The facts are the same as in Example 3, except the $100 income received by A from S in year 1 is a royalty payment under both the laws of the United States and the laws of Country X. The royalty rate under the treaty is 10% and the interest rate is 0%. The analysis as to the royalty payment from S to A is the same as in Example 1 with respect to the $100 dividend payment from S to A. The $25 interest payment from A to FC will not be recharacterized as a dividend because the payment from S to A is not a dividend.

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