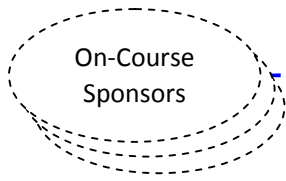


**Golfer Endorsement Fees:  
Part Royalties & Part Services,  
Part U.S. Source & Part Foreign Source**



**On-Course Endorsement Fees**

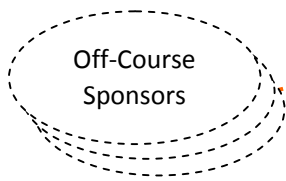
The Tax Court held that 50% of the on-course endorsement fees represented royalties and that 50% represented personal services income. Of the portion characterized as royalties, 50% was U.S. source income and 50% was foreign source income, based on the court's "best judgment." The foreign source royalties were not effectively connected income because Goosen did not maintain an office or other fixed place of business in the U.S. The U.S. source royalties were U.S. effectively connected income because the activities of the U.S. trade or business were a material factor in the realization of the income. The parties had stipulated that 42% of the portion of the income characterized as personal services income would be U.S. source income.



TaylorMade  
Izod  
Acushnet

**Tournament & Ranking Bonuses**

The parties had stipulated that the tournament bonus income and the ranking bonus income would be U.S. source income based on the ratio of U.S. prize winnings to worldwide prize winnings.



Upper Deck  
Electronic Arts  
Rolex

**Off-Course Endorsement Fees**

The Tax Court held that all of the off-course endorsement fees represented royalties. The Upper Deck and Electronic Arts royalties were sourced to the U.S. (92% and 70%, respectively) based on U.S. sales and non-U.S. sales. Rolex royalties were treated as 50% U.S. source income based on the court's "best judgment." None of the royalties were effectively connected income because the activities of the U.S. trade or business were not a material factor in the realization of the income. The royalties, therefore, were subject to a flat U.S. tax of 30%. The U.K.-U.S. Income Tax Treaty did not apply to reduce the withholding tax rate because Goosen could not prove that the amounts he received in the U.K. constituted this type of income (as opposed to one of the other types of income that he received).

