

TAX FREE EXPAT IMPLEMENTATION GUIDE

*A Framework for American Expats
to Live Tax Free*

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A guidebook taking a step-by-step approach to how most American Expatriates can live offshore to remain largely free from the U.S. income tax system.



Tax Free Expat Implentation Guide

A Framework for American Expats to Live Tax Free

By Marcus Marcial

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The Author

Marcus Marcial is a seasoned tax professional with experience primarily in International Taxation. Originally from Southern California, he attended Hunter College in New York City and has resided abroad for many years.

While employed at the IRS, he learned from examining and preparing tax returns for individuals residing and businesses operating offshore. After leaving the IRS, he started his own tax firm, helping various international clients with tax compliance, strategy, and consultation.

1-on-1 Tax Consultations

To schedule a consultation to discuss the planning, concepts, and tax law references found in this book, custom tax structure development, or consultation for tax return filing and strategy, visit <https://pacifico.tax/schedule-consultation>

Further Reading

Developed for expat clients, **International Tax Structures for Americans Living Abroad** provides a technical reference that visualizes scenarios for U.S. Citizens conducting business offshore. This book describes in greater detail the forms and calculations related to international tax strategy and serves as a compliance reference to help them optimally reduce their tax liability. To learn more, visit <https://pacifico.tax/international-tax-structures>



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2. Determining the Proper Structure
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Section I

A Basic Understanding of the U.S. Offshore Tax System

“Paying yourself a Salary from a Foreign Corporation (you control) can substantially reduce your tax liability, and in some cases, eliminate your U.S. liability...”

The United States' system of taxation is the **most complicated in the world**, in terms of the length and detail of its tax code. The law itself is thousands of pages, with additional complexity for interpretation, state and local taxes, frequent legislative changes, and a high compliance burden for businesses.

Now, combining that with an American living overseas, who may also be subject to a foreign country's regulations, is exponentially complex.

This guidebook does not attempt to summarize all the rules and regulations of the U.S. Offshore Tax System, nor does it mention foreign tax law.

Rather, it focuses on the **most relevant** tax concepts for expats living overseas, which are:

1. **The Foundation of the Foreign Earned Income Exclusion**
2. **Claiming the Foreign Tax Credit to Eliminate Double Taxation**
3. **Tax Fundamentals of Controlled Foreign Corporations**

Note that the subject matter described above is presented in a highly condensed format in this guidebook and is only a fraction of a fraction of a fraction of the total knowledge base of the U.S./International Tax System.

So you don't need to know everything, but **let's start with the basics...**

Chapter 1

The Foundation of the Foreign Earned Income Exclusion

The Foreign Earned Income Exclusion: The Cornerstone Tax Strategy for Americans Living Offshore

For Americans living abroad, U.S. tax laws can feel like a frustrating anchor – pulling them back into the Internal Revenue Service’s reach, even if they have no ties to U.S. soil. Unlike most countries, the **United States taxes its citizens on their worldwide income**, regardless of where they live or where their income is earned.

However, one provision has long been the most powerful and widely used tool for reducing this burden: the Foreign Earned Income Exclusion (FEIE). For qualifying taxpayers, the FEIE allows a substantial amount of foreign-earned income to be excluded from U.S. taxation, often resulting in little or no U.S. income tax owed.

When properly applied, the FEIE is the single most beneficial tax strategy for Americans abroad. It can shield well over \$100,000 of annual income from U.S. taxation and, when combined with other strategies, can legally eliminate most Americans’ U.S. tax liability entirely.

The FEIE Today: Why It’s the Core Offshore Strategy

The FEIE stands apart from other tax relief measures for Americans abroad for three main reasons:

1. **It’s the largest single exclusion available.** No other provision allows such a high amount of income to be excluded from taxation outright, often resulting in little or no U.S. income tax owed for most middle-class individuals.
2. **It directly reduces taxable income, not just the tax owed.** Unlike a deduction or credit, the FEIE mostly removes income from the tax calculation entirely.
3. **It’s relatively straightforward to qualify for** – provided you meet either the Physical Presence Test or the Bona Fide Residence Test (discussed in more detail later).

While other strategies (such as the Foreign Tax Credit) can also reduce tax, the FEIE should generally be the **first line of defense** in an American expat’s tax planning.

Qualifications for the Foreign Earned Income Exclusion

To claim the FEIE, you must meet three main requirements:

1. You Must Have Foreign Earned Income

The exclusion applies only to income *earned* from work (salary, wages, self-employment). Essentially, ‘earned’ income is income that you personally worked for.

Earned income does not apply to:

- Passive investment income (dividends, interest, rents, royalties)
- Pensions or retirement distributions
- Capital Gains
- U.S.-Source Income (Physically earned in the United States)

Your work must be performed outside the U.S., and the compensation must be tied to services you rendered abroad.

2. Tax Home Must Be in a Foreign Country

Your tax home is your regular or principal place of business, employment, or post of duty – regardless of where you maintain your family home. If your main place of work is abroad, **your tax home is abroad**. Exceptions:

- If you keep a U.S. home available for your use, the IRS may argue your tax home is still in the U.S.
- Temporary assignments (less than 1 year) generally do not shift your tax home.

3. Must Pass One of Two Offshore-Related Tests

You must qualify under either:

A. Physical Presence Test

You must be **physically present in a foreign country (or countries) for at least 330 full days** in any consecutive 12-month period. The 12-month period can begin or end in any month – it does not have to be the calendar year.

This test is objective – it is purely about counting days.

B. Bona Fide Residence Test

You must be a **bona fide resident of a foreign country for an entire tax year**. This is **subjective** – the IRS looks at a variety of factors, such as:

- Your intentions (permanent or indefinite stay).
- Whether you've established a home and integrated into the local community.
- Social and Economic Ties in the Foreign Country.
- Length and nature of your stay.
- Ties to the U.S. you've maintained or severed.

The bona fide residence test offers more flexibility than the physical presence test but requires stronger documentation.

Limitations of the Foreign Earned Income Exclusion

Although claiming the exclusion can be a net benefit for tax purposes, there are some limitations:

- **Annual Limitation.** There is an annual limit per person claiming the exclusion, which at the time of this writing is **\$130,000 for the base exclusion**, and an additional housing allowance.
- **Foreign Source Only.** The income earned must be **foreign-sourced**, meaning that for personal services, it must be performed in a foreign country.
- **Federal Income Tax Only.** The exclusion applies only to **Federal income tax**, *not* self-employment tax, state income tax, sales tax, or other taxes. Note, some states recognize the federal exclusion, but not all.

Step-by-Step Action Plan to Qualify and Remain Qualified

Here is a practical roadmap for Americans seeking to leverage the FEIE year after year:

Step 1: Determine Your Primary Qualifying Method

- If your work keeps you moving between countries or your residency is uncertain, aim for the **Physical Presence Test** – it's the easiest to document.
- If you are settling in one country long-term, pursue the **Bona Fide Residence Test**.

Step 2: Establish Your Foreign Tax Home

- Apply for Legal Residency in the home country.
- Sign a lease or buy property abroad.
- Secure foreign work contracts.
- Avoid maintaining an available U.S. residence.
- Open a local bank account and use it for daily expenses offshore.
- Obtain licenses and documentation to strengthen legal status.

Step 3: Track Your Travel Days Meticulously

- Use travel apps or a simple spreadsheet to log every entry and exit from each country.
- Keep passport stamps, airline tickets, and other proof.
- Remember: For PPT, even one partial day in the U.S. does not count toward the 330-day total.

Step 4: Maintain Residency Ties Abroad

For the Bona Fide Residence Test:

- Maintain social and economic Ties
- Join local clubs, obtain local IDs, and integrate into the community.
- File local tax returns if required.
- Keep documentation showing your intent to remain (e.g., work permits, visas).

