or not such individual is engaged in trade or business within the United States during the taxable year. An election under this paragraph for any taxable year shall remain in effect for all subsequent taxable years, except that it may be revoked with the consent of the Secretary with respect to any taxable year.

**(2) Election after revocation**

If an election has been made under paragraph (1) and such election has been revoked, a new election may not be made under such paragraph for any taxable year before the 5th taxable year which begins after the first taxable year for which such revocation is effective, unless the Secretary consents to such new election.

**(3) Form and time of election and revocation**

An election under paragraph (1), and any revocation of such an election, may be made only in such manner and at such time as the Secretary may by regulations prescribe.

**(e)**

Repealed. [Pub. L. 99-514](#), title XII, Sec. 1211(b)(5), Oct. 22, 1986, 100 Stat. 2536)

**(f) Certain annuities received under qualified plans**

**(1) In general**

For purposes of this section, gross income does not include any amount received as an annuity under a qualified annuity plan described in section 403(a)(1), or from a qualified trust described in section 401(a) which is exempt from tax under section 501(a), if -

**(A)**

all of the personal services by reason of which the annuity is payable were either -

**(i)**

personal services performed outside the United States by an individual who, at the time of performance of such personal services, was a nonresident alien, or

**(ii)**

personal services described in section 864(b)(1) performed within the United States by such individual, and

**(B)**

at the time the first amount is paid as an annuity under the annuity plan or by the trust, 90 percent or more of the employees for whom contributions or benefits are provided under such annuity plan, or under the plan or plans of which the trust is a part, are citizens or residents of the United States.

**(2) Exclusion**



Income received during the taxable year which would be excluded from gross income under this subsection but for the requirement of paragraph (1)(B) shall not be included in gross income if -

**(A)**

the recipient's country of residence grants a substantially equivalent exclusion to residents and citizens of the United States; or

**(B)**

the recipient's country of residence is a beneficiary developing country under title V of the Trade Act of 1974 ([19](#) U.S.C. [2461](#) et seq.).

**(g)** Special rules for original issue discount

For purposes of this section and section 881 -

**(1)** Original issue discount obligation

**(A)** In general

Except as provided in subparagraph (B), the term "original issue discount obligation" means any bond or other evidence of indebtedness having original issue discount (within the meaning of section 1273).

**(B)** Exceptions

The term "original issue discount obligation" shall not include -

**(i) Certain short-term obligations**

Any obligation payable 183 days or less from the date of original issue (without regard to the period held by the taxpayer).

**(ii) Tax-exempt obligations**

Any obligation the interest on which is exempt from tax under section 103 or under any other provision of law without regard to the identity of the holder.

**(2) Determination of portion of original issue discount accruing during any period**

The determination of the amount of the original issue discount which accrues during any period shall be made under the rules of section 1272 (or the corresponding provisions of prior law) without regard to any exception for short-term obligations.

**(3) Source of original issue discount**

Except to the extent provided in regulations prescribed by the Secretary, the determination of whether any amount described in subsection (a)(1)(C) is from sources within the United States shall be made at the time of the payment (or sale or exchange) as if such payment (or sale or exchange) involved the payment of interest.

**(4) Stripped bonds**

The provisions of section 1286 (relating to the treatment of stripped bonds and

stripped coupons as obligations with original issue discount) shall apply for purposes of this section.

**(h) Repeal of tax on interest of nonresident alien individuals received from certain portfolio debt investments**

**(1) In general**

In the case of any portfolio interest received by a nonresident individual from sources within the United States, no tax shall be imposed under paragraph (1)(A) or (1)(C) of subsection (a).

**(2) Portfolio interest**

For purposes of this subsection, the term "portfolio interest" means any interest (including original issue discount) which would be subject to tax under subsection (a) but for this subsection and which is described in any of the following subparagraphs:

**(A) Certain obligations which are not registered**

Interest which is paid on any obligation which -

**(i)**

is not in registered form, and

**(ii)**

is described in section 163(f)(2)(B).

