Foreign Recipients of U.S. Income, and Tax Withheld, 1986

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Total U.S. source income paid to foreign persons (including individuals, corporations and other organizations) approached $22 billion in 1986, a 25 percent increase over the amount for 1985 [1]. Tax withheld on this income rose by almost 23 percent, to more than $1 billion.

The United Kingdom regained its position as recipient of the most U.S. source income, receiving $3.7 billion in 1986, a 31-percent increase over the previous year. Japan showed the greatest increase, 56 percent, for a total of $2.9 billion in U.S. source income in 1986. Income paid to the former leader, the Netherlands Antilles, dropped slightly to about $2.9 billion, probably as a result of the Deficit Reduction Act of 1984.

BACKGROUND

A U.S. individual or organization paying income to a foreign individual (who, for tax purposes, was not a resident or citizen of the United States) or to a corporation or other organization that was not incorporated or organized in the United States reported this income and the U.S. tax withheld on Form 1042S, Foreign Persons' U.S. Source Income Subject to Withholding. Although the basic tax rate was 30 percent, certain types of income were taxed under the statute at lower rates [2]. Income paid to residents of countries that entered into tax-treaty agreements with the United States also was usually taxed at lower rates.

In most instances the tax withheld represented the total payment of the actual tax liability; the foreign recipients thus did not have to file a U.S. income tax return, because their tax liability had been satisfied at its source. The responsibility for withholding this tax belonged to the payer or a representative of the payer (usually a financial institution).

Income "effectively connected" with a foreign recipient's U.S. trade or business was exempt from withholding tax. The United States taxed the recipient on this income separately, as though it were received by a U.S. citizen or corporation. In this case, the foreign recipient was required to file an income tax return. Such income is generally not included in the statistics for U.S. source income presented here. See the "Explanation of Selected Terms" section of this article.

U.S. source income was taxed at a flat rate (generally 30 percent) rather than being subject to graduated tax rates as was the income of U.S. individuals and organizations (and "effectively connected" income of foreign persons). Most foreign persons receiving income from U.S. sources were not required to file U.S. income tax returns (which would require that they consolidate all of their U.S. income), because it is difficult for the United States to tax a foreign person on a net basis on income that is not effectively connected to a U.S. trade or business. Since it is difficult, if not impossible, for the Internal Revenue Service to verify expenses of a foreign person, the Internal Revenue Service taxes the foreign person's gross income. Also, the tax is not based on the foreign person's worldwide income so graduated rates may not be appropriate. Therefore, the flat rate provided for equitable taxation in situations involving foreign individuals or organizations who received income from more than one U.S. source.

RECENT LEGISLATION AND ITS IMPACT

The Deficit Reduction Act of 1984 removed the withholding tax on most interest payments made to foreigners. This exemption was effective for all qualified debt issues made after July 18, 1984. The Act was intended to reduce U.S. borrowing through tax-haven countries (discussed later in this article) and to encourage U.S. corporations to borrow foreign funds through direct Eurobond placements [3]. The interest paid on these new issues was exempted from withholding tax regardless of the recipient's country. The amounts, however, are still reported on Form 1042S and are included in these statistics.

The Social Security Amendments of 1983 required U.S. tax withholding on certain benefits paid to foreign persons beginning in 1984. At the same time, the Railroad Retirement Act of 1937 was also revised to require withholding on certain payments to foreigners. As a result, almost $71 million in additional taxes was withheld in 1986 on $769 million of social security and railroad retirement benefit payments.

DATA HIGHLIGHTS AND TRENDS

The $4.3 billion, or 25 percent, increase in U.S. source income paid to foreign persons in 1986 over the amount paid in 1985 was primarily a result of increases in interest and dividend payments. The amount of interest paid to foreign persons increased almost $2 billion, and dividend payments rose $1.5 billion.

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The average payment rose slightly from 1985 levels, to just over $20,000, but the average tax withheld remained virtually unchanged at $1,000. These small changes are accounted for by steady increases in the number of forms filed, along with increases in the amount of income paid and tax withheld. The average effective tax rate (tax withheld as a percentage of total income) for all countries fell almost imperceptibly for 1986 to 5.3 percent, a decrease of only 0.1 percent. This low average effective tax rate on income paid to foreign persons shows the continued dominance of income exempt from withholding or subject to reduced withholding rates.

TYPES OF INCOME

As Figure A shows, interest remained the dominant form of income paid in 1986, accounting for 54 percent of all income paid, a decrease of two percentage points from 1985. This decrease was partially caused by a rise in dividend payments and a rise in such other types of income payments as compensation for personal services. Dividends paid, as a percentage of all income paid in 1986, rose by one percentage point to 30 percent. In contrast, tax withheld on dividends accounted for 62 percent of the total tax withheld. This discrepancy stems from the fact that dividends are rarely exempt from withholding. Although interest made up more than half of all income paid, tax withheld on interest accounted for only 20 percent of all tax withheld, because most types of interest were exempt from withholding tax due to the 1984 Act and to treaty exemptions or reductions for other than portfolio interest.

Figure A

Percentage of Total Income Paid and Total Tax Withheld, by Income Type, 1985 and 1986

Statistics on social security and railroad retirement benefit payments are available for only the second year in 1986. While these payments accounted for only 4 percent of total income paid in 1986, they made up over one-quarter of the total number of payments made. In 1986, social security and railroad retirement benefit payments accounted for $769 million of U.S. source income. (See Figure B.) Tax withheld on these payments totaled $71 million. As in 1985, the most likely recipients of this income were individuals in Canada and Mexico who together received more than 40 percent of all social security and railroad retirement benefit payments in 1986. Because these countries border the United States many of their residents are likely to have worked in the United States at one time or another.

Figure B
Percentage and Amount of Social Security and Railroad Retirement Payments to Recipients in Selected Countries, 1986

Figure C shows the percentage of interest, dividends, and rents and royalties received by individuals, corporations, and all recipients in the nine countries that received the largest amounts of income in 1986. Although interest made up more than half of all income received, only six of these nine countries received more interest than other types of income. The United Kingdom, Switzerland, and France received more dividends than interest.

