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Generally, as under US law, foreign withholding taxes on interest do not accrue until a cash payment is made. There is no liability to "withhold" and pay over tax to the foreign taxing authority on a daily basis, even if interest income and expense are considered to accrue economically over the period covered by the interest coupon, as under US law. If the taxpayer sold the note before the interest payment became due, it would have no legal liability under foreign law to pay tax on the accrued interest income. The withholding rate on interest could vary depending on whether the holder of the note on the date the coupon is due qualifies for treaty benefits. Finally, if the creditor defaulted and did not make the payment, withholding tax generally would not be payable by the lender. These considerations confirm that the fact and amount of withholding tax liability cannot be determined with reasonable certainty until the coupon is in fact paid and the tax liability arises. Therefore, the all events test for a foreign withholding tax is not met, and the tax does not accrue, until the date the payment is made. (Note that the economic performance requirement does not apply to creditable foreign taxes, regardless of whether the taxpayer elects to deduct or credit the tax. Section 1.461-4(g)(6)(iii)(B). However, in the case of a creditable withholding tax, the foreign law legal liability to pay the tax ordinarily will not arise until an actual payment of interest is made, at which point the tax is required to be withheld and paid.) Therefore, creditable foreign withholding taxes on interest are considered to accrue, and are eligible to be credited or deducted, in the year the payment is made, not in the prior year or years when the associated interest income accrued for US or foreign tax purposes.

Let me know if you have additional questions on this timing issue. Thanks.