

Nonresident Alien Income and Tax Withheld, 1980

By Chris R. Carson*

Income paid to foreign individuals and organizations exceeded \$6.5 billion during 1980. This was a 31 percent increase from 1979 for this U.S. source income. The major reason for this increase was that interest payments rose a dramatic 64 percent, to over \$2.6 billion. The U.S. tax withheld on all income exceeded \$685 million.

A U.S. individual or organization that pays income to nonresident aliens [1] reports this income and the tax withheld on the Form 1042S. While the basic tax rate is 30 percent, certain types of income are taxed at different rates. Income paid to countries that have entered into tax treaties with the United States is usually taxed at lower rates. Income that is connected with the recipient's trade or business is exempt from withholding.

Dividends and interest are the most common kinds of income paid, making up 88 percent of the total for 1980. Most income, about 79 percent, was paid to corporations and individuals. Eight countries--Switzerland, the United Kingdom, Canada, the Netherlands, the Netherlands Antilles, West Germany, Japan, and France--received about 84 percent of all income, with the first four receiving over half.

DATA ANALYSIS AND TRENDS

Income paid rose considerably faster (31 percent) than tax withheld (11 percent) from 1979 to 1980. This was mainly due to the large increase in income that was exempt from tax withholding (58 percent more than in 1979). Most of this increase is probably due to the rise in interest payments to tax treaty countries. Interest income is exempt from withholding under treaties negotiated with several major income-receiving countries. Tax treaty countries received 39 percent more income in 1980 than in 1979. Income subject to withholding increased by a modest 21 percent.

The average income paid reported on Forms 1042S increased from \$8,561 to \$10,803 from 1979 to 1980. The average Form 1042S income for individuals was about \$1,600, while Forms 1042S reporting payments to corporations averaged over \$50,000 of income. This figure for corporations is 52 percent more than the corresponding amount for 1979 (\$33,000).

Income Type

As noted earlier, interest income rose 64 percent to over \$2.6 billion. Rising interest rates in the United States during recent years were responsible for most, if not all, of this increase. Dividends rose to over \$3.1 billion in 1980 after falling slightly in 1979. In 1979, dividends represented 54 percent of all income compared to 32 percent for interest. This 22 percent disparity fell to 8 percent in 1980 as shown in Figure A. Other common types of income were rents, royalties, capital gains, and pensions.

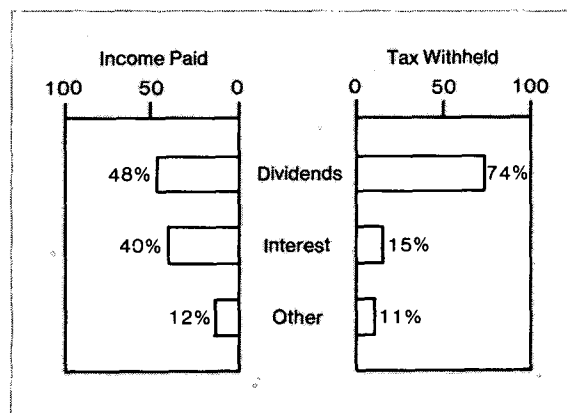
Gross Income Paid (thousands)

Income Type	1978	1979	1980
Dividends . .	\$2,867,596	\$2,707,108	\$3,147,752
Interest. . .	990,949	1,591,309	2,604,307
Other	592,262	717,728	824,316
Total . . .	4,450,807	5,016,145	6,576,375

About 74 percent of the total tax was withheld from dividends, as they are taxed at a higher rate than most other income types in several major treaty countries. Although interest made up 40 percent of all income, tax withheld on interest payments represented only 15 percent of all tax.

Figure A.

Percent of Total Income Paid and Percent of Total Tax Withheld, by Income Type, 1980