## **(B)** Certain registered obligations

Interest which is paid on an obligation -

**(i)**

*Search this title:*

which is in registered form, and

**(ii)**

with respect to which the United States person who would otherwise be required to deduct and withhold tax from such interest under section 1441(a) receives a statement (which meets the requirements of paragraph (5)) that the beneficial owner of the obligation is not a United States person.

[Notes](#)

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## **(3)** Portfolio interest not to include interest received by 10-percent shareholders

For purposes of this subsection -

### **(A)** In general

The term "portfolio interest" shall not include any interest described in subparagraph (A) or (B) of paragraph (2) which is received by a 10-percent shareholder.

### **(B)** 10-Percent shareholder

The term "10-percent shareholder" means -

**(i)**

in the case of an obligation issued by a corporation, any person who owns 10 percent or more of the total combined voting power of all classes of stock of such corporation entitled to vote, or

**(ii)**

in the case of an obligation issued by a partnership, any person who owns 10 percent or more of the capital or profits interest in such partnership.

**(C) Attribution rules**

For purposes of determining ownership of stock under subparagraph (B) (i) the rules of section 318(a) shall apply, except that -

**(i)**

section 318(a) (2) (C) shall be applied without regard to the 50-percent limitation therein,

**(ii)**

section 318(a) (3) (C) shall be applied -

**(I)**

without regard to the 50-percent limitation therein; and

**(II)**

in any case where such section would not apply but for subclause (I), by considering a corporation as owning the stock (other than stock

in such corporation) which is owned by or for any shareholder of such corporation in that proportion which the value of the stock which such shareholder owns in such corporation bears to the value of all stock in such corporation, and

**(iii)**

any stock which a person is treated as owning after application of section 318(a)(4) shall not, for purposes of applying paragraphs (2) and (3) of section 318(a), be treated as actually owned by such person.

Under regulations prescribed by the Secretary, rules similar to the rules of the preceding sentence shall be applied in determining the ownership of the capital or profits interest in a partnership for purposes of subparagraph (B)(ii).

**(4) Portfolio interest not to include certain contingent interest**

For purposes of this subsection -

**(A) In general**

Except as otherwise provided in this paragraph, the term "portfolio interest" shall not include -

**(i)**

any interest if the amount of such interest is determined by reference to -

**(I)**

any receipts, sales or other cash flow of the debtor or a related person,

**(II)**

any income or profits of the debtor or a related person,

**(III)**

any change in value of any property of the debtor or a related person, or

**(IV)**

any dividend, partnership distributions, or similar payments made by the debtor or a related person, or

**(ii)**

any other type of contingent interest that is identified by the Secretary by regulation, where a denial of the portfolio interest exemption is necessary or appropriate to prevent avoidance of Federal income tax.

**(B) Related person**

The term "related person" means any person who is related to the debtor within the meaning of section 267(b) or 707(b)(1), or who is a party to any arrangement undertaken for a purpose of avoiding the application of this paragraph.

## **(C) Exceptions**

Subparagraph (A) (i) shall not apply to -

### **(i)**

any amount of interest solely by reason of the fact that the timing of any interest or principal payment is subject to a contingency,

### **(ii)**

any amount of interest solely by reason of the fact that the interest is paid with respect to nonrecourse or limited recourse indebtedness,

### **(iii)**

any amount of interest all or substantially all of which is determined by reference to any other amount of interest not described in subparagraph (A) (or by reference to the principal amount of indebtedness on which such other interest is paid),

### **(iv)**

any amount of interest solely by reason of the fact that the debtor or a related person enters into a hedging transaction to manage the risk of interest rate or currency fluctuations with respect to such interest,

### **(v)**

any amount of interest determined by



reference to -

**(I)**

changes in the value of property (including stock) that is actively traded (within the meaning of section 1092(d)) other than property described in section 897(c)(1) or (g),

**(II)**

the yield on property described in subclause (I), other than a debt instrument that pays interest described in subparagraph (A), or stock or other property that represents a beneficial interest in the debtor or a related person, or

**(III)**

changes in any index of the value of property described in subclause (I) or of the yield on property described in subclause (II), and (vi) any other type of interest identified by the Secretary by regulation.