Whereas corporations received mostly interest, individuals were more likely to receive dividends than other types of income. Only in the Netherlands Antilles and West Germany did individuals receive more interest than dividends. Rents and royalties continued to make up a small portion of income paid to most countries. Only France and Japan received as much as 10 percent of their income in the form of rents and royalties. As in the past, France collected three times the average percentage in rents and royalties. Industrial royalties made up 86 percent of all royalties paid to France. These include royalties for the use of, or the privilege of using, trademarks, patents, secret processes and formulas, goodwill, franchises, and similar rights.

The data on Belgium may be somewhat misleading since Belgian nominees once again received large interest payments (over $1 billion). Therefore, the final recipients of these payments may not have been Belgian residents.

COUNTRY OF RECIPIENT

Payments to residents of the United Kingdom accounted for 17 percent of all U.S. source income paid in 1986, as Figure D shows. Although the nine countries shown in this figure accounted for more than 80 percent of all U.S. source income paid in 1986, their share of the total has fallen over the years, which is indicative of the growing dispersion of U.S. payments.

Figure E shows the amounts of income paid in 1986 and the percentage change from 1985 to 1986 for the nine largest recipients of U.S. source income. Income paid to residents of Japan rose from $1.8 billion in 1985 to almost $2.9 billion in 1986, an increase of 56 percent. This increase follows a 32 percent increase in income paid to residents of Japan from 1984 to 1985. These changes reflect the continued heavy investment in the United States by Japanese residents.

Of the top nine countries, only the Netherlands Antilles showed a decrease in U.S. source income from 1985 to 1986. This decrease may stem from a number of causes, the most noteworthy being the removal of the withholding tax on most types of interest for issues made after July 1984. As previously mentioned, the intent of this change was partly to decrease interest paid to the Netherlands

Figure C

Percentage of Income Paid by Selected Income Type, Selected Recipient Type, and Selected Country of Recipient, 1986

Figure D

Percentage of Total Income Paid and Total Tax Withheld, by Country of Recipient, 1985 and 1986

Figure E.—Total Income Paid in 1986 and Percentage Change in Income Paid to Selected Countries, 1985 to 1986

[Money amounts in thousands of dollars]

Selected country	Income paid in 1986	Percentage increase, 1985 to 1986
All countries	$21,814,442	25%
Japan	2,868,405	56
Belgium	1,161,303	32
United Kingdom	3,716,554	31
Netherlands	1,476,412	27
West Germany	1,192,063	27
Switzerland	1,587,487	25
Canada	2,436,500	20
France	810,560	15
Netherlands Antilles	2,866,169	-9
Other countries	3,698,989	37

Antilles by facilitating borrowing directly from persons in other countries that are not considered tax havens (see the "Tax Haven Countries" section of this article).

Another possible cause of the drop in U.S. source income paid to the Netherlands Antilles is the recent uncertainty of the United States-Netherlands Antilles tax treaty. The treaty had been under negotiation for some time while the United States attempted to introduce rules to prevent the use of the United States-Netherlands Antilles treaty by residents of a third country for channelling third-country investment into the United States. In June 1987, the U.S. Treasury Department unconditionally canceled the United States-Netherlands Antilles treaty but later reinstated the exemption from tax of interest paid to Netherlands Antilles residents [4].

TAX WITHHELD AND EFFECTIVE TAX RATES BY COUNTRY

The overall effective tax rate fell off slightly once again in 1986 to 5.3 percent (from 5.4 percent in 1985). The overall effective tax rate was much lower than the basic U.S. withholding rate of 30 percent for a number of reasons:

- Tax treaties allow for lower tax rates on certain types of payments made to residents of certain countries.
- U.S. income paid to foreign government organizations is generally not taxed.
- Most U.S. income paid to foreign private foundations is taxed at only a 4 percent rate.
- The statutory rate for social security and railroad retirement benefit payments is 15 percent.
- The Tax Reform Act of 1984 removed the withholding tax on most types of interest.

These factors result in considerable variation among countries (as well as among types of recipients and income paid) in the effective U.S. withholding-tax rate (tax withheld as a percentage of total income paid).

Figure F ranks the 15 countries with the lowest effective U.S. withholding-tax rates for 1986. Tax withheld by foreign governments and foreign withholding agents is not included in this figure (except for Canada), because such tax cannot be properly attributed to income for a particular year (as is discussed in the "Data Sources and Limitations" section). This tax is, however, shown in Table 1 at the end of this article. Only countries receiving at least 500 payments and $1 million or more of U.S. source income were considered for this ranking.

Figure F.—Ranking of 15 Countries With Lowest Effective U.S. Tax Rates, 1986

[Money amounts in thousands of dollars]

Country	Total income	Tax withheld	Effective U.S. tax rate
	(1)	(2)	(3)
All countries[1]	$21,814,442	$1,152,917	5.29%
United Arab Emirates	355,653	409	0.11
New Zealand	173,269	482	0.28
Netherlands Antilles	2,866,169	20,536	0.72
Singapore	137,687	1,258	0.91
Belgium	1,161,303	12,012	1.03
Saudi Arabia	184,212	2,073	1.13
Malta	1,552	37	2.39
Cayman Islands	126,513	4,183	3.31
Netherlands	1,476,412	51,094	3.46
Finland	21,831	775	3.55
Puerto Rico	13,559	560	4.13
Canada	2,436,500	107,746	4.42
Italy	190,414	8,519	4.47
Bahrain	19,543	910	4.65
Taiwan	25,277	1,245	4.93
Other countries[1]	12,624,548	941,078	7.45

[1] Includes all other countries not listed, regardless of number of payments or amount of income paid.

The countries with the lowest effective tax rates remained almost the same in 1986 as in 1985. As in previous years, the United Arab Emirates had the lowest effective tax rate, 0.11 percent, compared with the average for all countries of 5.29 percent. Although the United Arab Emirates is not a treaty country, most U.S. source income paid to the United Arab Emirates was paid to government organizations, which are generally exempt from withholding tax. Trinidad and Tobago and Egypt are no longer included because their effective tax rates rose above the average. For 1986, there were 15 countries with effective tax rates lower than 5 percent. The four newcomers to this list were Finland, Italy, Bahrain, and Taiwan. Finland and Italy, like six of the other countries on the list, are treaty countries and receive the benefit of reduced withholding-tax rates (see the "Tax-Treaty Countries" section which follows). Bahrain and Taiwan are not treaty countries, but more than 85 percent of the income paid to recipients in these countries was in the form of interest, which was generally exempt from withholding tax.