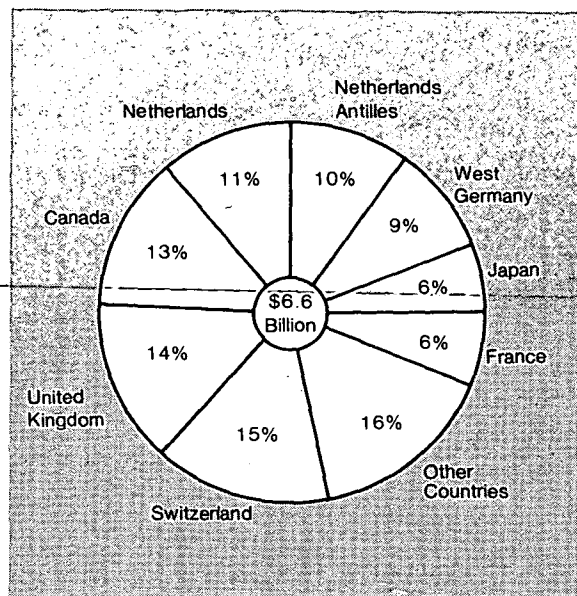
Country of Recipient

The eight countries shown in Figure B received 84 percent of all income paid. These countries were responsible for virtually all of the income increase in 1980. Income paid to the Netherlands Antilles increased by 84 percent while West Germany received 63 percent more income than in 1979. Increases of over 40 percent were recorded by the Netherlands, Switzerland, and the United Kingdom. Increases to Canada, France, and Japan were more modest. Other countries averaged only a 4 percent increase.

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Figure B

Percent of Total Income Paid, by Country of Recipient, 1980



Tax-Treaty-Countries

From 1979 to 1980 there was a definite shift of Form 1042S income to tax treaty countries. Income paid to treaty countries rose 39 percent from 1979 to 1980. During the same period income paid to nontreaty countries actually decreased by 11 percent. Total treaty country income (\$5.9 billion) represented 90 percent of all income (\$6.6 billion) in 1980. The corresponding figure for 1979 was 85 percent. This does not appear to be a trend, however, as treaty country income represented 90 percent of all income in 1977 and 89 percent in 1978.

Gross Income Paid (thousands)

Country Status	1979	1980	Change
Treaty	\$4,266,829	\$5,909,728	39%
Nontreaty	749,316	666,647	-11
Total	5,016,145	6,576,375	31

"Tax Haven" Countries

Income paid to certain countries that are sometimes described as tax havens is relatively substantial. In 1980, Switzerland and the Netherlands Antilles received over \$998 million and \$632 million, respectively. Form 1042S income seems more substantial when compared to the Gross National Product (GNP) of certain tax haven countries. U.S. source income was greater than 57 percent of the GNP figure for the Netherlands Antilles (see Table 2). The ratio for the British Virgin Islands was over 32 percent in 1978, the latest year for which GNP data are available for that country. U.S. source income represents a substantially larger share of GNP for tax haven countries than for other foreign countries, as shown in Table 2. This income-to-GNP ratio is far greater for the Netherlands Antilles (760 times) and the British Virgin Islands (427 times) than the average ratio for all countries. Although Switzerland received more income than any other country (\$998 million), this income was less

than one percent of its Gross National Product. GNP information was not available for several other tax haven countries.

The United States recently decided to terminate its tax treaty with the British Virgin Islands, at least partially because of its tax haven status. The termination is effective Jan. 1, 1983. In 1980, the British Virgin Islands received Form 1042S income of about \$56 million. More than \$2 million of tax was withheld from this income.

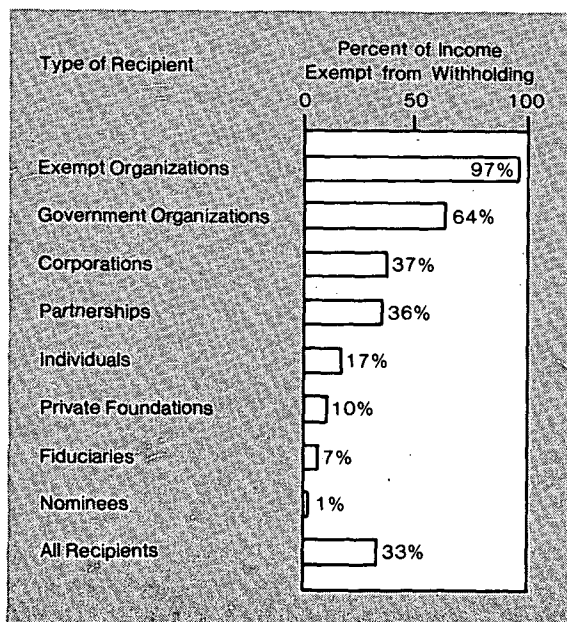
Type of Recipient

The vast majority (70 percent) of Forms 1042S filed reported payments to individuals. However, individuals received only about 10 percent of the total income paid. By contrast, 69 percent of all income reported on Forms 1042S was paid to foreign corporations. Foreign partnerships, fiduciaries, nominees, government organizations, exempt organizations, and private foundations also commonly receive income reported on Forms 1042S. Private foundations differ from exempt organizations as the rules dealing with expenditures and money transactions are more strict for private foundations. A nominee differs from a fiduciary in that a nominee has little or no freedom to exercise judgment or control over income received.