Step 5: Combine with Other Strategies When Necessary

If your income exceeds the FEIE limit:

- Use the Foreign Housing Exclusion/Deduction to shelter additional amounts.
- Apply the Foreign Tax Credit to offset remaining U.S. tax on income above the exclusion.
- Combine with other tax deductions and credits to reduce your liability.

Establishing Foreign Residency

When claiming the Foreign Earned Income Exclusion (FEIE), **establishing residency** in a foreign country through the formal process is one of the strongest ways to substantiate eligibility—particularly under the Bona Fide Residence Test. Formal residency creates objective, third-party evidence that the taxpayer’s move abroad is not temporary or incidental, but rather reflects a genuine intention to live and work outside the United States for an extended and indefinite period. Immigration approvals, residency permits, and local registrations provide documentation that aligns with IRS expectations and reduces reliance on subjective factors.

Establishing legal residency also helps demonstrate economic and social integration into the foreign country, which the IRS evaluates closely. Indicators such as a residency visa, local tax registration, national ID number, long-term housing, and enrollment in local systems (healthcare, utilities, banking) support the position that the taxpayer’s “tax home” has shifted abroad. Without formal residency, the IRS may argue that the individual is merely traveling or working abroad temporarily—potentially disqualifying the FEIE even if physical presence thresholds are met.

From a risk management and **audit defense perspective**, formal residency significantly strengthens an FEIE claim. In IRS examinations, cases are often lost not because the taxpayer failed to meet the day count, but because the taxpayer cannot demonstrate permanence or intent. Formal residency provides contemporaneous, verifiable evidence that supports intent and continuity, reducing exposure to penalties, interest, and retroactive disallowance of the exclusion.

Finally, formal residency abroad often aligns U.S. tax planning with foreign tax compliance, helping avoid conflicts between U.S. and local authorities. Many countries require residency status to legally work, open bank accounts, or file local tax returns—all of which further corroborate an FEIE claim. In practice, pursuing formal residency is not just an immigration step; it is a foundational component of defensible international tax planning when claiming the Foreign Earned Income Exclusion.

The Numbers: Why FEIE Dominates Offshore Tax Strategy

The FEIE allows up to **\$130,000 per qualifying individual** (for 2025) to be excluded from U.S. taxation. For married couples both working abroad, that means over **\$260,000 of earned income can be eliminated** from the U.S. tax base.

For example:

A SINGLE filer earns \$110,000 abroad

- Entirely excluded under FEIE
- \$0 U.S. Federal income tax.

A MARRIED couple earns \$240,000 abroad (split evenly)

- Entirely excluded
- \$0 U.S. Federal income tax.

Even if income exceeds the limit, pairing FEIE with the Foreign Housing Exclusion and Foreign Tax Credit can still reduce U.S. tax to zero.

For example:

A SINGLE filer earns \$160,000 abroad

- \$130,000 is excluded under FEIE
- Claims a Standard Deduction of \$15,750
- Reports a Net Operating Loss from his S-Corporation of \$22,000
- \$0 U.S. Federal income tax.

A MARRIED couple earns \$300,000 abroad

- \$260,000 is excluded under FEIE
- Claims a Standard Deduction of \$31,500
- Reports a Non-Passive Loss from Rental Real Estate of \$12,000
- \$0 U.S. Federal income tax.

Common FEIE Pitfalls to Avoid

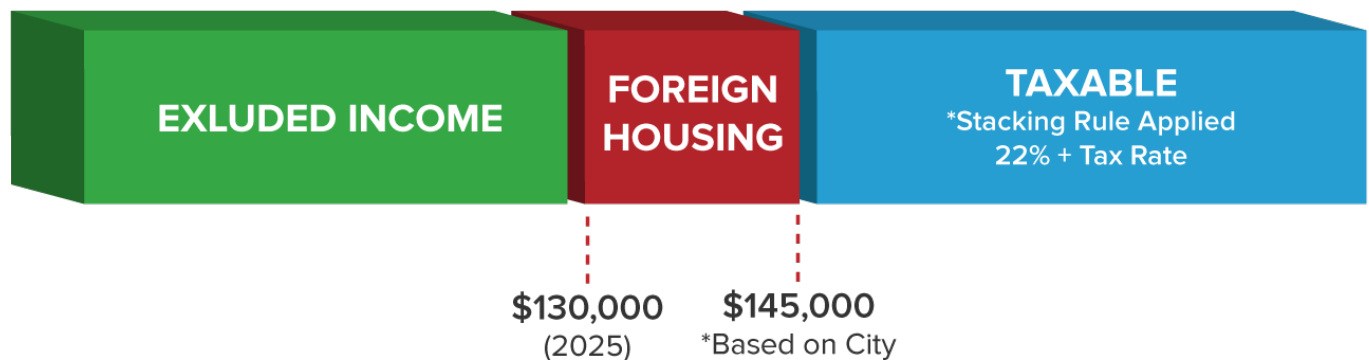
- **Not applying for Residency or maintaining the proper documentation.** By not officially applying for residency or maintaining the appropriate legal status or paperwork, claiming the exclusion may not be an option.
- **Failing the day-count under the Physical Presence Test** – even one miscalculation can cost the entire exclusion.
- **Returning to the U.S. mid-year** without meeting the full-year residency requirement under the Bona Fide Residency Test.
- **Not filing a return** – you must claim the FEIE on a tax return; it's not automatic. Failure to file a timely tax return can jeopardize the ability to claim the exclusion.
- **Trying to apply FEIE to investment or U.S.-source income** – it applies only to foreign earned income.
- **Assuming the FEIE will be exempt** from Self-Employment Tax.
- **Income above the Exclusion Limit is taxed at a higher rate** (Stacking Rule)
- **Eligible Foreign Source Income is reduced** based on related allocable deductions (Schedule C Reduction)

Foreign Earned Income Exclusion Visually Explained...

Basic Qualifications

1. **Have foreign earned income** – Salary, Wages, Commissions, or self-employment income earned from work performed outside the United States.
2. **Have a tax home in a foreign country** – Generally, where the taxpayer's main place of business or employment is located.
3. **Meet one of two tests:**
 - A. **Physical Presence Test:** Spend 330 full days outside the U.S. in any rolling 12-month period;
 - B. **Bona Fide Residence Test:** Be a resident of a foreign country for an entire calendar year and demonstrate ties such as local residence, visas, and long-term intention to remain.

Calculation & Limitation



*Limit amounts and effective tax rates are subject to change each year for statutory annual inflation adjustments, and changes in tax rates.



COMPLIANCE WARNING:

Must be earned income

- The income is required to be 'earned' in exchange for personal services, and cannot be investment income.

Earned in a foreign country

- The income must be earned while performing services in a foreign country.