Not included in Figure F are some of the largest recipients of U.S. source income, including the United Kingdom

and Japan, which had effective tax rates of 5.4 percent and 7.9 percent, respectively. Residents of these countries, while benefiting from treaties with the United States, nevertheless pay more taxes than residents of the countries listed in Figure F, because taxable income accounted for a greater percentage of the income paid to residents of these countries than it did to the residents of the listed countries. For example, the United Kingdom and Japan received large amounts of U.S. dividends, which are rarely exempt from the withholding tax under tax treaties.

TAX-TREATY COUNTRIES

To avoid double taxation of income earned in one country by residents of another, the United States has negotiated tax treaties with many countries that reduce the withholding rates in both countries [5]. Presumably any losses in withholding-tax revenue resulting from tax treaties may be offset at least in part by a reduction in the foreign tax credits against U.S. income tax claimed by U.S. individuals and corporations. In other words, reciprocal tax treaties generally provide for a reduced withholding rate for U.S. recipients of foreign income and for foreign recipients of U.S. income. Because U.S. individuals and corporations consequently may have less foreign tax withheld, their foreign tax credits may be reduced or their U.S. tax liability may be raised.

Figure G compares the effective tax rates on payments to recipients in treaty countries (4.9 percent) with those in nontreaty countries (8.3 percent). There is little difference between the average effective tax rate for all countries and that for treaty countries, because nearly 90 percent of all U.S. source income was paid to residents of treaty countries such as the United Kingdom, Japan, the Netherlands Antilles, and Canada. Also, the exemption of interest from the withholding tax helped to lower the overall effective tax rate. (For a list of many of the tax-treaty and nontreaty countries and comparative data on income paid and tax withheld, see Table 1.)

Figure G.—Total Income, Tax Withheld and Effective U.S. Tax Rates for Treaty and Nontreaty Countries, 1986

[Money amounts in thousands of dollars]

Treaty status	Total income	Tax withheld	Effective U.S. tax rate
	(1)	(2)	(3)
All countries	$21,814,442	$1,152,917	5.3%
Treaty countries	19,210,626	937,006	4.9
Nontreaty countries	2,603,816	215,911	8.3

Residents in tax-treaty countries typically enjoyed lower U.S. withholding-tax rates than did recipients in other countries. When U.S. source income was paid to a foreign nominee or fiduciary in a treaty country on behalf of a person in a country not entitled to the treaty benefit the full 30 percent U.S. tax should have been imposed. In some cases U.S. treaty partners collected the additional amounts on behalf of the United States (as shown in Table 1, column 7). These amounts are not included in the tax withheld data cited in Figure G and elsewhere in this article (for reasons explained in the "Data Sources and Limitations" section). In other cases, however, the U.S. treaty partners did not collect the tax.

Although tax treaties between the United States and various foreign countries are intended to benefit only U.S. residents and residents of the treaty country, others could indirectly benefit by investing through a treaty country. Some tax-treaty countries were also considered tax havens because of their favorable tax and secrecy laws (discussed in the section on tax havens below). The most notable of these tax-treaty/tax-haven countries is the Netherlands Antilles, a U.S. treaty partner for the past 30 years.

For a number of years, the Netherlands Antilles has served as the major conduit for placements of Eurobond issues and for other foreign borrowing by U.S. corporations. U.S. companies set up financial affiliates in the Antilles to borrow large amounts of foreign monies which they relend to the U.S. parent or other affiliates. The interest payments from the parent company to the Netherlands Antilles affiliate are exempt from U.S. tax withholding under the remaining portion of the United States-Netherlands Antilles treaty. The financial affiliates receive the interest as income but have little net income for Netherlands Antilles tax purposes because the interest payments to the third-country lenders are deductible for Netherlands Antilles tax purposes. There is no withholding tax imposed by the Government of the Netherlands Antilles on these interest payments.

Although the Deficit Reduction Act of 1984 attempted to reduce such borrowing through tax haven countries by exempting most interest payments from the withholding tax, as of July 1987 there remained more than $30 billion worth of outstanding Eurobond issues made through the Netherlands Antilles before July 18, 1984, the effective date of this portion of the Act [6]. The interest paid on this debt is still subject to reporting on Forms 1042S and therefore should be included in these statistics.

TAX HAVEN COUNTRIES

Tax havens are generally considered to be countries having tax and secrecy laws favorable to foreign individuals and organizations. They attempt to attract foreign investors by offering taxation lower than that imposed by the investor's own country or by other foreign countries. The tax-haven country typically benefits by collecting certain fees or by imposing taxes at a low rate. Tax-haven countries tend to have the following characteristics:

- Low or zero withholding tax on most payments from the tax-haven country to foreign individuals and organizations;
- Low or zero effective income tax rates for foreign individuals and organizations operating within the tax-haven country; and
- Secrecy laws to prevent foreign governments from obtaining financial information about their own citizens and organizations.

Low or zero withholding tax rates are designed primarily to attract foreign individuals and corporations to invest through the tax haven, rather than to provide a tax benefit to the residents of the country, although a number of tax-haven countries have low tax rates in an effort to attract capital investment into the country, as well as financial investment.

In addition to tax-haven countries, almost any treaty country can be an attractive conduit for third-country residents to invest in the United States with little or no withholding tax. All treaties may be subject to abuse by these third-country parties, and so new treaties with all countries now generally deny treaty benefits to residents of the treaty partner if those benefits flow through to third-country residents. There is generally an exception to this rule, in different forms, depending on the treaty, if the resident of the treaty partner is engaged in an active business in the treaty country and is not established or maintained merely to take advantage of the treaty. This is to prevent persons not entitled to treaty benefits from funnelling U.S. source income through the treaty countries in order to minimize tax liability.

Almost three-fourths of the $7.1 billion of U.S. source income paid to tax-haven countries was paid to corporate recipients [7]. For non-tax-haven countries, corporations received 57 percent of U.S. source income. In addition, tax-haven countries received a disproportionately large amount of interest; two-thirds of the income paid to residents of tax-haven countries was in the form of interest. By comparison, non-tax-haven countries received 48 percent of their total U.S. source income in the form of interest.