Income that is connected with the recipient's U.S. trade or business is exempt from withholding and is taxed as though it were received by a U.S. individual or organization. Certain kinds of income (some dividends, certain interest, etc.) are also exempt from withholding under tax treaties negotiated by the United States. Income paid to foreign exempt organizations is generally not taxed, as these organizations are treated as though they were U.S. exempt organizations. Figure C shows the percent of income exempt from withholding for each type of recipient. The percentage is greater for corporations (37 percent) than for individuals (17 percent), which helps explain why corporations received 69 percent of the total income, but had only 62 percent of the total tax withheld from their income. By contrast individuals received about 10 percent of all income, but were responsible for 16 percent of the total tax withheld.

Figure C

Percent of Income Exempt from Withholding, by Recipient Type, 1980



OTHER INFORMATION

Payors of income to nonresident aliens must withhold tax in accordance with Chapter 3 of the Internal Revenue Code. The Form 1042S is filed to report this income and the U.S. tax withheld. Often the payor has a financial institution act as withholding agent.

Recipients in tax treaty countries typically enjoy lower U.S. tax rates. However, if the income is paid to a foreign nominee or fiduciary, additional withholding is often required and is held by the government in the country of the nominee or fiduciary. The purpose of this additional withholding is to prevent citizens of nontreaty countries from taking advantage of the lower tax rates of treaty countries. The foreign government holds this additional tax until the ultimate recipient proves residency in that country. If residency is not proven within a period of time specified by the treaty, the tax is remitted to the United States (see Table 1, column 7). In the case of Canada, nominees and fiduciaries act as withholding agents and remit this additional tax directly to the Internal Revenue Service (IRS).

The present statistics are tabulated by calendar year, based on all Forms 1042S processed at the Philadelphia Service Center. The years indicated in the tables represent the year in which the income was paid and the U.S. tax withheld, except for the tax from foreign governments and withholding agents. These amounts are shown by the year the tax was remitted to the United States under treaty agreements. Tax withheld amounts and percentages shown in Figure A and Table 3 do not include tax withheld by foreign governments and withholding agents (except Canada). This additional withholding cannot be

properly attributed to specific recipient and income types. Definitions and other information are available in the Spring 1982 SOI Bulletin and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

As all Forms 1042S are included in these statistics, they are not subject to sampling error. The data are subject to nonsampling errors such as computer data entry errors and taxpayer reporting errors. Forms 1042S with income greater than \$500,000 were manually verified. A limited computerized correction program was used to test the data for basic numerical relationships.

REFERENCES

- [1] For purposes of this article a nonresident alien is defined as an individual whose residence is not within the United States and who is not a U.S. citizen. Also, corporations and other organizations created or organized outside the United States are considered nonresident aliens.
- [2] See also Carson, Chris, "Nonresident Alien Income and Tax Withheld, 1971-1979," SOI Bulletin, Vol. 1, No. 4, pp. 34-38.
- [3] World Bank, 1981 World Bank Atlas, p. 12-22.
- [4] Department of the Treasury, Internal Revenue Service, Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Corporations (Revised November 1981).

Nonresident Alien Income and Tax Withheld, 1980

Table 1.—Number of Forms 1042S Filed, Gross Income Paid, Tax Withheld, and Other Items, by Selected Treaty and Nontreaty Countries, 1980

[Money amounts are in thousands of dollars]