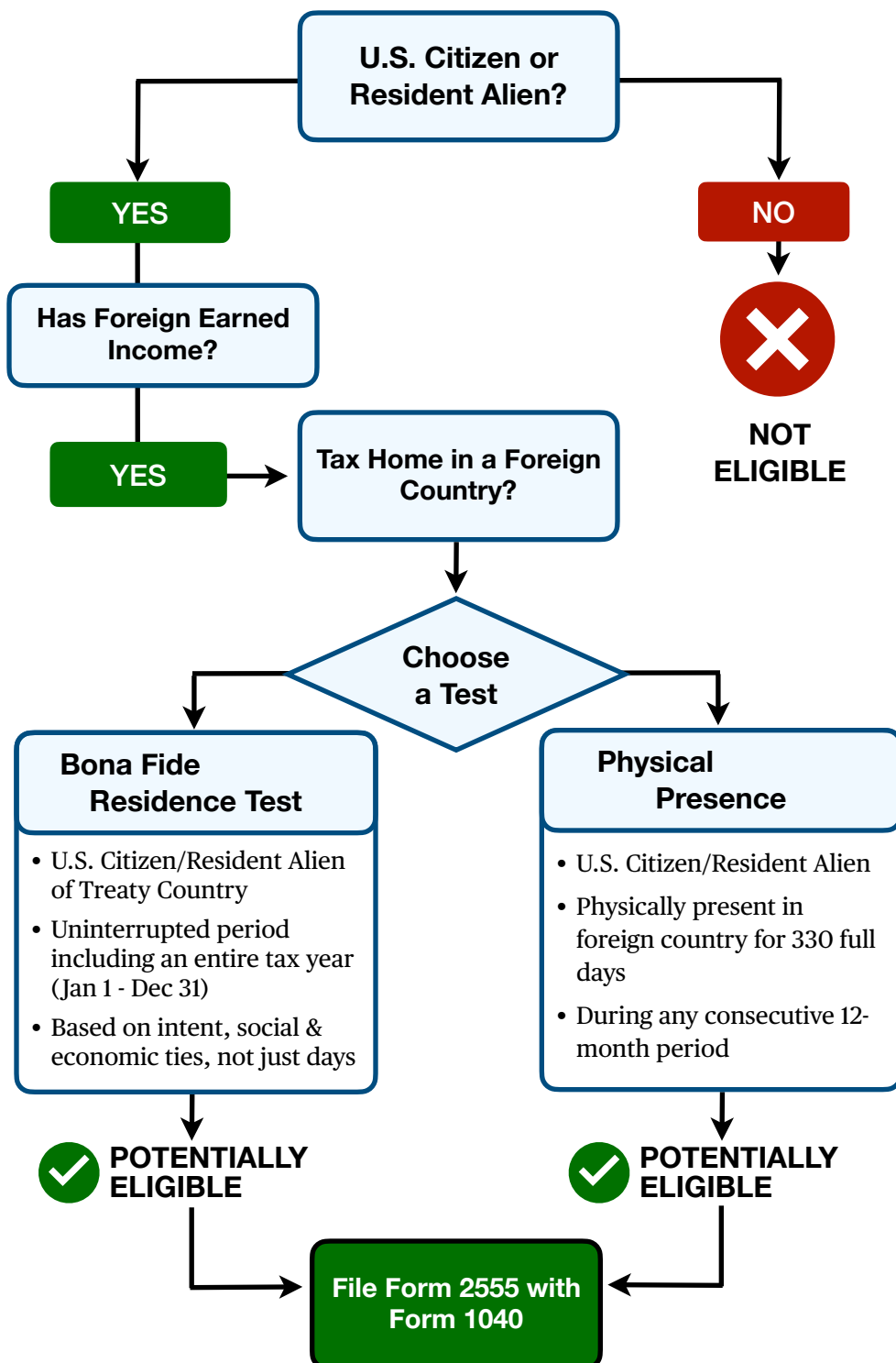
Paid during the year

- For most personal taxpayers on the calendar year, the income must have been received during the year.

U.S. Foreign Earned Income Exclusion (FEIE) Explained

For U.S. Individuals Living Offshore - Claim on Form 2555

Qualification Flowchart: Basic Requirements



Common Pitfalls & IRS Examination Risks

- ✗ **Not Filing a U.S. Tax Return**
(FEIE is not automatic!)
- ✗ **Miscounting Days for Physical Presence Test**
(Must be 330 full days)
- ✗ **Misunderstanding 'Tax Home' Concept**
(Must be foreign)
- ✗ **Inadequate Documentation to Prove Bona Fide Residence**
(Lack of ties)
- ✗ **Claiming Exclusion on Unearned/Passive Income**
(Only earned income qualifies)
- ✗ **Filing Form 2555 Late without Extension**
- ✗ **Revoking FEIE without understanding 5-year lockout rule**
- ✗ **Confusing FEIE with Foreign Tax Credit**
(Cannot double-dip on same income)
- ✗ **Including non-qualifying income** (e.g., pension, capital gains)

ACCURATE RECORD-KEEPING IS CRUCIAL TO REDUCE AUDIT RISK!

Foreign Earned Income Exclusion (FEIE)

Qualifications and Risks

What counts as foreign earned income?

- Wages, salaries, tips
- Professional fees
- Bonuses and commissions
- Other compensation for personal services performed abroad

What does not count?

- Income from a U.S. business (even if you live abroad)
- Rental income, dividends, interest, capital gains
- Pension or annuity income
- Income earned while physically in the U.S.

Good Practices to Reduce Risk



Document intent to live abroad (lease, utilities, employment docs).



Keep a travel log and retain proof of all trips.



Establish your financial life abroad.



Limit U.S. ties that contradict foreign residency.



Review your situation annually with a tax professional.

1. TAX HOME NOT TRULY FOREIGN



Claiming FEIE while **maintaining stronger ties** (abode) in the U.S. (e.g., family, main home remain in US). **Abode is NOT foreign.**

2. INCOME IS NOT “EARNED”



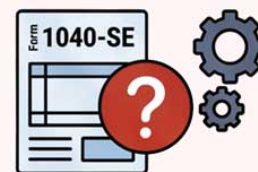
Excluding unearned income like interest, dividends, capital gains, pensions, or rental income. **Only wages/self-employment income qualify.**

3. INACCURATE DAY COUNTS / DATES



Miscalculating the 330 days (Physical Presence) or **not covering a full tax year** (Bona Fide). **Includes travel days to/from US incorrectly.**

4. IGNORING SELF-EMPLOYMENT TAX



FEIE only **excludes income tax, NOT SE tax** (Social Security/Medicare) for self-employed, unless a Totalization Agreement exemption applies. **Often missed.**

Chapter 2

Avoiding Double Taxation with Foreign Tax Credits

For U.S. citizens living abroad, the **Foreign Tax Credit (FTC)** is one of the most **important tax tools available to prevent double taxation**. Because the U.S. is one of the few countries that taxes its citizens on worldwide income regardless of residency, Americans working offshore often face the possibility of paying taxes to both their country of residence and the U.S.

The FTC provides a way to **reduce or eliminate this double tax burden** by allowing taxpayers to claim a credit against their U.S. tax liability for income taxes paid to a foreign country. However, the FTC is not a one-size-fits-all benefit—it has specific rules about sourcing, income categories (or “buckets”), and documentation requirements.

How Income Is Sourced for the Foreign Tax Credit

Before you can determine whether foreign taxes are eligible for the FTC, you must identify whether the income is **foreign source or U.S. source**. The IRS applies income sourcing rules to prevent taxpayers from applying foreign tax credits to income that isn't truly foreign.

General Sourcing Principles

- **Foreign Source Income:** Income that originates from activities, property, or investments located outside the U.S. Examples include wages earned in another country, rent from foreign real estate, or dividends from a foreign corporation.
- **U.S. Source Income:** Income generated from U.S. activities or property, even if the taxpayer lives abroad. Examples include rental income from U.S. property, interest from U.S. bank accounts, or dividends from U.S. corporations.

These sourcing rules are crucial because the FTC can **generally be claimed only for foreign taxes paid on foreign-source income**. If foreign taxes are paid on U.S. source income (for example, if a foreign country imposes tax on U.S. dividends), the FTC is usually **not allowed** unless a tax treaty “re-sources” the income.

Claiming the Foreign Tax Credit

To claim the FTC, taxpayers must:

1. **Have paid or accrued a foreign tax:** Must be an income tax (or a tax in lieu of income tax). VAT, sales tax, or property tax do not qualify.
2. **Prove the tax is legal and actual:** The foreign government must have the legal right to tax the income.
3. **Ensure no refund or subsidy:** If the foreign tax is refunded or subsidized by the foreign government, it may not qualify.