TYPE OF RECIPIENT

Corporations received 63 percent of all U.S. source income paid to foreign persons in 1986, but the percentage of tax withheld on this income was only 55 percent of all tax withheld. One reason for this difference was that direct investment dividends (dividends paid on the investment of a parent company in a subsidiary or other affiliate) were subject to a lower tax rate under some tax treaties than were portfolio dividends.

The next two largest classes of income recipients were individuals and nominees and fiduciaries, accounting for 19 and 13 percent, respectively, of the total tax withheld on U.S. source income paid to foreign persons. This was a disproportionately large part of the total for all recipients relative to the percentage of income individuals and nominees and fiduciaries received (10 percent each). Figure H shows the distribution of income received and tax withheld by various types of income for the various categories of foreign recipients.

The discrepancy in the total percentages of income paid and percentage of tax withheld is reflected in the 4.3 percent effective U.S. withholding-tax rate for corporations, compared with the effective tax rate of 9.7 percent for noncorporate recipients. The effective tax rate for corporations has shown a gradual decline since 1979 (when the rate was 9.2 percent) as a result of a steady increase in interest payments (caused by high U.S. interest rates in the late 1970's and early 1980's) to foreign corporations, which were generally subject to low or zero withholding-tax rates.

Government, international, and foreign tax-exempt organizations received 1.6 percent of total U.S. source income paid to foreign persons, yet accounted for only 0.3 percent of the total tax withheld in 1986. This was because more than 89 percent of U.S. source income paid to these organizations was exempt from the U.S. withholding tax [8].

Foreign governments received the largest average payment of U.S. source income ($391,425), reflecting large interest and dividend payments from their investment in the United States. The average payment to corporations was $165,380. Individuals received by far the smallest average payment, $2,569.

All recipients except individuals and private foundations received more interest than any other type of income in 1986. Private foundations received more rents and royalties; individuals received primarily "other" types of income, including 100 percent of all social security and railroad retirement benefit income and more than 80 percent of all compensation for personal services [9]. For every type of recipient except individuals and partnerships, tax withheld on dividends far exceeded tax withheld on any other income type.

SUMMARY

U.S. source income paid to foreign persons rose 25 percent in 1986 to $21.8 billion. The largest recipient of this income was the United Kingdom with $3.7 billion. However, Japan became the second largest recipient of U.S. source income, up from $1.8 billion in 1985. Total U.S. source income paid to Japanese recipients rose by 56 percent in 1986, to $2.9 billion. The removal of withholding tax on

Figure H

Percentage of Income Paid and Tax Withheld, by Income and Recipient Types, 1986

interest due to the Deficit Reduction Act of 1984 continued to impact on the amount of U.S. source income paid to foreign persons in 1986. Interest remained the most common type of income, accounting for 54 percent of the total paid in 1986.

Corporations, which accounted for 63 percent of the total income paid, remained the largest class of recipients of U.S. source income while foreign governments received the largest average payment ($391,425).

Tax withheld on income paid to foreign persons rose 23 percent, to exceed $1 billion for the first time. Tax withheld on dividends made up the major portion of all tax withheld (62 percent).

DATA SOURCES AND LIMITATIONS

Payers of most U.S. source income to foreign persons must withhold tax in accordance with the Internal Revenue Code. Form 1042S, Foreign Persons' U.S. Source Income Subject to Withholding, is filed by the payer to report this income and the U.S. tax withheld. Often a financial institution acts as the payer's withholding agent.

The statistics in this article were tabulated by calendar year, based on all Forms 1042S filed with the IRS in 1986. The amounts shown represent the income that was paid and the U.S. tax that was withheld in 1986, except for U.S. tax withheld by foreign governments and withholding agents (which reflects the amount of tax remitted to the United States under treaty agreements during 1986). This additional tax, therefore, cannot be properly attributed to specific income types and years. For this reason, tax withheld amounts and percentages shown in Table 2 and Figures A, D, and F through H do not include tax withheld by foreign governments and foreign withholding agents (except for Canada, which remits its tax payments during the same calendar year in which the U.S. income is paid).

Income that is "effectively connected" with a foreign person's U.S. trade or business is not subject to withholding tax, and is therefore generally not included in these statistics [10]. This category of income was subject to the same graduated tax rates and methods of payment as the income of U.S. individuals and corporations.

Because all Forms 1042S are included in the statistics, the data are not subject to sampling error. However, the data are subject to nonsampling error, such as computer data entry errors and minor taxpayer reporting errors. A limited computerized program was used to test the data for certain basic numerical relationships, including the calculation of the correct tax withheld. In addition, Forms 1042S with income greater than $1 million were manually verified.

EXPLANATION OF SELECTED TERMS

Foreign Person.—For purposes of this article, foreign persons include (a) individuals whose residence (for tax purposes) is not within the United States and who are not U.S. citizens; and (b) corporations and other organizations, including partnerships, private foundations, estates, trusts, and charitable organizations, created or organized outside the United States. Persons residing in Puerto Rico and other U.S. possessions also are considered foreign persons for purposes of the income and withholding tax discussed in this article.

Income Effectively Connected With a U.S. Trade or Business.—Income that is "effectively connected" with the conduct of a trade or business in the United States is exempt from withholding tax. This income is subject to substantially the same tax rates that apply to U.S. citizens, residents, and corporations. When a foreign corporation, for instance, has a business operation in the United States, it has to file a U.S. income tax return on Form 1120F and pay appropriate taxes on the income of this operation. When this income is then remitted by this U.S. branch of a foreign corporation to the foreign parent corporation, it is generally not subject to further U.S. taxation [11]. In all but rare (and indeterminable) circumstances, these amounts are not included in these statistics.

Nominee and Fiduciary.—An entity chosen or appointed to accept income for, or act on behalf of, the eventual recipient of the income. Typically, a financial institution acts as a nominee or fiduciary.

Resident (of a jurisdiction other than the United States).—A resident is a foreign "person" as described above.

Withholding Agent.—Any person (individual, corporation, partnership, estate, or trust) required to withhold tax. Usually the withholding agent is the payer of the income or a "person" (usually a financial institution) acting on behalf of the payer. A foreign nominee or fiduciary required to withhold additional tax under a tax treaty is also a withholding agent. Foreign governments may also act as withholding agents by withholding additional taxes on persons who are not entitled to the treaty rates.