Country or Geographic area	Number of Forms 1042S filed	Income paid			Tax withheld		
		Total	Exempt from withholding	Subject to withholding	Total	Domestic withholding agents	Foreign Governments and withholding agents
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total.....	608,781	6,576,375	2,173,816	4,402,559	686,208	615,021	71,187
Treaty country, total.....	498,670	5,909,728	1,976,996	3,932,732	589,422	518,235	71,187
Australia.....	7,719	17,467	2,673	14,794	2,996	2,996	-
Austria.....	3,871	10,500	2,957	7,543	1,230	1,230	-
Belgium.....	14,158	136,871	37,191	99,680	18,220	15,031	3,189
Canada.....	265,411	838,907	201,229	637,678	92,473	92,473	-
France.....	14,069	410,064	47,382	362,682	39,959	39,208	751
Germany, Federal Republic....	46,878	619,222	457,939	161,283	22,754	22,754	-
Italy.....	7,070	48,480	10,912	37,568	7,938	7,938	-
Japan.....	5,280	413,344	115,030	298,314	39,763	39,763	-
Luxembourg.....	6,080	32,973	8,941	24,032	5,925	4,756	1,169
Netherlands.....	14,945	699,980	148,324	551,656	74,018	73,478	540
Netherlands Antilles.....	1,712	632,163	524,230	107,933	9,339	9,337	2
Sweden.....	4,599	31,798	7,100	24,698	3,058	3,058	-
Switzerland.....	22,209	998,478	113,816	884,662	179,034	115,034	64,000
United Kingdom.....	65,393	904,316	235,345	668,971	84,165	82,751	1,414
Other treaty countries.....	19,276	115,165	63,927	51,238	8,550	8,428	122
Nontreaty country, total.....	110,111	666,647	196,820	469,827	96,786	96,786	-
Bahamas.....	1,994	22,179	855	21,324	5,965	5,965	-
Bermuda.....	1,974	54,166	5,105	49,061	14,261	14,261	-
Cayman Islands.....	585	17,303	9,187	8,116	2,348	2,348	-
Hong Kong.....	9,948	31,935	1,262	30,673	9,016	9,016	-
Liechtenstein.....	802	19,404	714	18,690	3,432	3,432	-
Mexico.....	7,652	25,407	3,045	22,362	6,307	6,307	-
Panama.....	2,467	39,201	8,141	31,060	8,870	8,870	-
Portugal.....	873	10,980	196	10,784	636	636	-
Saudi Arabia.....	1,267	101,488	99,531	1,957	528	528	-
Spain.....	4,592	13,520	2,284	11,236	2,930	2,930	-
United Arab Emirates.....	390	25,472	23,572	1,900	562	562	-
Other nontreaty countries....	77,567	305,592	42,928	262,664	41,931	41,931	-

Table 2.—Gross National Product (GNP), Gross Income, Interest and Dividends, and Gross Income and Interest and Dividends as a Percent of GNP, by Selected Country of Recipient, 1980

[Money amounts are in thousands of dollars]

Country or Geographic area	Gross National Product ¹	Gross income		Interest and dividends	
		Total	As a percent of GNP	Total	As a percent of GNP
	(1)	(2)	(3)	(4)	(5)
Netherlands Antilles.....	1,100,000	632,163	57.47	603,763	54.89
British Virgin Islands ²	25,410	8,195	32.25	7,139	28.10
Bermuda.....	660,000	54,166	8.21	44,893	6.80
Antigua.....	100,000	3,548	3.55	3,466	3.47
Bahamas.....	800,000	22,179	2.77	21,350	2.67
Panama.....	3,170,000	39,201	1.24	34,585	1.09
Switzerland.....	106,300,000	998,478	0.94	922,776	0.87
Luxembourg.....	5,200,000	32,973	0.63	31,978	0.61
Netherlands.....	161,440,000	699,980	0.43	675,028	0.42
All countries.....	8,698,581,000	6,576,375	0.08	5,752,059	0.07

¹World Bank, 1981 World Bank Atlas, pp. 12-22. Total GNP figure for "All countries" does not include United States GNP; it also does not include GNP of several smaller countries whose GNP data were not available. GNP figure for British Virgin Islands is for 1978.

²Data for British Virgin Islands are for 1978 as GNP figures for later years were not available.

Table 3.--Number of Forms 1042S Filed, Gross Income, and Tax Withheld by Income Type, by Recipient Type and Country of Recipient, 1980

[Money amounts are in thousands of dollars]