Action Items to Avoid Double Taxation

To maximize and properly claim the Foreign Tax Credit, follow these steps:

1. **Identify All Sources of Income.** Classify each item as a U.S. source or a foreign source based on IRS rules. Then keep documentation (employment contracts, property records, bank account details).
2. **Track Foreign Taxes Paid.** Keep official foreign tax payment receipts. Then note whether taxes were withheld or paid directly.
3. **Separate Documentation by Category.** Avoid mixing categories—keep a separate record of taxes paid for each. Determine foreign taxes paid for personal services, rental, investment, and other types of income. Then maintain foreign tax returns, payment confirmations, and translations if not in English.
4. **Plan and Decide Between FTC and FEIE.** Evaluate annually whether to claim the Foreign Earned Income Exclusion, the Foreign Tax Credit, or a combination strategy based on the amount of income earned, taxes paid, and all types of income. Each option has its own requirements, advantages, and disadvantages, so seeking guidance from a tax professional is key. Additionally, once the foreign income exclusion is revoked, it cannot be claimed for multiple years, unlike the foreign tax credit.

The Foreign Tax Credit Explained...

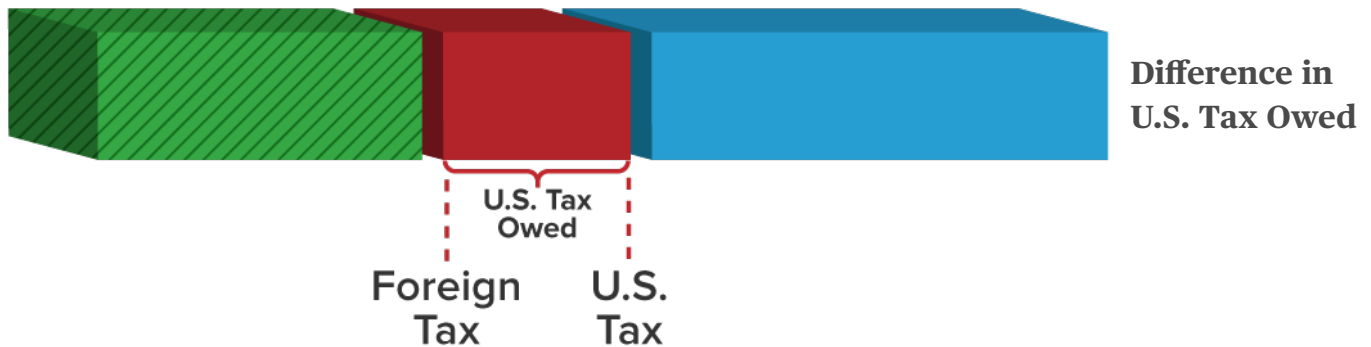
How the FTC Works

The credit is claimed on **Form 1116** and calculated based on:

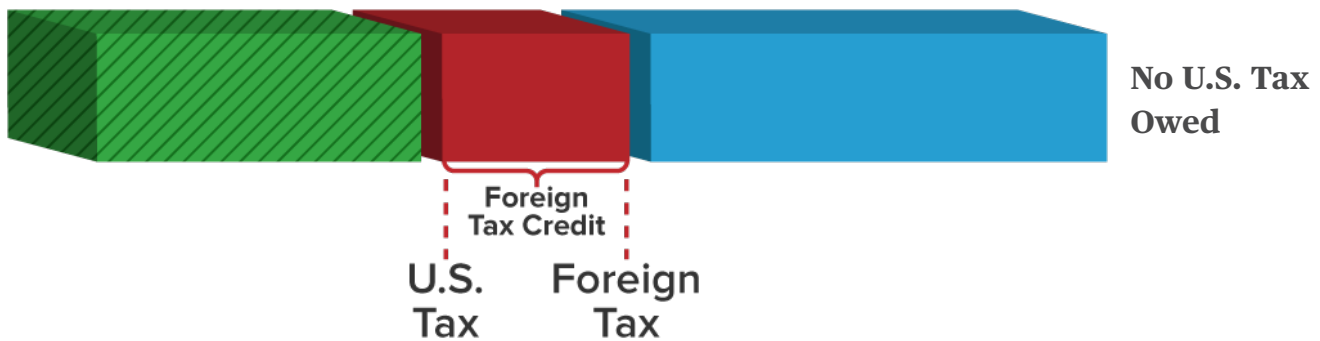
1. **Foreign-source income**
2. **Amount of foreign tax paid or accrued**
3. **Income category** (general, passive, etc.)
4. **IRS limitation formula** that prevents claiming credit on income sourced to the U.S.

Calculation & Limitation

U.S. Tax > Foreign Tax



U.S. Tax < Foreign Tax



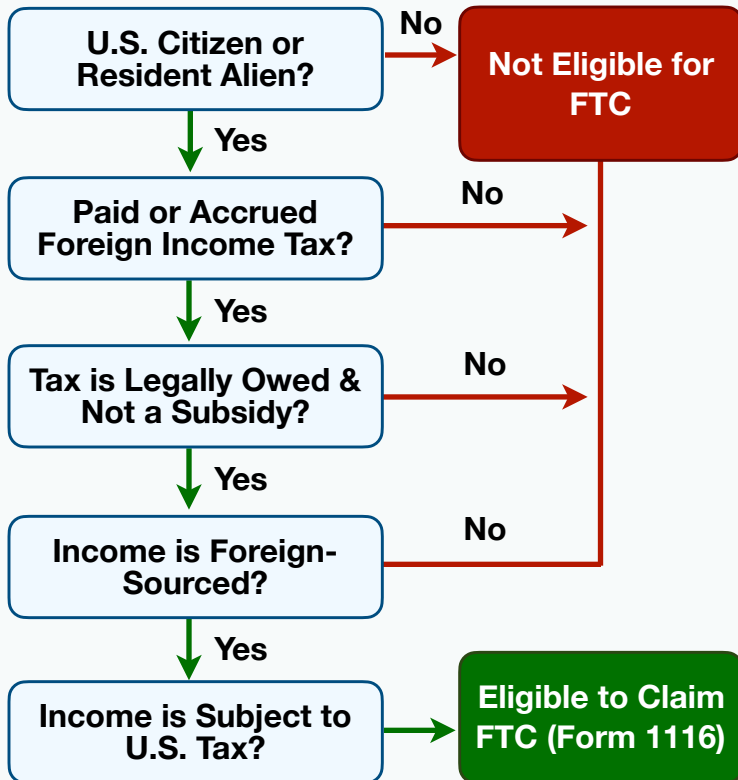
COMPLIANCE WARNING

Income Must be Foreign-Sourced. The income source must be a foreign source. For the performance of personal services, this means the work must be performed in a foreign country. For investment income, assets must be located in a foreign country.

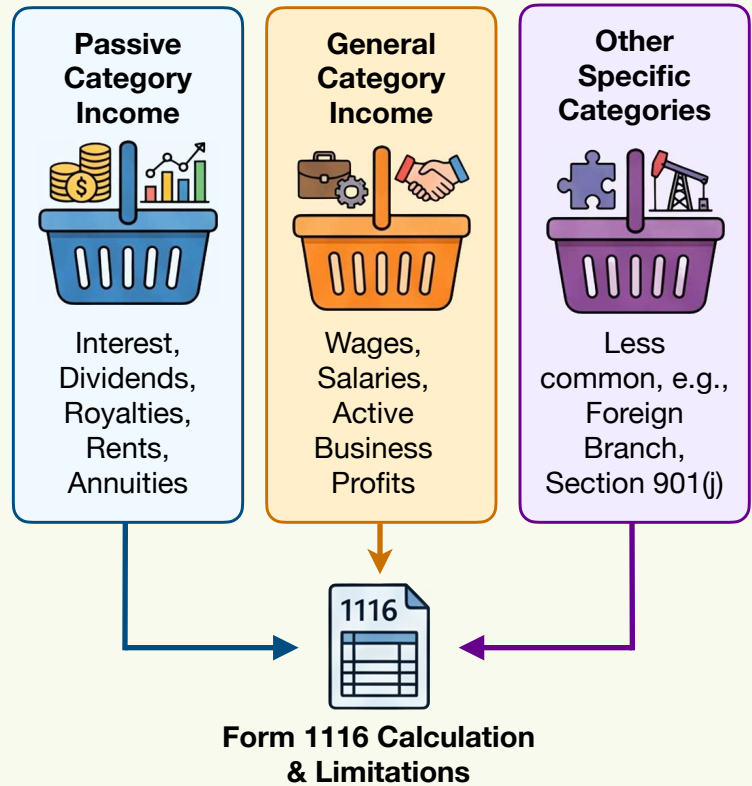
Tax Paid/Accrued Must be an Income Tax. The tax paid (or accrued, if elected) must be an income tax, not a Social Security, Sales, or other types of taxes.