NOTES AND REFERENCES

[1] U.S. source income includes, but is not limited to, interest, dividends, rents, royalties, capital gains, and compensation for personal services paid to foreign persons from sources within the United States. These types of income are subject to a withholding tax at the source. The U.S. source income discussed in this article excludes bank deposit interest and income "effectively connected" with a U.S. trade or business.

(See the "Explanation of Selected Terms" section of this article.) For a further discussion of U.S. source income, see U.S. Department of the Treasury, Internal Revenue Service, *Withholding of Tax on Nonresident Aliens and Foreign Corporations*, Publication 515, November 1986.

[2] For an explanation of the varying withholding rates, see IRS Publication 515.

[3] Eurobond placements are U.S. corporate bonds placed in foreign markets that are denominated and sold in dollars and that also yield dollar interest.

[4] For a further discussion of the repeal and reinstatement of the United States-Netherlands Antilles treaty, see Margaret P. Lewis, "Foreign Recipients of U.S. Income, and Tax Withheld, 1985," *Statistics of Income Bulletin*, Fall 1986, Volume 7, Number 2.

[5] For a list of specific tax treaty countries and their appropriate withholding rates, see IRS Publication 515.

[6] Figures compiled by Salomon Brothers, Inc., and reported in the *Wall Street Journal*, June 30, 1987.

[7] For a complete list of tax-haven countries used in this figure, see Senate Report 99-130, *Crime and Secrecy: The Use of Offshore Banks and Companies*, Report by the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, U.S. Senate, August 28, 1985.

[8] Foreign tax-exempt organizations are those corporations that would be tax-exempt under U.S. law despite the fact that they are incorporated in a foreign country. The tax exemption applies only to income "effectively connected" to the organization's tax-exempt purpose or function, however, tax-exempt organizations may be taxed on "unrelated business income." See IRS Publication 515.

[9] Compensation for business services are generally not included in these data because such compensation is assumed to be "effectively connected" with a U.S. trade or business and therefore not subject to the withholding tax. See also "Data Sources and Limitations" and "Explanation of Selected Terms" for additional information.

[10] Statistics on foreign corporations with "effectively connected" income derived from U.S. sources are presented, for 1983, in the *Statistics of Income Bulletin*, Summer 1987, Volume 7, Number 1, and for 1979–1982 in *Statistics of Income—1979–1983, Compendium of Studies of International Income and Taxes.*

[11] For further information on foreign corporations with effectively connected income, see James R. Hobbs, "Foreign Investment and Activity in the United States by Corporations, 1983," *Statistics of Income Bulletin*, Summer 1987, Volume 7, Number 1.

Table 1.—Forms 1042S: Number of Returns, Total Income Paid, Tax Withheld, by Selected Treaty and Nontreaty Countries

[Money amounts are in thousands of dollars]

Country or geographic area	Number of Forms 1042S	Income paid			Tax withheld		
		Total	Exempt from withholding	Subject to withholding	Total	By domestic withholding agents	By foreign government and withholding agents
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	**1,076,088**	**21,814,442**	**12,580,633**	**9,233,809**	**1,223,741**	**1,152,917**	**70,824**
Treaty countries, total	**798,743**	**19,210,626**	**10,933,874**	**8,276,752**	**1,007,830**	**937,006**	**70,824**
Australia	17,130	167,901	90,007	77,894	11,652	11,652	—
Austria	4,570	37,773	20,741	17,033	2,681	2,681	—
Belgium	12,227	1,161,303	1,082,650	78,653	13,630	12,012	1,618
Canada	349,378	2,436,500	1,686,281	750,219	107,746	107,746	—
Denmark	3,298	53,499	22,132	31,367	2,866	2,861	5
Egypt	712	1,932	960	972	173	173	—
Finland	1,199	21,830	13,897	7,933	775	775	—
France	22,365	810,842	344,890	465,952	48,515	48,050	465
Greece	15,645	41,483	7,160	34,323	5,766	5,766	—
Ireland	8,415	34,200	11,633	22,567	3,474	3,307	167
Italy	33,776	190,414	73,075	117,339	8,519	8,519	—
Jamaica	2,094	6,438	1,129	5,309	774	774	—
Japan	14,144	2,868,405	711,593	2,156,812	227,095	227,095	—
Luxembourg	4,100	120,111	64,746	55,365	14,603	13,376	1,227
Netherlands	11,059	1,476,412	930,329	546,083	51,699	51,094	605
Netherlands Antilles	4,039	2,866,169	2,686,922	179,247	20,638	20,638	—
New Zealand	2,480	173,269	6,872	166,397	482	482	—
Norway	6,561	31,337	16,146	15,191	2,340	2,340	—
Philippines	29,981	79,435	4,649	74,786	11,393	11,393	—
Poland	2,817	12,629	2,460	10,169	1,500	1,500	—
South Africa	2,564	5,215	932	4,283	1,167	1,167	—
Sweden	8,244	87,385	21,449	65,936	8,693	8,693	—
Switzerland	37,292	1,587,487	465,475	1,122,012	196,759	131,519	65,240
Trinidad and Tobago	1,023	5,025	2,710	2,315	361	361	—
United Kingdom	131,838	3,716,554	1,855,792	1,860,762	200,990	199,493	1,497
West Germany	67,018	1,192,063	796,251	395,812	61,074	61,074	—
Other treaty countries	4,774	25,015	12,993	12,022	2,465	2,465	—
Nontreaty countries, total	**277,345**	**2,603,816**	**1,646,759**	**957,057**	**215,911**	**215,911**	**—**
Argentina	8,228	19,882	7,711	12,171	2,876	2,876	—
Bahamas	3,297	95,593	50,312	45,281	12,625	12,625	—
Barbados	686	6,696	3,243	3,453	651	651	—
Bermuda	2,058	177,685	107,327	70,358	20,542	20,542	—
Brazil	4,918	15,185	5,954	9,231	2,233	2,233	—
British Virgin Islands	781	31,012	15,693	15,319	4,531	4,531	—
Cayman Islands	1,637	126,513	112,239	14,274	4,183	4,183	—
Hong Kong	14,761	123,874	63,426	60,448	16,977	16,977	—
Israel	6,166	17,142	5,374	11,768	2,635	2,635	—
Jersey	670	17,896	6,988	10,908	3,224	3,224	—
Kuwait	1,616	53,749	43,821	9,928	2,911	2,911	—
Liberia	660	35,126	16,994	18,132	5,418	5,418	—
Liechtenstein	1,776	34,899	15,226	19,673	5,829	5,829	—
Mexico	84,261	247,956	60,331	187,625	32,992	32,992	—
Panama	7,896	181,314	110,787	70,527	19,543	19,543	—
Portugal	7,007	21,087	1,932	19,155	3,000	3,000	—
Puerto Rico	5,461	13,559	11,242	2,317	560	560	—
Saudi Arabia	4,363	184,212	177,101	7,111	2,073	2,073	—
Singapore	5,437	137,687	133,388	4,299	1,258	1,258	—
Spain	9,593	40,251	14,126	26,125	5,976	5,976	—
Taiwan	2,252	25,277	20,257	5,020	1,245	1,245	—
United Arab Emirates	876	355,653	354,253	1,400	409	409	—
Venezuela	7,796	25,232	14,403	10,829	2,973	2,973	—
Other nontreaty countries	95,149	616,336	294,631	321,705	61,247	61,247	—

