

Nonresident Aliens Often Have U.S. Tax Obligation

Consider the following scenarios: A professional tennis player from France comes to the U.S. to compete in the U.S. Open. She wins one million dollars in prize money, in addition to receiving public appearance and endorsement income. A student from Nigeria receives a scholarship from a U.S. university for a summer study program in the U.S. A technology company brings an Irish computer engineer to San Francisco to work on a short term project. What do these three individuals have in common? They are all nonresident aliens who may have U.S. tax filing requirements.

Nonresident alien status for tax purposes is generally determined by the days of physical presence in the U.S., or by using a Green Card test. See [Publication 519](#), U.S. Tax Guide for Aliens, for detailed instructions on determining residency status.

Nonresident aliens are generally subject to U.S. income tax only on their U.S. source income, and this is reported on Form 1040NR. They are subject to two different tax rates, one for effectively connected income, and one for fixed or determinable, annual, or periodic (FDAP) income.

Effectively connected income (ECI) is earned in the U.S. from the operation of a business in the U.S. or is personal service income earned in the U.S. (such as wages or self-employment income). It is taxed for a nonresident at the same graduated rates as for a U.S. person. Generally, the requirement to file a return has been eliminated for nonresident aliens who earn wages effectively connected with a U.S. trade or business that are less than the amount of one personal exemption.

FDAP income is passive income such as interest, dividends, rents or royalties. This type of income is taxed at a flat 30% rate, unless a tax treaty specifies a lower rate. More detailed information can be found at: [Taxation of Non Resident Aliens](#).

Foreign athletes and entertainers must also pay income tax on their U.S. source income. This includes compensation for performances, endorsements, and royalty income closely related to the event, the sale of merchandise and any other income related to the event. These taxpayers are generally subject to special withholding rules. For more information see: [Taxation of Foreign Athletes and Entertainers](#)