

U.S. Tax Considerations for Non-U.S. Person Investors

Non-U.S. persons—including non-U.S. citizens or residents and non-U.S. entities (e.g., trusts or foundations) that have brokerage accounts in the United States—should be aware that certain investments may result in U.S. tax reporting, U.S. tax withholdings, U.S. estate administration and U.S. estate taxes. Charles Schwab & Co., Inc. (“Schwab”) believes it is important for you to be aware of the basics of certain U.S. tax considerations so that you may take them into account when you make your investment decisions.¹

U.S. Tax Documentation

You must have on file with us one of the five types of the Form W-8 (either W-8BEN, W-BEN-E, W-8IMY, W-8ECI or W-8EXP). These forms are used to verify your status as a non-U.S. person and, when properly completed, may reduce withholding taxes on payments you receive. While we can provide general information on these forms, you should contact your own tax advisor if you are unsure which form is appropriate for your situation. You may also want to visit the Beneficial Owners and Documentation section of the IRS website for more information.

Note: U.S. persons (including U.S. citizens or residents, U.S. expatriates living abroad, and U.S. entities) are required to provide a Form W-9 and may be subject to Form 1099 reporting and backup withholding. They are usually not included in non-resident tax treatment.

U.S. Tax Reporting

U.S. brokerage firms are required to report nonresident income from U.S. sources to the IRS once a year on Form 1042-S. This obligation includes accounts which are introduced to Charles Schwab & Co., Inc. (U.S.) by a foreign affiliate for execution, clearance and settlement of securities transactions.

“U.S. source income” is, in general terms, defined under U.S. tax regulations as dividend and interest income earned on securities issued by U.S. companies or U.S.-registered mutual funds. In addition, interest earned on U.S. Treasury and U.S. government agency securities is U.S. source income. To the extent that you have dividends or interest from U.S. companies, U.S.-registered mutual funds, the U.S. Treasury or U.S. government agencies, that amount will be included in the annual report we are required to

send to the IRS. Additionally, certain distributions made by publicly traded partnerships (PTPs) and gross proceeds from the transfer of interests in PTPs are also reportable on Form 1042-S.

Generally, foreign source income is not reported to the IRS. “Foreign source income” is dividends and interest earned on securities issued by non-U.S. companies and non-U.S.-registered mutual funds. Also, gains from the sale or exchange of securities (whether issued by U.S. companies, U.S.-registered mutual funds, the U.S. Treasury, U.S. government agencies or non-U.S. companies or non-U.S.-registered mutual funds) held by non-U.S. citizens or residents are generally not reportable.

Special tax rules apply to income and gains from shares in real estate investment trusts and certain other securities. Please consult your tax advisor if you are considering these investments.

FATCA Reporting

Through the Foreign Account Tax Compliance Act (FATCA) the U.S. and over 100 countries have agreed to exchange tax reporting information.

These agreements provide that information captured on the 1042-S reporting form (including U.S. source income) may be provided automatically to the home country of the nonresident client.

The Inter-Governmental Agreements (IGAs) implementing FATCA require U.S. financial institutions to disclose the account holders of certain financial accounts, including account and income information, to their home country. For further information on FATCA and IGAs, please visit the Foreign Account Tax Compliance Act section of the U.S. Treasury website.

The FATCA IGAs are in addition to other tax exchange conventions and agreements to which the U.S. is party, including certain Double Taxation Treaties, Tax Information Exchange Agreements, and Multilateral Assistance Treaties.

For further information on the U.S. tax information exchange, please visit the Tax Information Exchange Agreements section of the U.S. Treasury website.

Note: TD Ameritrade Singapore Pte. Ltd. (“TDASG”) and Charles Schwab Hong Kong Ltd. (CSHK) customers are subject to the tax

¹This information is based on the laws in effect as of the publication date. They are subject to change, possibly retroactively, and no assurance can be given that the U.S. Internal Revenue Service (IRS) may not take a position contrary to the positions described herein. This discussion of certain U.S. tax and estate procedures is not meant to be legal or tax advice, and you should consult with your own personal estate planning or tax advisors before making any investment.

information exchange under the Automatic Exchange of Information (“AEOI”) agreements entered into by Singapore and Hong Kong as signatories to the Organization for Economic Cooperation and Development (OECD) Multilateral Competent Authority Agreement (“MCCA”). Customers of those entities should consult a tax advisor as to any specific application.

U.S. Tax Withholding

U.S. brokerage firms are required to withhold U.S. income tax on U.S. source income.

