How Non-Resident Aliens Can Beat the U.S. Tax Drag on Bonds

For non-resident aliens (NRAs), investing in U.S. fixed income securities can be both attractive and challenging. U.S. bonds offer global investors safety, liquidity, and reliable income. However, the tax treatment of U.S. interest income for NRAs often erodes after-tax returns and limits the appeal of these investments. That's where the **Compoundr strategy** offers a distinct advantage.

The Tax Problem for NRAs

Under current U.S. tax law, interest income paid to NRAs from most U.S. bond investments is generally subject to a **30% withholding tax**, unless reduced by a tax treaty. This applies to U.S. Treasuries, corporate bonds, and agency debt. The result? NRAs often pay a significant portion of their fixed income returns directly to the IRS—even though they're not U.S. residents.

In contrast, **capital gains** realized by NRAs from selling U.S. securities are **not subject to U.S. tax**, as long as they are not connected to a U.S. trade or business and the gains don't involve U.S. real estate interests.

How the Compoundr Strategy Helps

The Compoundr strategy was designed to convert the tax treatment of fixed income investing from ordinary income (interest) to capital gains. By doing so, it addresses the core tax challenge faced by NRAs:

- **Interest Income Conversion**: Compoundr ETFs invest in portfolios of individual bonds and defer recognition of interest income by structuring the vehicle to avoid distributions. Instead, value accrues within the ETF, and the return is reflected in share price appreciation.

- **Capital Gain Treatment**: When the investor sells the ETF, the return is generally recognized as a capital gain—**not subject to U.S. tax** for NRAs.

- **No Ongoing Withholding**: Because the ETFs do not pay regular interest distributions, there's no withholding tax due on an ongoing basis, allowing more of the investment to compound over time.

Additional Benefits for NRAs

- **Simplicity**: Investors do not need to file U.S. tax returns or apply for tax refunds on withheld income.

- **Tax Efficiency**: Compoundr ETFs allow NRAs to capture the full economic return of U.S. fixed income markets without a punitive tax drag.

- **Control Over Tax Timing**: Since taxable events occur only upon sale, NRAs can time their exits to align with favorable market or personal conditions.

Ideal for Tax-Sensitive International Investors

For wealth managers and family offices serving international clients, particularly from countries without favorable U.S. tax treaties, Compoundr offers a simple, legal, and effective structure for accessing the U.S. bond market without sacrificing after-tax performance.

Conclusion

Non-resident aliens have long faced structural tax barriers to fully realizing the benefits of U.S. fixed income. The Compoundr strategy levels the playing field by transforming interest income into tax-efficient capital appreciation—resulting in potentially superior after-tax returns. For NRAs seeking U.S. fixed income exposure without the tax drag, Compoundr is not just a more efficient way to invest—it's a smarter one.