

Taxation of Non-Resident Aliens (NRAs)

International

Individuals who are neither U.S. citizens nor U.S. residents, referred to in the Internal Revenue Code as non-resident aliens or “NRAs”, may be subject to federal income tax on certain U.S. source income and subject to federal gift and estate tax on U.S. situs assets. The following is a general discussion of how U.S. federal income taxes and gift and estate taxes apply to NRAs. Bear in mind that these general rules may be altered by the specific treaty between the U.S. and the NRA's home country.

Federal Income Tax

U.S. citizens (regardless of their tax residences) are taxed on worldwide income, whatever its source. The net income can be taxed at graduated rates as high as 37.9% (including the 0.9% Additional Medicare tax on earned income, where applicable). A preferential tax rate of 20% (plus a 3.8% Net Investment Income Tax, where applicable) applies to qualified dividends and long-term capital gains. Certain deductions may be allowed.

An individual who is not a U.S. citizen generally is subject to federal income tax on worldwide income if he or she is a U.S. resident. For federal income tax purposes, residency is defined as either (i) lawful permanent residence in the U.S., as evidenced by issuance of a "green card" or (ii) “substantial presence” in the U.S. Generally, substantial presence means a non-citizen is present in the U.S. for 31 days or more during the current year, and 183 days or more in the current year or looking back over a three-year period (including the current year).¹

Notes:

¹ The substantial presence test is met if the sum of the days spent in the U.S. in the current year plus one-third of the total days spent in the U.S. in the prior year plus one-sixth of the days spent in the U.S. in the year before that year equals at least 183 days.

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NRAs are subject to federal income tax on certain U.S. source income as follows²: (1) passive investment income such as dividends is generally subject to a non-refundable withholding tax of 30% unless a US income tax treaty with a particular country reduces such withholding rate; (2) interest income is also subject to withholding tax but exceptions are made for certain interest income such as interest on certain deposits with banks, financial institutions and insurance companies, and "portfolio interest" (which includes interest on most publicly offered debt instruments); (3) capital gains generally are not subject to U.S. tax (or withholding) for NRAs; and (4) under the Foreign Investment in Real Property Tax Act (FIRPTA), gain on the sale of a U.S. real property interest is deemed to be income effectively connected with a U.S. trade or business, and such income is, after allowable deductions, subject to tax at the graduated rates that apply to U.S. citizens and resident aliens up to the current top rate of 37%. Buyers purchasing U.S. real property interests from foreign persons generally are required to withhold and remit to the IRS 15% of the gross amount realized on the disposition. A withholding refund can be claimed using two primary methods: by filing for a withholding certificate using Form 8288-B by the foreign seller to reduce or eliminate the withholding or by filing a U.S. tax return for a refund subsequent to the sales.

The treatment of various items of income and the rates of withholding applied to such items often vary depending on the relevant treaty. Income subject to withholding tax may also be taxable in the NRA's home country. In addition, foreign tax credits may be available in the U.S. or the taxpayer's home country to avoid double taxation.

Gift and Estate Tax

Generally, all of a U.S. citizen's or resident's lifetime gifts (except those to charity or a U.S. citizen spouse) are subject to federal gift tax. There are certain exclusions. For example, gifts of up to \$19,000 (in 2026) per recipient per year are not subject to federal gift tax. In addition, each U.S. citizen or resident has an exemption from the gift tax of \$10 million adjusted for inflation (\$15 million in 2026) and may gift up to \$194,000 (in 2026) annually to a spouse who is not a U.S. citizen. Any additional gifts that are not otherwise excluded from the gift tax would be subject to federal gift tax at a top rate of 40%. Any gift tax exemption used by an individual during life reduces the individual's available estate tax exemption by the same amount. Certain states also impose a gift and/or estate or inheritance tax over and above in addition to the federal gift and estate taxes.³

An NRA is subject to federal gift and estate tax only on U.S. situs assets unless specifically exempted. However, residency for

federal gift and estate tax purposes is defined differently than for federal income tax purposes. Unlike the substantial presence test for federal income tax purposes that is based on the number of days one spends in the U.S., residency for federal gift and estate tax purposes is determined by the person's domicile. Domicile means living in the U.S. with no present definite intention of living elsewhere. Whether one is domiciled in the U.S. is a facts and circumstances test. Some of the determining factors include where one pays state income tax, where one votes, the location of property one owns, one's citizenship, the length of residence, and business and social ties to the community. Given the differences between the tests for federal income tax residency and federal gift and estate tax residency, a person can be a resident under one test, neither test, or both tests. The definition of U.S. situs assets is different for federal estate tax purposes and federal gift tax purposes.