- **Dividends:** Generally, dividends paid on stock issued by U.S. companies and U.S.-registered mutual funds will be subject to a 30% tax withholding (30% of each dividend payment is deducted by us and sent on your behalf to the IRS). Please note that this tax rate may be reduced if you can claim the benefit of an income tax treaty between the jurisdiction of your residence and the United States and you have claimed such treaty benefit on a properly completed Form W-8. You may file a return directly with the IRS, if eligible, to claim a refund of any over-withheld or over-paid tax payments made by us to the IRS on your behalf. A non-U.S. taxpayer who invests in offshore, non-U.S.-registered mutual funds will not be subject to U.S. tax withholding on dividends that are considered foreign source income received from such mutual funds.
- **Interest:** Interest earned on bonds and commercial paper issued by U.S. companies, by the U.S. Treasury and by U.S. government agencies is generally exempt from U.S. tax withholding if the interest qualifies as portfolio interest and the original issue date of any such debt instrument is after July 18, 1984. For debt instruments issued after March 18, 2012, portfolio interest does not include interest paid on debt that is not in registered form, except for interest paid on foreign-targeted registered debt instruments issued before January 1, 2016 (see IRS Publication 515 for more information). However, even though generally no U.S. tax is to be withheld on interest earned on bonds issued by U.S. companies, the U.S. Treasury or U.S. government agencies, the interest earned on such U.S. securities must be reported to the IRS by us on our annual report on Form 1042-S as U.S. source income. See the “U.S. Tax Reporting” section of this document.
- **Publicly Traded Partnership (“PTP”) Securities:** Effective January 1, 2023, an additional 10% of gross proceeds will be withheld from sales and certain distributions of PTPs held by non-U.S. persons. This withholding is in addition to, and is separate from, the existing 37% withholding for individuals and non-corporate entities and 30% withholding for corporate entities on U.S. source dividends, interest, and other income related to PTP securities. Please visit the Partnership Withholding section of the IRS website for more information.

You should consult with your own tax advisor to determine whether any U.S. tax withheld from any income credited to your account may qualify for a foreign tax credit in your jurisdiction of residence.

Disposition of Assets and U.S. Estate Tax

The estate of a decedent who was neither a citizen nor a resident of the United States (“NRNC”) and who died while holding U.S. source assets in an individual name is subject to a \$60,000 threshold exemption. Note: U.S. source assets held through a single member limited liability company that is treated as a disregarded entity for U.S. tax purposes (i.e., NOT taxable as a corporation), are also subject to U.S. estate tax.

If U.S. source assets exceed \$60,000, Internal Revenue Code Sec. 6901 (a)(1)(b) creates a potential tax liability for Schwab as custodian of those assets (i.e., a statutory executor) unless Schwab can assure itself that all U.S. estate tax liabilities of the decedent’s estate have been satisfied. Upon notice of an NRNC customer’s death, Schwab may prohibit withdrawal or transfer from the customer’s account(s) and request that the estate provide an IRS transfer certificate before releasing the account.

Schwab generally may only transfer or release the assets in an account after the executor, surviving joint tenant, trust beneficiary or other person legally entitled to receive the decedent’s assets provides to Schwab an original “Transfer Certificate” (IRS Form 5173) received from the IRS.

A Transfer on Death (TOD) designation does not exempt the account assets or decedent’s estate from estate tax vulnerability. Similarly, a joint tenant account, irrespective of survivorship, is subject to pro rata taxation upon death.

Assets held in perpetual existence investment structures, such as personal investment companies, are not subject to the estate tax even upon the death of a shareholder.

Similarly, if the title to an account is held in trust, disposition of the assets of the account will be in accordance with the terms of the trust instrument.

Persons legally entitled to receive the decedent’s assets can request and obtain the Transfer Certificate or Affidavit from the Department of the Treasury, Internal Revenue Service Center, Attn: E&G, Stop 824G, 7940 Kentucky Drive, Florence, KY 41042-2915. For more information, visit the Transfer Certificate Filing Requirements for the Estates of Nonresidents not Citizens of the United States section of the IRS website.

Those assets subject to the U.S. estate tax are taxed at graduated rates of up to 40%. The following are broad and nonspecific examples of U.S. source assets subject to U.S. estate tax and non-U.S. source assets NOT subject to U.S. estate tax.

Investments which are subject to U.S. estate tax:

- Stocks issued by U.S. companies
- U.S.-registered mutual funds (including money market funds)

Investments which are NOT subject to U.S. estate tax:

- Stock issued by non-U.S. companies
- Non-U.S.-registered mutual funds
- Bonds and commercial paper issued by any non-U.S. issuer
- Debt instruments (whether registered or unregistered) issued after July 18, 1984, if the interest on them would be eligible for tax exemption as portfolio interest (if the debt earns contingent interest, some or all of it may be considered U.S. source assets)
- Original issue discount debt obligations, excluding certain short-term obligations payable 183 days or less from the date of original issue, if interest on them would not be effectively connected with the conduct of a trade or business within the United States

Pursuant to IRS Circular 230, the information contained in this disclosure is not intended to and cannot be used to avoid IRS penalties.