



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

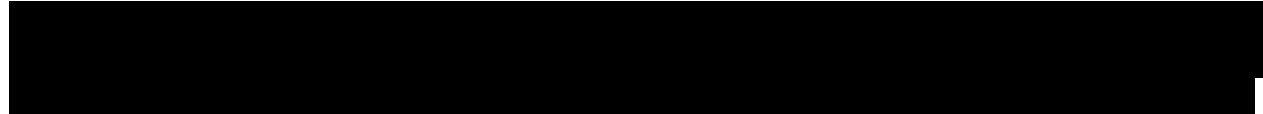
May 23, 2002

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CC:INTL:Br.3
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Dear [REDACTED]:

This is in response to your letter dated April 25, 2002, in which you requested certain general information concerning the "source of income" rules in sections 861 through 865 of the Internal Revenue Code and the regulations thereunder.

On June 25, 2001, the Internal Revenue Service published Notice 2001-40, 2001-1 C.B. 1355, which provides, in part, that: "The Internal Revenue Service and the Treasury Department are aware that certain persons are promoting the view that U.S. citizens and residents are not subject to tax on their wages and other income earned or derived within the United States based on the claim that the Internal Revenue Code imposes taxes only on income derived from certain foreign-based activities. The Service and Treasury are issuing this notice to inform taxpayers that this reporting position has no basis in law." A copy of Notice 2001-40 is attached.

As Notice 2001-40 addresses the issues raised by your inquiry, we have provided you all the general information we have on this topic.

Sincerely,

Barbara A. Felker
Chief, Branch 3
Office of the Associate Chief Counsel
(International)

Enclosure (1): Notice 2001-40