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					
			Total	Interest	Dividends	Rents and royalties	Social security and railroad retirement	Personal service
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All countries, total	**1,076,088**	**1,152,917**	**21,814,442**	**11,780,561**	**6,506,986**	**1,191,662**	**768,668**	**513,452**
Individuals	814,418	202,493	2,092,217	326,884	553,345	89,906	768,668	163,594
Corporations	82,982	586,958	13,723,544	8,769,519	3,180,687	1,012,784	—	285,257
Argentina	8,228	2,876	19,882	7,801	4,517	220	3,200	2,673
Individuals	6,788	2,278	14,506	4,130	3,345	55	3,200	2,609
Corporations	355	336	1,935	1,307	346	70	—	(1)
Australia	17,130	11,652	167,901	70,308	46,461	13,403	3,566	27,310
Individuals	13,595	2,982	18,143	1,187	4,622	1,071	3,566	4,577
Corporations	1,156	3,598	98,972	63,850	11,842	7,713	—	12,261
Austria	4,570	2,681	37,773	17,702	11,311	529	3,004	1,256
Individuals	3,072	1,212	9,543	615	2,456	102	3,004	1,198
Corporations	355	1,067	22,438	14,635	6,396	307	—	25
Bahamas	3,297	12,625	95,593	48,530	39,742	3,088	676	245
Individuals	1,270	861	6,496	1,395	2,928	963	676	183
Corporations	1,085	5,133	32,797	16,426	14,081	2,114	—	48
Bahrain	583	910	19,543	16,944	2,378	175	—	15
Individuals	492	211	8,085	7,386	542	143	—	12
Corporations	48	381	5,424	4,153	1,211	32	—	(1)
Barbados	686	651	6,696	3,178	2,401	4	1,008	4
Individuals	537	246	2,231	629	484	4	1,008	4
Corporations	55	238	1,852	492	1,360	—	—	(1)
Belgium	12,227	12,012	1,161,303	1,097,235	40,359	12,823	1,764	2,936
Individuals	8,397	2,440	20,319	2,567	9,750	412	1,764	2,734
Corporations	1,190	5,718	59,722	35,647	11,415	12,344	—	126
Bermuda	2,058	20,542	177,685	77,333	47,457	21,810	477	5,998
Individuals	1,021	2,188	10,221	1,298	7,256	2	477	893
Corporations	439	12,121	114,746	43,459	25,953	17,703	—	5,105
Bolivia	647	181	2,103	1,384	534	17	149	3
Individuals	454	145	939	335	445	(1)	149	2
Corporations	21	9	665	628	12	16	—	—
Brazil	4,918	2,233	15,185	5,968	3,245	583	2,820	1,683
Individuals	3,897	1,640	11,262	3,529	2,207	403	2,820	1,472
Corporations	229	335	1,909	1,389	396	107	—	1
British Virgin Islands	781	4,531	31,012	15,583	4,779	10,605	21	2
Individuals	292	114	979	662	266	29	21	—
Corporations	258	4,045	27,031	13,318	3,134	10,575	—	2
Canada	349,378	107,746	2,436,500	1,074,545	863,670	115,076	171,351	50,680
Individuals	280,599	25,531	370,313	23,718	66,837	15,931	171,351	25,437
Corporations	20,986	59,354	1,643,796	929,542	546,871	70,599	—	11,857
Cayman Islands	1,637	4,183	126,513	103,442	11,239	314	409	10,989
Individuals	413	1,200	8,635	6,365	1,793	54	409	—
Corporations	865	1,985	55,655	38,203	6,148	260	—	10,976
Chile	2,679	1,028	7,154	3,119	1,908	191	1,064	338
Individuals	2,114	809	4,551	1,236	1,362	126	1,064	308
Corporations	121	106	839	504	199	64	—	(1)
China	1,573	942	5,659	980	1,776	107	52	836
Individuals	1,200	407	3,355	195	423	4	52	821
Corporations	41	53	399	277	8	103	—	3
Colombia	5,903	1,442	13,297	7,063	3,036	254	2,445	87
Individuals	4,542	1,049	8,558	3,712	1,870	107	2,445	71
Corporations	265	173	1,875	1,300	479	79	—	10
Costa Rica	2,152	854	6,796	2,291	1,539	65	2,533	191
Individuals	1,805	753	4,766	770	1,056	59	2,533	180
Corporations	91	32	318	218	80	6	—	11
Czechoslovakia	1,163	962	5,361	330	57	276	3,701	982
Individuals	1,121	866	4,966	301	52	11	3,701	883
Corporations	14	16	57	29	3	25	—	—
Denmark	3,298	2,861	53,499	17,059	26,579	4,472	3,426	1,092
Individuals	2,836	879	6,649	450	806	349	3,426	789
Corporations	155	1,213	30,374	5,636	20,500	4,026	—	183
Dominican Republic	3,070	1,135	9,154	1,624	642	47	6,506	205
Individuals	2,884	1,093	8,927	1,540	566	38	6,506	149
Corporations	20	5	53	38	15	—	—	—
Ecuador	2,134	735	6,465	1,811	769	672	2,916	147
Individuals	1,808	644	4,835	1,020	521	117	2,916	139
Corporations	30	22	449	31	44	374	—	—
Egypt	712	173	1,932	684	514	15	26	454
Individuals	546	155	1,776	643	433	15	26	423
Corporations	53	7	72	18	29	—	—	24
El Salvador	867	575	3,088	1,581	461	50	892	14
Individuals	766	248	1,923	522	376	48	892	6
Corporations	13	310	1,034	1,000	34	—	—	—
Finland	1,199	775	21,830	10,641	5,224	121	2,018	1,699
Individuals	1,039	408	3,660	222	150	21	2,018	703
Corporations	45	251	6,337	972	4,611	71	—	648
France	22,222	48,006	810,560	262,999	308,038	111,334	9,430	62,279
Individuals	14,891	6,497	63,259	6,401	15,707	4,826	9,430	18,104
Corporations	2,195	22,232	576,675	233,003	159,312	101,415	—	43,498
Greece	15,645	5,766	41,483	3,227	4,310	138	29,403	964
Individuals	14,776	5,214	37,736	1,454	2,510	125	29,403	953
Corporations	196	220	2,417	1,608	673	10	—	(1)