Understanding the Foreign Tax Credit (FTC) for U.S. Individuals Offshore

Flowchart: Requirements to Claim FTC



Form 1116: Income Separation Categories (Baskets)



Common Pitfalls & IRS Examination Risks (Avoid These Errors!)



1. Incorrect Income Sourcing

Treating U.S.-source income as foreign-source. Only foreign-source applies.



2. Claiming Non-Creditable Taxes

Taxes not based on income (e.g., Wealth, Property, VAT) are ineligible.



3. Failing "Compulsory Payment" Rule

Tax could have been avoided/refunded. Must be a legal obligation.



4. Double Dipping (FTC & FEIE)

Claiming credit on income already excluded via the Foreign Earned Income Exclusion.



5. Math & Limitation Errors on Form 1116

Complex calculations for limits, carryovers, and adjustments often lead to mistakes.

Chapter 3

Tax Fundamentals of Controlled Foreign Corporations

A Controlled Foreign Corporation (CFC) is a legal concept in U.S. tax law that applies to certain foreign corporations in which U.S. shareholders hold a significant ownership interest (more than 50%). While foreign corporations are generally taxed in the country where they operate, the U.S. government imposes special rules for CFCs to prevent U.S. taxpayers from avoiding taxes by shifting income offshore.

The CFC regime exists to ensure that certain categories of income earned through foreign entities are reported and, in some cases, **taxed in the U.S. immediately**—even if no distributions are made to shareholders. This approach reflects the U.S. policy of taxing its citizens and residents on worldwide income, regardless of where the income is earned or retained.

Definition of a CFC

Statutory Test: Under the Internal Revenue Code, a foreign corporation is considered a Controlled Foreign Corporation if:

- **Ownership Threshold:** More than 50% of the total combined voting power of all classes of stock entitled to vote, or more than 50% of the total value of the stock of the corporation, is owned directly, indirectly, or constructively by U.S. shareholders; and
- **U.S. Shareholder Definition:** A U.S. shareholder is any U.S. person (citizen, resident, domestic corporation, partnership, trust, or estate) who owns at least 10% or more of the voting power or value of the foreign corporation's stock.

The ownership calculation uses constructive ownership rules, meaning shares owned by related persons or entities may be attributed to the taxpayer for determining CFC status.

Why CFC Rules Exist

Before the enactment of anti-deferral rules, U.S. taxpayers could establish foreign corporations in low-tax jurisdictions to accumulate passive or mobile income without paying current U.S. taxes. This practice eroded the U.S. tax base and gave offshore structures a significant advantage over domestic operations.

To counteract this, Congress enacted Subpart F (1962) and later expanded the regime with the Global Intangible Low-Taxed Income (GILTI) rules under the 2017 Tax Cuts and Jobs Act (TCJA). These provisions require certain categories of income earned by a CFC to be currently includible in the U.S. shareholder's taxable income, even if no cash is distributed. CFC rules were later modified slightly in 2025 as part of the One Big Beautiful Bill.

Determining CFC Status – Key Considerations

To claim the FTC, taxpayers must:

1. **Ownership Tests.** Must evaluate both voting power and value. Even non-voting preferred stock can contribute to CFC status if it represents more than 50% of the corporation's value.
2. **Indirect Ownership.** Stock owned by entities (corporations, partnerships, trusts) is attributed to their owners in proportion to their ownership interests.
3. **Constructive Ownership.** Stock owned by certain family members, or entities controlled by the shareholder, is treated as owned by the shareholder.
4. **Look-Through Rules.** For certain tax years, ownership through foreign partnerships or trusts is taken into account in determining CFC status.

U.S. Tax Implications for a CFC Owner

When a foreign corporation qualifies as a CFC, U.S. shareholders may face two primary sets of tax rules:

A. Normal Taxation on Distributions

Under general U.S. tax rules, a U.S. shareholder of a foreign corporation is not taxed until the corporation distributes dividends. The dividends are then taxable in the U.S., with a potential foreign tax credit (FTC) to avoid double taxation. However, these rules are modified significantly for CFCs.

B. Current Inclusion Rules (Anti-Deferral)

Under Subpart F and GILTI, certain earnings of the CFC must be included in the shareholder's U.S. taxable income in the year they are earned—even if not distributed. These rules target income that is considered highly mobile or easily shifted to low- tax jurisdictions.

Net CFC Tested Income (NCTI)

NCTI is a broader category that captures the excess of a CFC's income over a deemed return on its tangible assets. Unlike Subpart F, NCTI applies to most active business income of a CFC, unless the CFC is already paying a relatively high foreign tax rate.

Common Compliance Issues of a Controlled Foreign Corporation

Failure to Identify CFC Status One of the most common compliance issues with Controlled Foreign Corporations is the failure to recognize that a foreign entity qualifies as a CFC in the first place. U.S. shareholders may unintentionally trigger CFC status when ownership exceeds 50 percent by vote or value, including through constructive ownership rules that attribute shares held by related parties or entities.

Missing or Incorrect Form 5471 Once a foreign corporation is a CFC, U.S. shareholders are generally required to file Form 5471, which is frequently missed or improperly completed. Common errors include failing to file the form entirely, selecting the incorrect filer category, or submitting incomplete schedules, each of which can result in significant penalties even when no tax is ultimately due.

Missing Anti-Deferral Income Another frequent issue is the underreporting of Subpart F income. Certain categories of income earned by a CFC—such as services income, interest, royalties, and related-party transaction income—are subject to current U.S. taxation regardless of whether the earnings are distributed to shareholders.

Incorrect Calculations GILTI compliance also presents challenges, particularly for individuals and pass-through entities. Taxpayers often fail to file the required forms or incorrectly calculate tested income, tested losses, or qualified business asset investment, leading to either underpayment or unnecessary overpayment of U.S. tax.

Earnings and Profit Errors Controlled Foreign Corporation taxation relies heavily on earnings and profits calculations, which are often misunderstood or overlooked. Many taxpayers incorrectly rely on foreign tax or financial statement income without making required U.S. tax adjustments or properly tracking previously taxed earnings and profits.

Currency Translation Mistakes Currency translation errors are another common compliance problem. Income, expenses, taxes, and balance sheet items must be translated using specific IRS rules, and an inconsistent or incorrect exchange rate application can distort taxable income and foreign tax credit calculations.

Foreign Tax Credit Misreporting Foreign tax credit reporting frequently creates issues in CFC structures, particularly when credits are claimed for non-creditable taxes or misallocated among income baskets. Coordination between Subpart F, GILTI, and foreign tax credits is complex and commonly mishandled.

Overlooking Related Party Transactions Related-party transactions between a CFC and U.S. owners or affiliated entities are often insufficiently documented or improperly priced. Management fees, intercompany services, loans, and intellectual property

arrangements must be disclosed and generally require arm's-length support to withstand scrutiny.

Ignoring Withholding and Informational Returns, CFCs can also trigger additional withholding and information reporting obligations that are frequently overlooked. Depending on the structure and transactions involved, failures may occur with withholding tax filings, foreign transfers, entity classification elections, or shareholder-level reporting such as FBAR or FATCA disclosures.

Poor Documentation and Recordkeeping. Finally, inadequate documentation and recordkeeping compound many CFC compliance problems. Without clear ownership records, earnings and profits workpapers, transfer pricing support, and reconciliation schedules, even technically correct positions can become difficult to defend during an examination.

