

§514.24

26 CFR Ch. I (4–1–00 Edition)

United States or, if the owner does have such a permanent establishment, a statement that the indebtedness giving rise to the income is not effectively connected to such permanent establishment. If the interest is taxable at the reduced rate of tax, the letter of notification may also authorize the release, pursuant to §514.28, of excess tax withheld from the interest concerned.

(ii) *Manner of filing letter.* The letter of notification, which shall constitute authorization for the withholding of U.S. tax at source at the reduced rate of 10 percent, shall be filed with the withholding agent as soon as practicable for each successive 3-calendar-year period during which the income is paid. Once a letter has been filed in respect of any 3-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 owner of the interest. If, after filing a letter of notification, the taxpayer ceases to be eligible for the exemption from U.S. tax granted by Article 10(2) of the convention, he shall promptly notify the withholding agent by letter in duplicate. When any change occurs in the ownership of the income as recorded on the books of the payer, the reduction in rate of withholding of U.S. tax shall no longer apply unless the new owner of record is entitled to such reduced rate and promptly files a letter of notification with the withholding agent.

(iii) *Disposition of letter.* The original of each letter of notification filed pursuant to this subparagraph shall be retained by the withholding agent and the duplicate shall be immediately forwarded by the withholding agent to the Director, Office of International Operations, Internal Revenue Service, Washington, D.C. 20225.

(3) *Change in circumstances.* If the owner of the interest acquires a permanent establishment in the United States after filing a letter of notification referred to in subparagraph (2) of this paragraph, such owner shall file a new letter of notification even though the indebtedness giving rise to the income to which such document relates is not effectively connected to such permanent establishment

EFFECTIVE DATE NOTE: By T.D. 8734, 62 FR 53498, Oct. 14, 1997, §514.23 was removed, effective Jan. 1, 1999. By T.D. 8804, 63 FR 72183, Dec. 31, 1998, the effective date was delayed until Jan. 1, 2000. By T.D. 8856, 64 FR 73408, Dec. 30, 1999, the effective date was delayed until Jan. 1, 2001.

§514.24 Royalties.

(a) *Exemption from U.S. tax—(1) Copyright royalties.* Except as provided in subparagraph (2) of this paragraph royalties or other amounts paid as consideration for the use of, or for the right to use copyrights of literary, artistic, or scientific works (including gain from the sale or exchange of property giving rise to such royalties) which are derived from sources within the United States on or after August 11, 1968, by a nonresident alien individual who is a resident of France, or by a French corporation or a person resident in France for French tax purposes are exempt from U.S. tax under the provisions of Article 11(3) of the convention.

(2) *Copyright royalties effectively connected with a permanent establishment.* The exemption from tax provided in subparagraph (1) of this paragraph shall not apply if the owner of such royalties, or of gain from the sale or exchange of property giving rise to such royalties, has a permanent establishment in the United States and the property giving rise to such royalties or gain is effectively connected with such permanent establishment. Such royalties are subject to tax in accordance with the provisions of Article 6.

(3) *Exemption from withholding of tax—(i) Use of letter of notification.* To avoid withholding of U.S. tax at source with respect to copyright royalties to which this paragraph applies, the nonresident alien who is a resident of France or French corporation or person resident in France for French tax purposes, shall notify the withholding agent by letter in duplicate that the royalty is exempt from U.S. tax under Article 11(3) of the convention. The letter of notification shall be signed by the owner of the royalty or of the gain from the sale or exchange of property giving rise to such royalty, or by the trustee or agent of such owner, and shall show the name and address of the owner. The letter shall contain a statement that at the time the royalty is

derived the owner (a) if an individual, is neither a citizen nor a resident of the United States but is a resident of France or, if a corporation or other entity is resident in France for French tax purposes, and (b) has no permanent establishment in the United States or, if the owner does have such a permanent establishment, a statement that the property or right giving rise to such royalty is not effectively connected with such permanent establishment. If the royalty is exempt from U.S. tax, the letter of notification may also authorize the release, pursuant to § 514.28 of excess tax withheld from the royalty concerned.

(ii) *Manner of filing letter of notification.* The provisions of § 514.23(c)(2)(ii) and (iii) relating to the execution, filing, and effective period of the letter of notification prescribed therein with respect to interest, including its use for the release of excess tax withheld and § 514.23(c)(3) relating to change of circumstances, are equally applicable with respect to the income falling within the scope of this section.

(b) *Reduction in rate of United States tax—(1) Industrial royalties.* Except as provided in subparagraph (3) of this paragraph, the rate of U.S. tax imposed on royalties, derived from sources within the United States on or after August 11, 1968, by a nonresident alien individual who is a resident of France, or by a French corporation shall not, under Article 11(2) of the convention, exceed 5 percent of the gross amount paid.

(2) *Definitions.* As used in this paragraph, the term “royalty” means royalties, rentals, or other amounts (other than royalties described in paragraph (a)(1) of this section) paid as consideration for the use of or the right to use patents, designs or models, plans, secret processes or formulae, trademarks, or other like property or rights, or for knowledge, experience, or skill (know-how) and gains derived from the sale or exchange of such right or property if payment is contingent, in whole or in part, on the productivity use, or disposition of the property or rights sold. The term “royalty” does not include natural resource royalties which are subject to tax in accordance with

the provisions of Article 5 of the convention.

(3) *Industrial royalties effectively connected with a permanent establishment.* The reduction in rate of tax provided in subparagraph (1) of this paragraph shall not apply if the owner of the royalties or of the gain from the sale or exchange of the property or right giving rise to such royalties has a permanent establishment in the United States and the property or right giving rise to such royalties or gain is effectively connected with such permanent establishment. Such royalties are subject to tax in accordance with the provisions of Article 6 of the convention.

(4) *Withholding of U.S. tax from industrial royalties.* In order to secure the reduced rate of U.S. tax at source as provided in subparagraph (1) of this paragraph, the nonresident alien individual who is a resident of France or French corporation or person resident in France for French tax purposes shall notify the withholding agent by letter in duplicate that the royalty qualifies for the reduced rate of U.S. tax granted by Article 11(2) of the convention. The letter of notification shall be signed by the owner of the royalty, or by the trustee or agent of such owner, and shall show the name and address of the owner. The provisions of subparagraph (3) of paragraph (a) of this section relating to the form, content, execution, filing, and effective period of the letter of notification prescribed therein with respect to copyright royalties, including its use for the release of excess tax withheld and relating to change of circumstances, are equally applicable with respect to industrial royalties.

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§ 514.25 Private pensions, alimony, and annuities.

(a) *Exemption from U.S. tax—(1) Requirements.* Any pension (other than one paid by the United States or a political subdivision or a local authority