**(D) Exception for certain existing indebtedness**

Subparagraph (A) shall not apply to any interest paid or accrued with respect to any indebtedness with a fixed term -

**(i)**

which was issued on or before April 7, 1993, or

**(ii)**

which was issued after such date pursuant to a written binding contract in effect on such date and at all times thereafter before such indebtedness was issued.

**(5) Certain statements**

A statement with respect to any obligation meets the requirements of this paragraph if such statement is made by -

**(A)**

the beneficial owner of such obligation, or

**(B)**

a securities clearing organization, a bank, or other financial institution that holds customers' securities in the ordinary course of its trade or business.

The preceding sentence shall not apply to any statement with respect to payment of interest on any obligation by any person if, at least one month before such payment, the Secretary has published a determination that any statement from such person (or any class including such person) does not meet the requirements of this paragraph.

**(6) Secretary may provide subsection not to apply in cases of inadequate information exchange**

**(A) In general**

If the Secretary determines that the exchange of information between the United States and a foreign country is inadequate to prevent evasion of the United States income tax by United States persons, the Secretary may provide in writing (and publish a statement) that the provisions of this subsection shall not apply to payments of interest to any person within such foreign country (or payments addressed to, or for the account of, persons within such foreign country) during the period -

**(i)**

beginning on the date specified by the Secretary, and

**(ii)**

ending on the date that the Secretary determines that the exchange of information between the United States and the foreign country is adequate to prevent the evasion of United States income tax by United States persons.

**(B) Exception for certain obligations**

Subparagraph (A) shall not apply to the payment of interest on any obligation which is issued on or before the date of the publication of the Secretary's determination under such subparagraph.

**(7) Registered form**

For purposes of this subsection, the term "registered form" has the same meaning

given such term by section 163(f).

**(i) Tax not to apply to certain interest and dividends**

**(1) In general**

No tax shall be imposed under paragraph (1)(A) or (1)(C) of subsection (a) on any amount described in paragraph (2).

**(2) Amounts to which paragraph (1) applies**

The amounts described in this paragraph are as follows:

**(A)**

Interest on deposits, if such interest is not effectively connected with the conduct of a trade or business within the United States.

**(B)**

A percentage of any dividend paid by a domestic corporation meeting the 80-percent foreign business requirements of section 861(c)(1) equal to the percentage determined for purposes of section 861(c)(2)(A).

**(C)**

Income derived by a foreign central bank of issue from bankers' acceptances.

**(3) Deposits**

For purposes of paragraph (2), the term

"deposits" means amounts which are -

**(A)**

deposits with persons carrying on the banking business,

**(B)**

deposits or withdrawable accounts with savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, but only to the extent that amounts paid or credited on such deposits or accounts are deductible under section 591 (determined without regard to sections 265 and 291) in computing the taxable income of such institutions, and

**(C)**

amounts held by an insurance company under an agreement to pay interest thereon.

**(j)** Exemption for certain gambling winnings

No tax shall be imposed under paragraph (1)(A) of subsection (a) on the proceeds from a wager placed in any of the following games: blackjack, baccarat, craps, roulette, or big-6 wheel. The preceding sentence shall not apply in any case where the Secretary determines by regulation that the collection of the tax is administratively feasible.

**(k)**

Cross references

**(1)**

For tax treatment of certain amounts distributed by the United States to nonresident alien individuals, see section 402(e)(2).

**(2)**

For taxation of nonresident alien individuals who are expatriate United States citizens, see section 877.

**(3)**

For doubling of tax on citizens of certain foreign countries, see section 891.

**(4)**

For adjustment of tax in case of nationals or residents of certain foreign countries, see section 896.

**(5)**

For withholding of tax at source on nonresident alien individuals, see section 1441.

**(6)**

For election to treat married nonresident alien individual as resident of United States in certain cases, see subsections (g) and (h) of section 6013.

**(7)**

**For special tax treatment of gain or loss from the disposition by a nonresident alien individual of a United States real property interest, see section 897**

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[\[1\]](#) See References in Text note below.

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