Corporation A (Country X)

- Incorporated in Country X
- No fixed place of business in Country X
- Managed & controlled in Country Y
- Before application of any tax treaty, Corp A is subject to tax in both Country X & Y

Applicable Tax Treaties
- X - Y Tax Treaty
- U.S. - X Tax Treaty
- U.S. - Y Tax Treaty (this treaty applies)

U.S. statutory withholding tax is imposed at 30%. The withholding rate is reduced under both the X and Y treaties with the U.S., but the amount of the reduction differs, depending on which treaty applies.

Because Corp A is incorporated under the laws of Country X. Its place of effective management is situated in Country Y. Corp A does not have a fixed place of business in Country X. Before application of the X-Y Treaty, Corp A would be a resident of both Country X and Country Y under the domestic laws of each of Country X and Country Y. After the application of the relevant article of the X-Y Treaty, Corp A is treated as a resident of Country Y and not a resident of Country X because its place of effective management is situated in Country Y. Therefore, under the relevant article of the U.S.-Y Treaty, Corp A is a resident of Country Y. Corp A will be entitled to claim benefits under the U.S.-Y Treaty as a resident of Country Y with respect to the U.S.-source income if it satisfies the requirements of the applicable limitation on benefits article, if any, and other applicable requirements in order to receive benefits under the U.S.-Y Treaty.

Because Corp A is treated as a resident of Country Y for purposes of the X-Y Treaty, Corp A is not subject to comprehensive taxation in Country X as it would be if it were liable to tax by reason of residence. Therefore, Corp A is not a resident of Country X under the relevant article of the U.S.-X Treaty and is not entitled to claim benefits under the U.S.-X Treaty as a resident of Country X. Rev. Rul. 73-354 is obsolete.

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