

first paid on or after January 1, 1959. Each 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. 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 taxpayer. If, after filing a letter of notification, the taxpayer ceases to be eligible for the exemption from United States tax granted by Article VIII of the convention, he shall promptly notify the withholding agent by letter in duplicate. When any change occurs in the ownership of the royalty 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.

(4) *Disposition of letter.* Each letter of notification, or the duplicate thereof, shall be forwarded immediately by the withholding agent to the Director of International Operations, Internal Revenue Service, Washington 25, D.C.

(5) *Reasonableness of consideration.* For purposes of this paragraph, the withholding agent may, unless he has information to the contrary, presume that the royalty represents a fair and reasonable consideration for the rights in respect of which it is paid.

§517.4 Private pensions and annuities.

(a) *Exemption from United States tax—*
(1) *Pensions and annuities which are exempt.* Except as provided in subparagraph (2) of this paragraph, a pension or annuity which is derived from sources within the United States and received in a taxable year beginning on or after January 1, 1959, by a nonresident alien individual who is resident in Pakistan for the purposes of Pakistan tax shall be exempt from United States tax under the provisions of Article X of the convention.

(2) *Pensions and annuities which are not exempt.* The following pensions or

annuities are not exempt from United States tax under the provisions of Article X of the convention or under this section—

(i) A pension or annuity paid by or on behalf of the Government of the United States or its political subdivisions, for services rendered to that Government in the discharge of governmental functions; and

(ii) A pension or annuity paid by or on behalf of the Government of Pakistan or the Government of a Province in Pakistan or any local authority thereof, for services rendered in the discharge of functions of that Government or of local authority, as the case may be; and

(iii) A pension or annuity payable from a fund, under an employees' pension or annuity plan, contributions to which are deductible under the tax law of the United States in determining taxable income of the employer.

(b) *Definition of annuity.* As used in this section, the term "annuity" means a stated sum payable periodically at stated times during life, or during a specified or ascertainable period of time, under an obligation to make the payments in return for adequate and full consideration in money or money's worth.

(c) *Exemption from withholding of tax—*

(1) *Notification by letter.* To avoid withholding of United States tax on or after January 1, 1959, from pensions or annuities which are exempt from tax in accordance with paragraph (a) of this section, the nonresident alien individual who is resident in Pakistan for the purposes of Pakistan tax shall notify the withholding agent by letter in duplicate that the pensions or annuities are exempt from United States tax under the provisions of Article X of the convention. The letter of notification shall be signed by the owner of the income, shall show the name and address of both the payer and the owner of the income, and shall contain a statement that the owner, an individual, is neither a citizen nor a resident of the United States but is a resident of Pakistan for the purposes of Pakistan tax. The letter shall also indicate the dates on which the current taxable year of the taxpayer begins and ends.

(2) *Use of letter for release of tax.* If the letter is also to be used as authorization for the release, pursuant to §517.7(a)(3), of excess tax withheld from the pensions or annuities, it shall also contain a statement that the owner was, at the time when the income was received from which the excess tax was withheld, neither a citizen nor a resident of the United States but was a resident of Pakistan for the purposes of Pakistan tax. The dates of the beginning and ending of the taxable year of the taxpayer in which the income was received shall also be indicated.

(3) *Manner of filing letter.* The letter of notification shall constitute authorization for the payment of the pensions or annuities without withholding of United States tax at source unless the Commissioner of Internal Revenue notifies the withholding agent thereafter to withhold the tax from such items of income. If, after filing a letter of notification, the owner of the income ceases to be eligible under the convention for the exemption from United States tax in the case of such items of income, 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 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.

(4) *Disposition of letter.* Each letter of notification, or the duplicate thereof, shall be forwarded immediately by the withholding agent to the Director of International Operations, Internal Revenue Service, Washington 25, D.C.

§517.5 Interest derived by the State Bank of Pakistan.

(a) *Exemption from United States tax.* Any interest of the State Bank of Pakistan which is received from sources within the United States on or after January 1, 1956, is, to the extent not exempt from tax under section 892 of the Internal Revenue Code of 1954, exempt from United States tax under the provisions of Article XIV(1) of the convention.

(b) *Exemption from withholding of tax.* No withholding of United States tax is

required in the case of interest received from sources within the United States by the State Bank of Pakistan if, in accordance with paragraph (a) of this section, the interest is exempt from United States tax.

(c) *Refund of excess tax withheld before January 1, 1959.* If United States tax has been withheld before January 1, 1959, and on or after January 1, 1956, from interest of the State Bank of Pakistan, a claim by the bank for the refund of any overpayment resulting therefrom may be made under section 6402 of the Internal Revenue Code of 1954 and the regulations thereunder. For the release of excess tax withheld from such interest on or after January 1, 1959, see §517.7(a)(4).

§517.6 Beneficiaries of a domestic estate or trust.

A nonresident alien individual who is resident in Pakistan for the purposes of Pakistan tax and who is a beneficiary of a domestic estate or trust shall be entitled to the exemption from United States tax granted by Article VIII of the convention with respect to patent and copyright royalties to the extent that (a) any amount paid, credited, or required to be distributed by the estate or trust to the beneficiary is deemed to consist of those items and (b) the items so deemed to be included in such amount would, without regard to the convention, be includible in his gross income; provided, however, that the beneficiary otherwise satisfies the requirements for exemption specified in Article VIII of the convention. To obtain the exemption from withholding of United States tax in such a case, the beneficiary must execute and submit to the fiduciary of the estate or trust in the United States the letter of notification prescribed in §517.3(b).

§517.7 Release of excess tax withheld at source.

(a) *Amounts to be released—(1) Dividends paid by a foreign company managed and controlled in Pakistan.* If United States tax at the statutory rate has been withheld on or after January 1, 1959, from dividends paid by a foreign company whose business is managed and controlled in Pakistan to a recipient other than a citizen or resident or