For federal estate tax purposes, U.S. situs assets include U.S. real property, tangible property located within the U.S. and stock in U.S. corporations. U.S. situs assets do not include debt obligations of U.S. corporations and of the U.S. and its political subdivisions if the interest on such obligations qualifies as portfolio interest. Cash in a U.S. bank account is not a U.S. situs asset for estate tax purposes.

In contrast, for federal gift tax purposes, U.S. situs assets include only real estate and tangible personal property. Cash physically located in the U.S. (such as cash in a safe deposit box) is U.S. situs tangible personal property. U.S. situs intangible property, such as stocks and bonds of U.S. corporations, is not subject to federal gift tax. NRAs also may give U.S. situs assets worth up to \$19,000 per recipient per year (in 2026) without triggering a U.S. gift tax. However, NRAs are not eligible for the \$15 million federal gift and estate tax exemption (in 2026). They are limited to a \$60,000 federal gift and estate tax exemption.

Estate and gift tax treaties can affect residency status for non-U.S. citizens and also limit the kinds of property taxed by the U.S.

With respect to interspousal transfers (including the opening of joint accounts), particular attention must be paid to the fact that only transfers to a U.S. citizen spouse are free of gift and estate tax. Transfers to a non-U.S. citizen spouse will generally be subject to federal gift or estate tax. Normally, there is an annual exclusion for gifts to a non-spouse recipient of \$19,000 per person per year (in 2026). However, that annual exclusion is increased when the recipient is a non-citizen spouse to \$194,000 in 2026. Additionally, the executor of an NRA's estate

Notes:

² For purposes of this discussion, it is assumed that the NRA is not conducting a U.S. trade or business.

³ For purposes of this discussion, the federal estate tax essentially mirrors the federal gift tax except as otherwise noted.

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may not elect portability of the deceased spouse's unused estate tax exemption to benefit the surviving spouse.⁴ Other techniques, including Qualified Domestic Trusts or "QDOTs," may be used to defer estate tax (but not gift tax) with respect to bequests to non-U.S. citizen spouses.⁵

Gift and estate tax planning for NRAs frequently focuses on avoidance of the direct ownership of U.S. situs property, the transfer of which may incur federal gift tax or estate tax. An example of a common (though not necessarily ironclad) planning technique involves using a foreign corporation (i.e. as a U.S. estate tax blocker) to purchase U.S. property. In that case, the NRA would own non-U.S. situs property – shares of a foreign company – not the underlying assets. Formation of any such entity would require coordination with the laws of the NRA's

home country. However, note that the income taxation of any such entity could become very complex if ownership ever passes to a U.S. citizen or someone who is a U.S. resident for federal income tax purposes.

In summary, the main differences between assets subject to gift and estate taxes are shown in the chart below.

Conclusion

Proper planning may reduce the U.S. tax exposure applicable to NRAs with property in the U.S. However, cross-border income and transfer tax planning is highly complicated. Clients are strongly encouraged to seek the advice of experienced international tax professionals versed in the laws of both the U.S. and their home country.

Table

NRAs are subject to federal gift and estate tax only on U.S. situs property.

Property Type	Gift Tax		Estate Tax	
	Yes	No	Yes	No
Tangible Personal Property in U.S. (e.g. jewelry)	X		X	
Currency in U.S. Safe Deposit Box	X		X	
Cash Deposits in a U.S. Bank	Possibly			X
U.S. Real Property	X		X	
Non-U.S. Real Property		X		X
U.S. Stocks		X	X	
Non-U.S. Stocks		X		X
U.S. Government and Corporate Bonds		X		X
U.S. States/Muni Bonds		X	Possibly	
U.S. Partnership/LLC Interest	Possibly		Possibly	
U.S. Treasury Bills		X		X
U.S. Mutual Funds and ETFs		X	X	
Non-U.S. Mutual Funds and ETFs (i.e. UCITs)		X		X
Life Insurance Death Benefits		X		X

Notes:

⁴ U.S. Department of Treasury. Internal Revenue Service Frequently Asked Questions on Estate Taxes for Nonresidents not Citizens of the United States. Retrieved from <https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-estate-taxes-for-nonresidents-not-citizens-of-the-united-states> (Page Last Updated November 8, 2024).

⁵ While generally there is no "forced heirship" policy in the U.S., states generally grant spouses (and in Louisiana, children) certain property rights, which can impact the distribution of property on the dissolution of a marriage or death. Such state law issues must also be considered when entering the U.S.

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