IRS Penalties for Controlled Foreign Corporations

Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, is required for U.S. persons who are officers, directors, or shareholders of certain foreign corporations—including Controlled Foreign Corporations (CFCs). It is filed with the U.S. person's income tax return. Failure to file may result in the following (civil) penalties:

1. **Failure to File.** Of \$10,000 per form, per year. In certain cases, a continuation penalty will apply.
2. **Reduction of Foreign Tax Credits.** The IRS may reduce or eliminate foreign taxes by up to 10% for each 3-month period, up to 100%.
3. **No Statute of Limitations.** Failure to file Form 5471 will keep the statute of limitations open indefinitely.
4. **Accuracy Related Penalties.** If the failure leads to unreported income, a 20% penalty applies for the unpaid tax.

IRS Reallocations

The IRS has the authority to reallocate income, deductions, credits, or allowances among related parties to ensure their transactions reflect arm's-length pricing—as if the parties were unrelated.

In plain English: if commonly controlled businesses (or individuals and businesses) shift profits to reduce taxes, the IRS can step in and adjust the numbers to what it thinks is fair and market-based.

Key Points

- Who it applies to: Related entities under common control (parent-subsidiary, brother-sister companies, related individuals, foreign affiliates, etc.), targeting the transfer pricing of goods, services, royalties, interest, cost-sharing arrangements, and management fees.
- Purpose: Prevent income shifting to low-tax jurisdictions or entities and clearly reflect income. Arm's-length standard: Prices and terms must match what unrelated parties would agree to under similar circumstances.
- International focus: Frequently used in cross-border transactions, but it also applies domestically.
- IRS adjustments under §482 can trigger additional tax, penalties, and interest.

How to Avoid IRS Reallocations

A business can avoid IRS reallocations under IRC §482 by ensuring all transactions with related parties are priced and structured according to the arm's-length standard, supported by **contemporaneous transfer pricing documentation** that applies accepted methods (such as CUP, CPM, or TNMM) and reflects economic reality; this includes using written intercompany agreements, benchmarking prices to reliable third-party comparables, consistently applying pricing policies across tax years, and regularly updating analyses to reflect changes in functions, assets, risks, and market conditions, thereby demonstrating that income is clearly reflected and not shifted to reduce tax.

In Closing

A Controlled Foreign Corporation is a powerful and common structure for U.S. citizens conducting international business. However, the CFC regime under U.S. tax law is highly regulated, aiming to **prevent the deferral of U.S. taxes** through offshore entities. While CFCs can offer legitimate operational and tax-planning benefits—such as reduced foreign taxes, asset protection, and access to local markets—they also entail **complex reporting obligations** and **potential current-year income inclusions** under Subpart F and NCTI.

Any U.S. person considering or currently owning a CFC must carefully weigh:

1. **Ownership thresholds and attribution rules.** Will the foreign corporation have more than fifty percent ownership? Will a spouse or family member affect the attribution rules?
2. **Impact of anti-deferral rules.** Will there be deferred income? If not, how will the current year's income be taxed?
3. **Compliance burden and penalties.** Does the compliance cost of maintaining a foreign corporation outweigh its benefits?
4. **Foreign tax credit interactions.** Is the foreign corporation paying foreign tax? If so, can these credits offset a potential personal tax liability?
5. **Long-term operational strategy.** What is the long-term goal of the foreign corporation from a tax perspective?

The Basics of Controlled Foreign Corporations. Engaging experienced international tax professionals is essential to navigating the intricacies of CFC taxation, ensuring compliance, and optimizing tax outcomes.

Controlled Foreign Corporation (CFC) for U.S. Individuals Living Offshore

Understand the conditions, reporting requirements on Form 5471, and how to avoid costly mistakes and IRS scrutiny.

1. What is a Controlled Foreign Corporation?

A foreign corporation is a CFC if it meets BOTH the ownership test and the U.S. shareholder test.



1 Ownership Test – More Than 50%

A foreign corporation is a CFC if it meets BOTH the ownership test and the U.S. shareholder test.



2 U.S. Shareholder Test – 10% Test

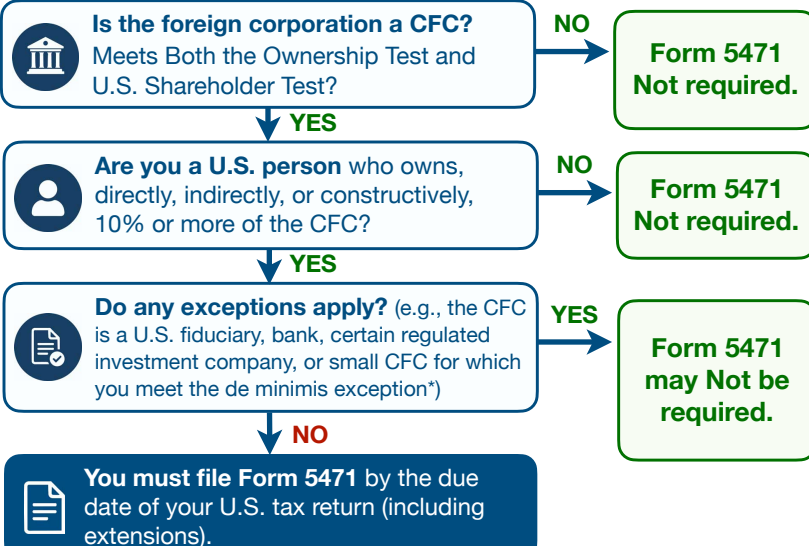
At least **One** U.S. shareholder (you) must own, directly, indirectly, or constructively, at least 10% of the total combined voting power **Or** 10% of the total value of all classes of stock.

• Note for U.S. Individuals Living Offshore

You are a U.S. person for tax purposes regardless of where you live. If you own (directly or indirectly) 10% or more in a foreign corporation that meets the ownership test, the corporation is a CFC and you have reporting and tax obligations.

2. Form 5471 – Basic Flowchart

If the corporation is a CFC, certain U.S. shareholders must file Form 5471. Follow this decision path:



*De minimis exception (Treas. Reg. §1.5471-2): The CFC's total assets are \$250,000 or less And your investment is \$50,000 or less.

3. Form 5471 – Reporting Categories (Parts of the Form)

Part I General Information



- CFC and filer identification
- Ownership percentage, entity classification, contact information

Part II Balance Sheet



- Assets, liabilities, and equity of the CFC
- Year-end values

Part III Income Statement



- Revenues, expenses, and other items
- Year-to-date amounts

Part IV Information on Related Parties



- Transactions with related parties
- Amounts, pricing, and descriptions

Part V Shareholder Information



- Detailed information on each U.S. shareholder
- Ownership percentages and tax ID numbers

Part VI Other Information



- Additional disclosures (loans, intangibles, officers/directors, resolutions, etc.)

4. Common Pitfalls & Errors Increasing IRS Examination Risk



- 1 Misclassifying CFC Status**
Underestimating ownership
- 2 Failure to Report Indirect/Constructive Ownership**
Missing shares held through entities or family
- 3 Not Reporting Accurate Financials**
Differences between local and U.S. GAAP/Tax



- 1 Neglecting to File All Schedules**
(e.g., J, M, N, O, P, Q, R)
- 2 Misreporting Transactions with Related Parties**
Missing intercompany pricing details
- 3 Ignoring Attribution Rules**
Failing to count shares owned by related people or entities



Penalties for Noncompliance



\$10,000 penalty for each failure to file Form 5471 (up to \$50,000 per year).



\$10,000 penalty for each 30-day period of failure to file after IRS notice (up to \$50,000).



Higher penalties may apply for willful disregard or fraud.

