

§ 502.3

26 CFR Ch. I (4-1-00 Edition)

than a Greek corporation. The withholding of United States tax with respect to such dividends derived from sources within the United States by nonresident aliens who are residents of Greece, or by Greek corporations, is not changed by the convention.

§ 502.3 Interest.

(a) *General.* (1) Interest paid on or after January 1, 1953, by a Greek corporation is exempt from United States tax under the provisions of Article IX of the convention if the recipient is not a citizen, resident, or corporation of the United States. Interest paid to such recipients is, therefore, not subject to the withholding of United States tax at source.

(2) Interest (other than interest falling within the scope of paragraph (b) of this section) on bonds, securities, notes, debentures, or on any other form of indebtedness, including interest on obligations of the United States, obligations of instrumentalities of the United States, and mortgages and bonds secured by real property, which is paid by a person other than a Greek corporation and which is received from sources within the United States on or after January 1, 1953, by a nonresident alien (including a nonresident alien individual, fiduciary, and partnership) who is a resident of Greece, or by a Greek corporation, is exempt from United States tax under the provisions of Article VI (1) of the convention if such alien or corporation at no time during the taxable year in which such interest is received has engaged in trade or business within the United States through a permanent establishment situated therein. Such interest is, therefore, not subject to the withholding of United States tax at source. As to what constitutes a permanent establishment, see Article II (1)(i) of the convention.

(b) *Exemption not applicable to interest paid by subsidiary corporation to its parent corporation.* Under the exception contained in Article VI (1) of the convention any interest received from sources within the United States and paid by a domestic corporation to a Greek corporation is not exempt from United States tax if such Greek corporation controls, directly or indi-

rectly, at the time the interest is paid more than 50 percent of the entire voting power of all classes of stock of such domestic corporation. The exemption from United States tax provided by Article VI (1) of the convention does not, therefore, apply to such interest paid by such domestic corporation.

(c) *Application of exemption from withholding.* (1) To avoid withholding of United States tax at source in the case of coupon bond interest to which paragraph (a)(2) of this section is applicable, the nonresident alien who is a resident of Greece, or the Greek corporation, shall for each issue of bonds file Form 1001-G in duplicate when presenting the interest coupons for payment. This form shall be signed by the owner of the interest, trustee, or agent and shall show the name and address of the obligor, the name and address of the owner of the interest, and the amount of the interest. It shall contain a statement (i) that the owner is a resident of Greece, or is a Greek corporation, (ii) that the owner is not engaged in trade or business within the United States through a permanent establishment situated therein, and, in the case of interest paid by a domestic corporation to a Greek corporation, (iii) that the owner does not control, directly or indirectly, more than 50 percent of the entire voting power of all classes of stock of the United States domestic corporation.

(2) The exemption from United States tax contemplated by Article VI (1) of the convention, insofar as it concerns coupon bond interest, is applicable only to the owner of the interest. The person presenting the coupon or on whose behalf it is presented shall, for the purpose of the exemption from tax, be deemed to be the owner of the interest only if he is, at the time the coupon is presented for payment, the owner of the bond from which the coupon has been detached. If the person presenting the coupon or on whose behalf it is presented is not the owner of the bond, Form 1001, and not Form 1001-G, shall be executed.

(3) The original and duplicate of Form 1001-G shall be forwarded by the withholding agent to the District Director of Internal Revenue, Audit Division, Alien Returns Section, Baltimore

2, Maryland, with the quarterly return on Form 1012. Form 1001-G need not be listed on Form 1012.

(4) To avoid withholding of United States tax at source in the case of interest, other than coupon bond interest, to which paragraph (a)(2) of this section is applicable, the nonresident alien who is a resident of Greece, or the Greek corporation, shall notify the withholding agent by letter in duplicate that such income is exempt from United States tax under the provisions of Article VI (1) of the convention. The letter of notification shall be signed by the owner of the interest, trustee, or agent and shall show the name and address of the obligor and the name and address of the owner of the interest. It shall contain a statement (i) that the owner is neither a citizen nor a resident of the United States but is a resident of Greece, or, in the case of a corporation, that the owner is a Greek corporation, (ii) that the owner has at no time during the current taxable year engaged in trade or business within the United States through a permanent establishment situated therein, and, in the case of interest paid by a domestic corporation to a Greek corporation, (iii) that the owner does not control, directly or indirectly, more than 50 percent of the entire voting power of all classes of stock of the United States domestic corporation.

(5) This letter of notification, which shall constitute authorization for the payment of such interest without withholding of United States tax at source, shall be filed with the withholding agent for each successive three-calendar-year period during which such income is paid. For this purpose, the first such period shall commence with the beginning of the calendar year in which such income is first paid on or after January 1, 1954. Each such letter filed with any withholding agent shall be filed not later than 20 days preceding the date of the first payment within each successive period, or, if that is not possible because of special circumstances, as soon as possible after such first payment.