Footnote at end of table.

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient—Continued

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					
			Total	Interest	Dividends	Rents and royalties	Social security and railroad retirement	Personal service
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Guatemala	1,850	511	3,971	1,431	1,020	173	922	275
Individuals	1,529	454	3,334	1,075	863	173	922	266
Corporations	64	25	245	198	47	—	—	(1)
Guernsey	167	2,290	10,112	2,727	7,291	61	—	—
Individuals	35	156	589	339	248	(1)	—	—
Corporations	73	827	5,082	2,230	2,792	60	—	—
Honduras	963	418	2,306	199	819	24	983	238
Individuals	866	334	1,797	156	373	12	983	233
Corporations	16	55	197	11	184	—	—	2
Hong Kong	14,761	16,977	123,874	62,230	47,311	1,715	4,957	1,715
Individuals	10,913	7,798	37,957	10,558	20,362	484	4,957	792
Corporations	1,208	6,978	55,465	29,988	20,252	1,229	—	463
India	2,121	938	9,519	2,305	1,388	39	562	1,001
Individuals	1,640	790	7,062	1,445	822	31	562	265
Corporations	91	54	700	273	127	3	—	20
Indonesia	952	735	7,230	5,928	775	35	25	159
Individuals	658	199	866	86	487	35	25	152
Corporations	116	482	5,808	5,709	82	—	—	—
Iran	1,020	316	1,786	736	916	19	6	32
Individuals	836	277	1,562	649	788	19	6	32
Corporations	11	(1)	1	—	1	—	—	—
Ireland	8,415	3,307	34,200	8,374	13,683	1,212	7,955	1,751
Individuals	7,745	1,631	14,169	708	1,797	1,018	7,955	1,582
Corporations	160	999	15,197	7,579	7,394	37	—	152
Israel	6,166	2,635	17,142	5,559	3,354	655	3,550	1,465
Individuals	4,894	2,013	12,120	2,483	1,903	353	3,550	1,418
Corporations	251	142	2,461	1,976	217	263	—	2
Italy	33,776	8,519	190,414	58,886	22,404	12,602	81,168	7,469
Individuals	31,798	5,831	109,827	3,183	6,872	7,357	81,168	5,277
Corporations	398	671	63,827	53,668	4,200	5,047	—	468
Jamaica	2,094	774	6,438	654	715	68	4,414	164
Individuals	1,943	698	5,401	167	241	58	4,414	115
Corporations	34	60	649	244	396	9	—	—
Japan	14,144	227,095	2,868,405	1,742,048	380,256	292,749	10,111	119,713
Individuals	9,670	3,096	53,451	3,985	12,643	7,563	10,111	8,183
Corporations	2,509	204,810	2,382,247	1,554,446	279,134	275,225	—	106,054
Jersey	670	3,224	17,896	7,681	10,118	65	—	1
Individuals	95	138	654	231	386	8	—	—
Corporations	145	1,282	7,772	4,114	3,601	57	—	1
Kuwait	1,616	2,911	53,749	45,175	8,259	63	5	109
Individuals	1,248	642	2,372	506	1,608	63	5	82
Corporations	123	895	9,530	6,756	2,735	—	—	27
Lebanon	2,022	1,307	8,175	4,371	2,882	72	387	91
Individuals	1,712	1,169	7,626	4,342	2,432	71	387	91
Corporations	52	95	325	14	311	—	—	—
Liberia	660	5,418	35,126	18,390	16,171	92	49	(1)
Individuals	173	400	4,035	2,723	1,263	—	49	—
Corporations	343	1,068	16,481	14,632	1,758	92	—	—
Liechtenstein	1,776	5,829	34,899	15,663	17,644	386	10	1,092
Individuals	285	781	4,729	1,892	2,778	47	10	—
Corporations	1,062	2,927	14,776	5,360	8,078	233	—	1,092
Luxembourg	4,100	13,376	120,111	60,041	56,327	39	167	526
Individuals	525	299	5,151	3,635	1,237	(1)	167	41
Corporations	1,549	4,612	55,661	27,797	24,492	37	—	485
Malaysia	1,640	409	7,320	6,249	609	43	22	149
Individuals	1,479	220	914	47	446	43	22	137
Corporations	38	62	955	868	86	(1)	—	—
Mexico	84,261	32,992	247,956	55,774	19,106	4,741	147,331	6,792
Individuals	77,658	27,633	192,170	19,739	11,922	4,116	147,331	2,790
Corporations	1,211	3,403	18,451	8,467	2,737	491	—	1,140
Monaco	712	1,837	22,660	16,655	4,729	60	104	849
Individuals	506	1,191	4,528	773	2,593	48	104	796
Corporations	100	194	16,368	15,729	620	6	—	13
Netherlands	11,059	51,094	1,476,412	755,951	520,901	29,566	4,903	4,574
Individuals	7,596	3,483	31,805	3,440	13,147	4,227	4,903	3,674
Corporations	1,250	26,700	1,080,977	658,671	362,012	23,140	—	763
Netherlands Antilles	4,017	20,536	2,866,169	2,628,041	123,462	71,990	357	9,230
Individuals	1,105	1,047	22,745	12,951	6,639	735	357	1,852
Corporations	1,911	15,541	2,762,061	2,563,915	87,639	70,822	—	7,230
New Zealand	2,480	485	173,269	3,526	164,647	428	299	3,648
Individuals	1,868	343	165,729	301	163,938	168	299	303
Corporations	76	80	1,201	572	324	254	—	50
Norway	6,561	2,340	31,337	5,339	4,148	2,434	10,631	852
Individuals	5,865	1,915	16,010	347	1,267	2,160	10,631	658
Corporations	216	253	6,717	4,501	1,732	214	—	96
Panama	7,896	19,543	181,314	111,098	57,105	5,531	960	553
Individuals	2,200	1,599	14,296	6,813	3,934	279	960	420
Corporations	3,992	13,725	124,865	79,662	36,117	5,245	—	59
Peru	2,227	451	4,258	1,742	890	273	719	148
Individuals	1,714	371	3,306	1,196	658	249	719	122
Corporations	63	12	107	48	41	—	—	(1)

