



University of North Carolina Wilmington

## **30% Federal Tax Withholding – Foreign Nationals**

Resident and nonresident aliens are taxed in different ways. Resident aliens are generally taxed in the same way as U.S. citizens. Nonresident aliens are taxed based on the source of their income and whether or not their income is effectively connected with a U.S. trade or business.

A nonresident alien's income that is subject to U.S. income tax must be divided into two categories:

1. Income that is effectively connected with a trade or business in the United States, and
2. Income that is not effectively connected with a trade or business in the United States

The difference between these two categories is that effectively connected income, after allowable deductions, is taxed at graduated rates. These rates are the same that apply to U.S. citizens and residents. Income that is not effectively connected is taxed at a flat 30% (or lower if they have treaty benefits) rate.

Foreign National's who perform personal services in the United States at any time during the year, are usually considered engaged in a trade or business in the United States. Many foreign nationals are paid as an independent contractor for the personal services they provide during their trip to the United States.

This type of payment is generally subject to the 30% withholding if there is no treaty between the foreign national's country and the United States. If a foreign national does not have a valid U. S. social security number they are not entitled to treaty benefits if available. A foreign national **MUST** have a valid U. S. social security number to receive any treaty benefits.

For further information on tax withholding for foreign nationals please see IRS publication 519, U.S. Tax Guide for Aliens at <http://www.irs.gov/publications/p519/index.html>

**For additional information on 30% Federal Tax Withholding – Foreign National's please contact the Tax Department at extension 22757.**