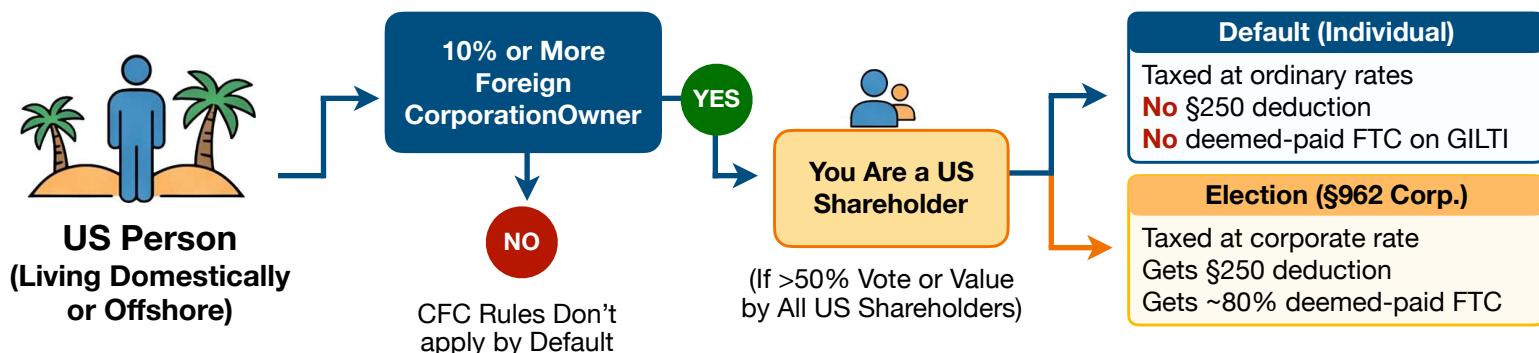


Increased likelihood of IRS examination and assessments.

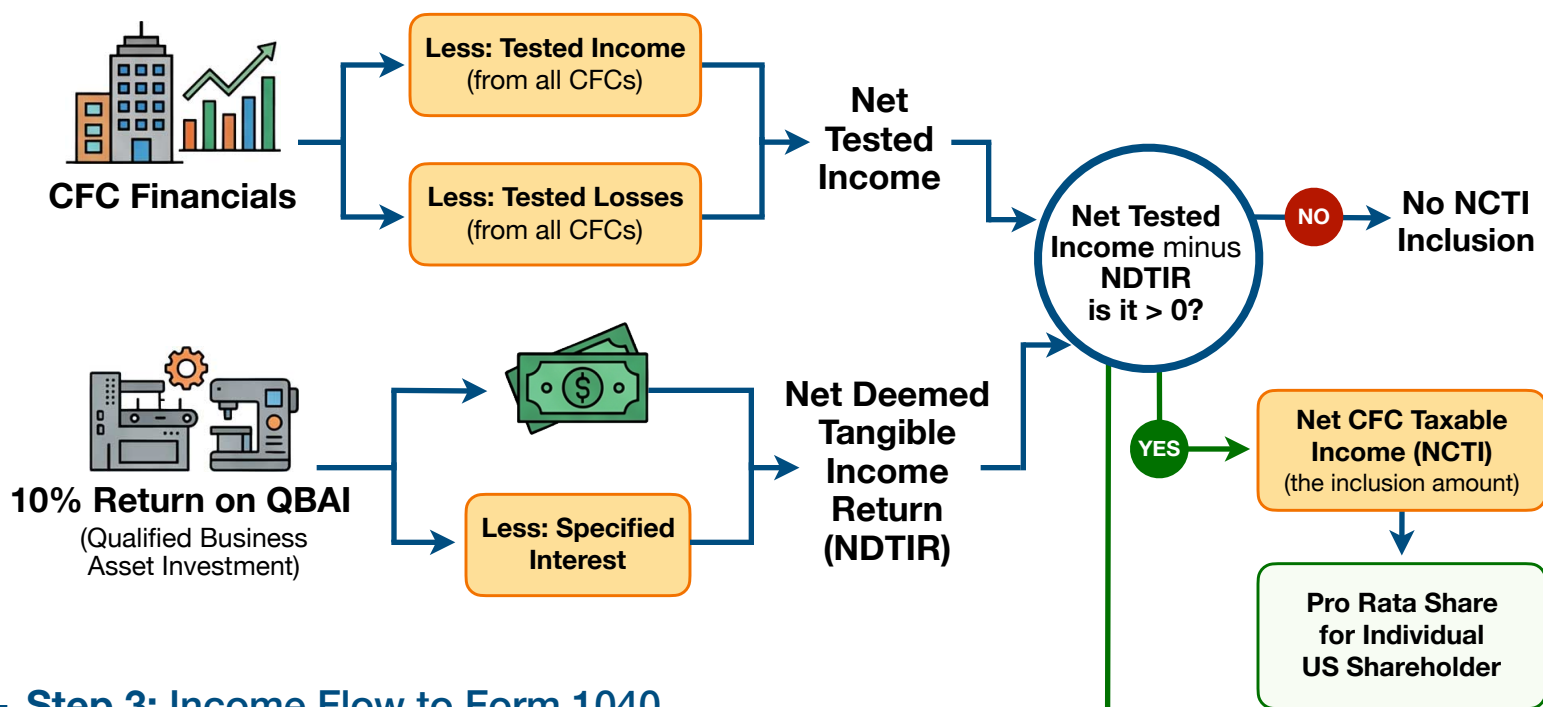
U.S. Individual's Guide to Taxation of Controlled Foreign Corporation (CFC) Income

(Living Offshore)

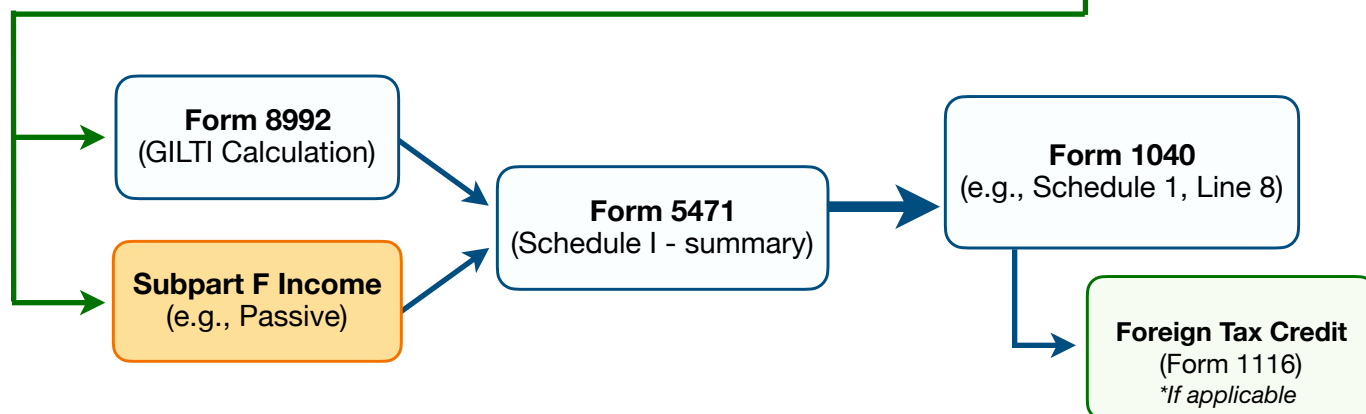
Step 1: Do the CFC Rules Apply to You?



Step 2: Calculating Net CFC Taxable Income (NCTI) - Formerly GILTI



Step 3: Income Flow to Form 1040



Section II

Determining the Proper Structure

“Although having a single entity may offer simplicity, multiple entities may provide tax benefits, liability protection, and other domestic and foreign advantages.”