Country or Geographic area	Number of Forms 1042S filed	Gross income paid	Tax withheld			
			Total	Interest	Dividends	Other
ALL RECIPIENTS	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	608,781	6,576,375	615,021	95,917	453,298	65,806
Australia.....	7,719	17,467	2,996	472	1,032	1,492
Bahamas.....	1,994	22,179	5,965	811	4,934	220
Belgium.....	14,158	136,871	15,031	5,140	8,087	1,804
Bermuda.....	1,974	54,166	14,261	6,331	5,636	2,294
British Virgin Islands.....	405	56,461	2,260	99	2,041	120
Canada.....	265,411	838,907	92,473	27,334	53,486	11,653
Cayman Islands.....	585	17,303	2,348	897	1,358	83
France.....	14,069	410,064	39,208	7,396	27,947	3,865
Germany, Federal Republic.....	46,878	619,222	22,754	408	18,133	4,213
Hong Kong.....	9,948	31,935	9,016	1,289	6,711	1,016
Italy.....	7,070	48,480	7,938	759	1,871	5,308
Japan.....	5,280	413,344	39,763	12,573	19,391	7,799
Liechtenstein.....	802	19,404	3,432	390	2,864	178
Luxembourg.....	6,080	32,973	4,756	244	4,275	237
Mexico.....	7,652	25,407	6,307	842	2,950	2,515
Netherlands.....	14,945	699,980	73,478	1,628	71,009	841
Netherlands Antilles.....	1,712	632,163	9,337	1,661	7,587	89
Panama.....	2,467	39,201	8,870	1,254	6,777	839
Saudi Arabia.....	1,267	101,488	528	43	371	114
Spain.....	4,592	13,520	2,930	792	1,551	587
Sweden.....	4,599	31,798	3,058	73	1,855	1,130
Switzerland.....	22,209	998,478	115,034	16,709	93,251	5,074
United Arab Emirates.....	390	25,472	562	27	532	3
United Kingdom.....	65,393	904,316	82,751	1,426	73,757	7,568
Other countries.....	101,182	385,776	49,965	7,319	35,892	6,754
INDIVIDUALS						
Total.....	427,419	684,549	98,938	10,895	60,992	27,051
Australia.....	6,601	6,499	1,030	183	351	496
Bahamas.....	949	2,474	630	81	469	80
Belgium.....	7,168	6,053	794	137	558	99
Bermuda.....	674	6,241	1,784	96	1,391	297
British Virgin Islands.....	192	965	152	15	136	1
Canada.....	198,881	129,048	14,442	2,376	8,335	3,731
Cayman Islands.....	101	385	100	6	93	1
France.....	10,336	47,522	5,145	509	3,113	1,523
Germany, Federal Republic.....	37,649	67,396	8,761	151	7,263	1,347
Hong Kong.....	7,339	13,795	3,890	226	3,529	135
Italy.....	5,612	29,849	6,498	497	710	5,291
Japan.....	3,731	25,694	2,477	569	1,282	626
Liechtenstein.....	303	5,128	1,290	41	1,152	97
Luxembourg.....	869	1,172	207	7	195	5
Mexico.....	6,562	14,508	3,528	527	2,117	884
Netherlands.....	3,991	13,550	1,747	15	1,291	441
Netherlands Antilles.....	455	35,062	1,469	11	1,443	15
Panama.....	1,308	6,946	1,847	52	1,696	99
Saudi Arabia.....	1,101	3,368	395	31	250	114
Spain.....	3,953	7,514	1,843	551	762	530
Sweden.....	4,010	7,502	1,341	20	221	1,100
Switzerland.....	9,573	50,878	7,236	552	5,673	1,011
United Arab Emirates.....	237	204	45	5	38	2
United Kingdom.....	37,054	69,998	8,585	312	4,326	3,947
Other countries.....	78,770	132,798	23,702	3,925	14,598	5,179
CORPORATIONS						
Total.....	89,953	4,523,657	379,485	69,752	275,165	34,568
Australia.....	415	8,479	1,629	272	397	960
Bahamas.....	732	13,303	3,691	531	3,025	135
Belgium.....	3,752	104,036	10,223	4,330	4,189	1,704
Bermuda.....	707	42,176	10,850	5,958	2,896	1,996
British Virgin Islands.....	154	51,019	1,456	54	1,289	113
Canada.....	34,579	553,423	57,561	22,234	28,544	6,783
Cayman Islands.....	407	15,522	1,861	825	945	91
France.....	1,249	276,591	22,913	3,515	17,475	1,923
Germany, Federal Republic.....	2,916	283,380	8,749	62	5,829	2,858
Hong Kong.....	614	11,363	3,209	997	1,357	855
Italy.....	266	15,786	963	206	756	1
Japan.....	1,200	377,899	36,374	11,795	17,501	7,078
Liechtenstein.....	270	11,523	1,352	212	1,083	57
Luxembourg.....	4,040	24,724	3,508	229	3,059	220
Mexico.....	415	7,712	2,068	190	491	1,387
Netherlands.....	8,588	564,724	58,265	1,494	56,426	345
Netherlands Antilles.....	1,024	575,158	6,328	1,611	4,668	49
Panama.....	805	24,613	5,227	1,070	3,421	736
Saudi Arabia.....	22	35,816	14	8	5	1
Spain.....	151	4,861	815	228	549	38
Sweden.....	142	18,566	1,151	52	1,080	19
Switzerland.....	5,153	700,533	75,958	11,111	61,126	3,721
United Arab Emirates.....	31	20,549	443	22	421	-
United Kingdom.....	14,593	649,101	48,390	632	45,149	2,609
Other countries.....	7,728	132,800	16,487	2,114	13,484	889