(6) If such letter is also to be used as authorization for the release, pursuant to § 502.7, of excess tax withheld from interest, other than coupon bond inter-

est, it shall also contain a statement (i) that, at the time when the interest was received from which the excess tax was withheld, the owner was neither a citizen nor a resident of the United States but was a resident of Greece, or, in the case of a corporation, the owner was a Greek corporation, (ii) that the owner at no time during the taxable year in which such interest was received was engaged in trade or business within the United States through a permanent establishment situated therein, and, in the case of interest paid by a domestic corporation to a Greek corporation, (iii) that the owner did not control, directly or indirectly, at the time when such interest was paid, more than 50 percent of the entire voting power of all classes of stock of the United States domestic corporation.

(7) Once a letter has been filed in respect of any three-calendar-year period, no additional letter need be filed in respect thereto unless the Commissioner of Internal Revenue notifies the withholding agent that an additional letter shall be filed by the taxpayer. If, after filing a letter of notification, the taxpayer ceases to be eligible for the exemption from United States tax granted by the convention in respect to such interest, such taxpayer shall promptly notify the withholding agent by letter in duplicate. When any change occurs in the ownership of the interest as recorded on the books of the payer, the exemption from withholding of United States tax shall no longer apply unless the new owner of record is entitled to and does properly file a letter of notification with the withholding agent.

(8) Each letter of notification, or the duplicate thereof, shall be immediately forwarded by the withholding agent to the District Director of Internal Revenue, Audit Division, Alien Returns Section, Baltimore 2, Maryland.

(d) *Interest paid by domestic corporation to Greek corporation where degree of stock ownership uncertain.* (1) In any case in which a Greek corporation anticipates the receipt of interest from a domestic corporation and the relationship existing between the Greek corporation and the domestic corporation is such as to render uncertain whether,

by reason of the exception contained in Article VI (1) of the convention, the exemption will apply to such interest, the Greek corporation shall not undertake to file any Form 1001-G or letter of notification prescribed by paragraph (c) of this section unless it has, prior to such filing, applied for and received from the Commissioner of Internal Revenue, Washington 25, D.C., a determination that such Greek corporation does not control, directly or indirectly, more than 50 percent of the entire voting power in the paying corporation. The application to the Commissioner shall contain a full statement of all the facts pertinent to a determination of the question.

(2) As soon as practicable after the application has been filed, the Commissioner of Internal Revenue will determine whether the Greek corporation has such control of the domestic corporation as to render the exemption provided by Article VI (1) of the convention inapplicable to interest paid by such domestic corporation to such Greek corporation and shall notify the Greek corporation of his determination. The Greek corporation shall forthwith file with the domestic corporation a copy of the Commissioner's letter of notification.

(3) If the Commissioner's determination is that the Greek corporation does not control, directly or indirectly, more than 50 percent of the entire voting power of all classes of stock of the domestic corporation, the Greek corporation may thereafter avoid withholding at the source with respect to subsequent payments of such interest by complying with the provisions of paragraph (c) of this section, that is, by submitting Form 1001-G in the case of coupon bond interest, or the letter of notification for each three-calendar-year period in the case of interest other than interest payable by means of coupons.

(4) A determination of the Commissioner that the Greek corporation does not have such control of the domestic corporation as to render the exemption provided by Article VI (1) of the convention inapplicable will apply until such time as the stock ownership of the domestic corporation has changed to the extent that interest to be re-

ceived from the domestic corporation by the Greek corporation is no longer exempt from United States tax under Article VI (1) of the convention. If such change in stock ownership occurs, the Greek corporation shall promptly notify both the Commissioner of Internal Revenue and the domestic corporation of the then existing facts with respect to such stock ownership.

(5) In any case in which a Greek corporation has received on or after January 1, 1954, interest from a domestic corporation and the relationship existing between the Greek corporation and the domestic corporation was at the time the interest was paid such as to render uncertain whether, by reason of the exception contained in Article VI (1) of the convention, such interest was exempt from United States tax, the Greek corporation shall apply to the Commissioner of Internal Revenue for a similar determination as to the degree of control at the time the interest was paid. If the Commissioner's determination is that at such time the degree of control was such as to permit the application of the exemption provided by Article VI (1) of the convention, his letter of notification may, subject to the provisions of § 502.7(b), authorize the release of excess tax withheld with respect to such exempt interest.

§ 502.4 Natural resource royalties and real property rentals.

The convention does not change the rate of United States tax imposed pursuant to sections 871, 881, and 882 of the Internal Revenue Code of 1954 upon natural resource royalties and real property rentals. The withholding of United States tax with respect to such items derived from sources within the United States by nonresident aliens who are residents of Greece, or by Greek corporations, is not changed by the convention.

§ 502.5 Patent and copyright royalties.

(a) *General.* (1) Royalties for the right to use copyrights, patents, designs, secret processes and formulae, trade marks, and other analogous property, and royalties and rentals for the use of industrial, commercial, or scientific equipment, which are derived from