Footnote at end of table.

Table 2.—Forms 1042S: Number of Returns, Tax Withheld, and Total Income Paid by Income Type, by Selected Recipient Type and Country of Recipient—Continued

[Money amounts are in thousands of dollars]

Country or geographic area and recipient type	Number of Forms 1042S	Tax withheld	Income paid					
			Total	Interest	Dividends	Rents and royalties	Social security and railroad retirement	Personal service
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Philippines	29,981	11,393	79,435	2,013	2,221	58	68,423	1,941
Individuals	28,803	11,223	76,348	1,166	1,694	51	68,423	311
Corporations	264	78	380	167	161	7	—	9
Portugal	7,007	3,000	21,087	1,499	823	95	17,900	241
Individuals	6,750	2,904	19,269	78	617	67	17,900	95
Corporations	83	16	1,350	1,320	27	3	—	—
Puerto Rico	5,461	560	13,559	5,289	990	146	785	6,192
Individuals	4,815	397	2,126	340	808	15	785	99
Corporations	265	120	9,869	3,764	96	124	—	5,884
Saudi Arabia	4,363	2,073	184,212	153,227	25,515	100	18	3,549
Individuals	3,395	1,327	7,906	2,398	2,976	80	18	819
Corporations	106	289	56,803	36,873	19,886	17	—	26
Singapore	5,437	1,258	137,687	77,398	54,838	101	145	282
Individuals	4,698	625	3,067	701	1,801	86	145	144
Corporations	211	408	10,533	4,621	1,179	15	—	1
South Africa	2,564	1,167	5,215	1,047	1,531	376	488	1,288
Individuals	2,189	739	3,601	317	1,061	95	488	1,233
Corporations	69	139	524	288	114	119	—	—
South Korea	856	543	7,333	2,266	2,241	5	80	2,076
Individuals	701	238	3,438	143	733	5	80	1,908
Corporations	58	228	2,543	1,170	1,320	(1)	—	33
Spain	9,593	5,976	40,251	13,882	9,259	1,924	11,612	1,827
Individuals	8,354	3,985	22,674	2,520	4,893	652	11,612	1,462
Corporations	266	1,485	10,101	6,007	3,123	855	—	112
Sweden	8,244	8,693	87,385	20,835	40,824	4,445	11,144	9,511
Individuals	7,529	4,198	25,456	869	1,540	895	11,144	9,320
Corporations	220	3,967	46,823	8,796	35,858	2,135	—	30
Switzerland	37,292	131,519	1,587,487	622,738	749,460	134,358	3,785	19,445
Individuals	11,692	8,341	96,123	36,184	41,444	6,767	3,785	2,694
Corporations	15,527	63,956	975,261	480,908	349,661	124,684	—	16,013
Taiwan	2,252	1,245	25,277	21,391	2,743	12	152	415
Individuals	1,722	736	4,001	1,140	1,855	12	152	286
Corporations	54	365	6,902	6,244	580	—	—	77
Thailand	849	273	2,295	935	423	70	620	65
Individuals	742	223	1,277	60	332	68	620	14
Corporations	17	26	185	172	11	2	—	1
Trinidad and Tobago	1,023	361	5,025	2,622	249	179	1,760	106
Individuals	908	339	2,493	173	169	179	1,760	106
Corporations	24	9	151	116	34	—	—	(1)
United Arab Emirates	876	409	355,653	208,520	147,093	20	5	(1)
Individuals	755	322	1,293	582	670	20	5	—
Corporations	22	53	752	690	62	—	—	(1)
United Kingdom	131,838	199,493	3,716,554	1,426,364	1,891,077	221,692	33,367	67,204
Individuals	85,195	13,848	177,357	39,032	46,111	13,124	33,367	30,136
Corporations	11,885	69,783	2,252,754	1,242,615	755,351	193,895	—	32,558
Uruguay	1,518	876	7,022	3,716	2,813	208	78	20
Individuals	895	321	1,861	584	903	191	78	17
Corporations	158	212	3,070	2,306	722	16	—	—
Venezuela	7,796	2,973	25,232	10,331	8,424	3,222	918	543
Individuals	5,772	1,738	12,286	4,453	4,882	328	918	497
Corporations	399	465	6,300	2,398	1,006	2,855	—	—
West Germany	67,018	61,074	1,192,063	542,232	450,554	97,713	30,866	36,397
Individuals	45,470	13,466	141,385	39,363	33,436	10,952	30,866	14,717
Corporations	2,219	20,447	774,352	433,925	235,235	75,484	—	15,824
Yugoslavia	3,877	2,048	13,110	295	339	51	11,797	146
Individuals	3,734	1,980	12,800	208	167	41	11,797	108
Corporations	33	11	37	(1)	35	2	—	—
Other Countries	61,360	43,639	468,545	183,826	195,693	5,363	41,271	26,526
Individuals	42,588	10,965	116,618	40,521	16,843	1,946	41,271	7,697
Corporations	3,759	19,989	228,887	82,028	113,965	2,094	—	11,974

[1] Less than $500