Before receiving money from customers, an efficient tax structure should be developed and documented in writing. This tax structure will help you visualize:

1. **Where will your income come from?**
2. **What entity will receive that income?**
3. **What entity will pay out that income to its owners?**
4. **How will that income be paid to you?**
5. **What will be the tax effect of receiving that income?**

Based on your unique situation, you should determine if this structure includes a U.S. entity, a foreign entity, or a combination of both. Although having a single entity may offer simplicity, **multiple entities may provide tax benefits, liability protection, and other domestic and foreign advantages.** Yet, with every entity, there is an additional compliance burden to consider. There can be a multitude of ways American Expats can structure their taxes, yet there are four basic categories, in order of efficiency:

- **Sole Proprietor - Earning Self Income.** This is a business owner who operates in an individual capacity, generally with no separate legal entity. Additionally, Single Member LLCs default to this structure unless a separate election is made.
- **C-Corporation - Paying a W-2 (U.S. Based) Salary.** This is a traditional corporation generally intended for large-scale businesses, with double taxation, and shareholders who can trade their stock in the corporation. No limit applies to the number or type of shareholders.
- **S-Corporation - Paying a W-2 (U.S. Based) Salary.** This is a type of corporation reserved for small businesses with a cap on the number of shareholders. Once an S-Corporation election is made, the income ‘flows through’ to its shareholders. There are limits on the type of shareholders that can own shares.

- **Foreign Corporation - Paying a Foreign Salary.** This is an entity formed outside the United States and often comes with complex tax rules and compliance forms. Depending on the jurisdiction, a foreign corporation can elect to be a C-Corporation, treated as a disregarded entity (as if it doesn't exist for Federal tax purposes), or remain as a Foreign Corporation with default rules. Depending on a number of factors, the income from foreign corporations can either be deferred (taxed when dividends/distributions are paid to the owner) or be captured under anti-deferral rules (income taxed to the U.S. owner, even if no dividends/distributions are paid).
- **Foreign Owned LLC (Classified as a Disregarded Entity for Federal Tax Purposes) - Paying a Foreign Salary Indirectly.** Although this is a Limited Liability Company formed within the United States the default classification is regarded to as a “Disregarded Entity” when wholly owned. In this case, the LLC is essentially relatively invisible for Federal Income Tax purposes, and takes on the characteristics of its owner indirectly. In the examples covered in this guidebook, there United States LLC will be a wholly owned subsidiary of a foreign entity, thus giving it the features of that foreign entity.

**It is also worth noting that United States LLCs are referred to as “hybrid entities”; they can technically be almost anything: a Sole Proprietorship, a C-Corporation, an S-Corporation, or a Partnership. Therefore, context should be considered when determining an LLC's tax status.*

The first three options listed above are not described in this guidebook as part of a tax-free structure, as they include either a Self-Employment Tax of ~15.3% or a combined Social Security Tax of a employer/employee combined tax of ~15.3%. As a result, only the most effective structures (the latter two) are described in this guidebook.

Not mentioned above are **Partnerships** and **Trusts**, which are flow-through entities but are relatively rare in the context of American expatriates implementing tax strategies.

This phase of the guidebook will explore each of the options mentioned above and illustrate the effectiveness of having multiple entities (a parent and a subsidiary).

Chapter 4

Direct Foreign Corporation Structure

In this Chapter, we explore the International Tax Structure of A consultant working overseas who earns a salary from a foreign corporation to claim the Foreign Earned Income Exclusion, in addition to receiving dividends, to **reduce his U.S. tax liability to zero**. This structure is a simple way to obtain a salary from a foreign corporation to claim the Foreign Earned Income Exclusion, while also being **exempt from U.S. Social Security taxes** while working in a foreign country.

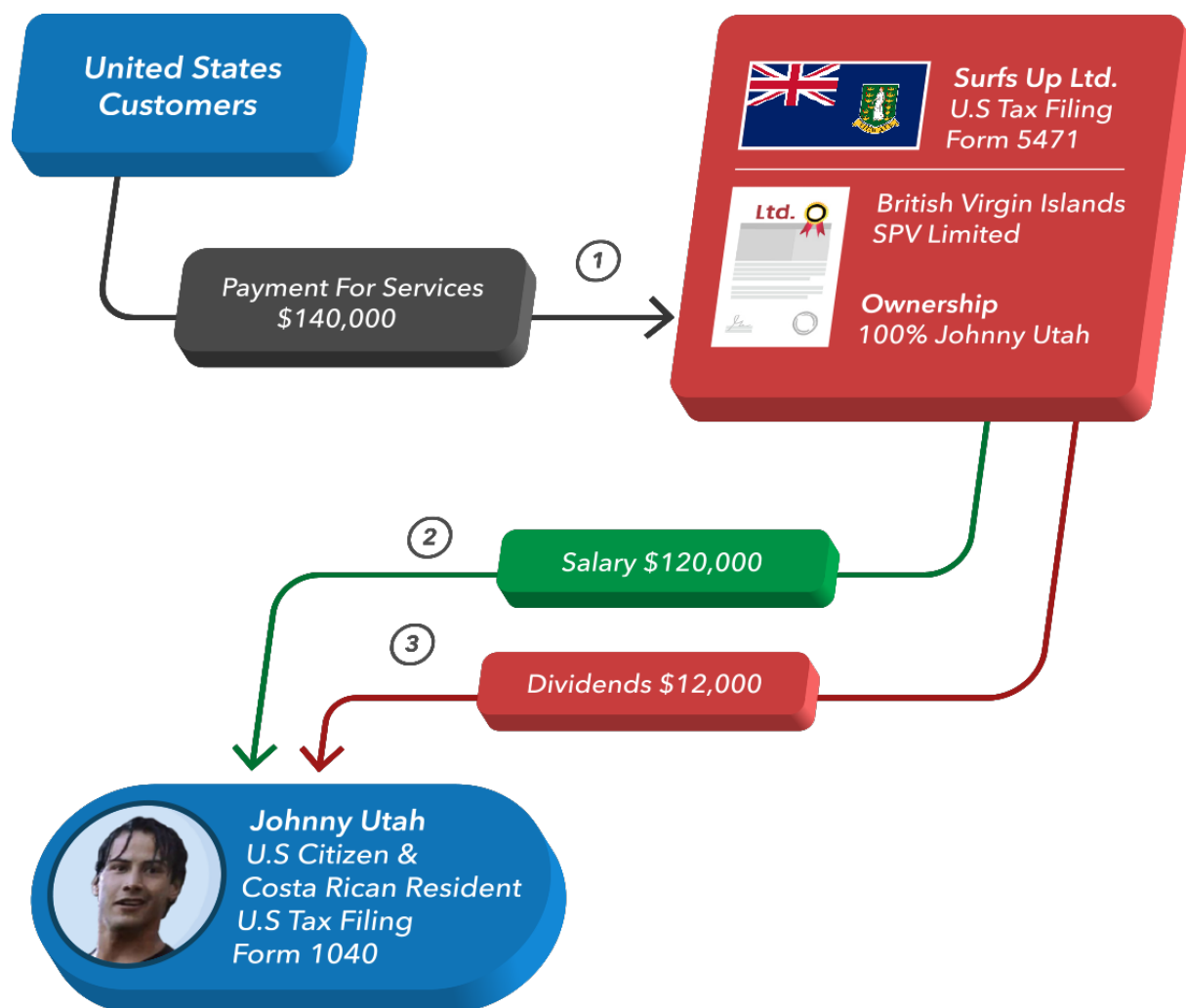
This structure is described in the International Tax Structures for Americans Living Abroad guidebook, Offshore Consultant Salary from BVI Ltd., and you can read more at <https://pacifico.tax/international-tax-structures>.

Structure Background

Direct Foreign Corporation Structure

A British Virgin Islands SPV, Surfs Up Ltd. (owned wholly by Johnny Utah), received compensation from customers based in the United States for advisory consultation related to the surfing industry. Johnny, a U.S. citizen, resides in Costa Rica as a Permanent Resident, where he spends his free time surfing great waves and watching the sunset.

Johnny did not travel to the United States during the year and qualifies for the Foreign Earned Income Exclusion under both the bona fide residence test and the physical presence test per Internal Revenue Code §911.



Monetary Transactions & Accounting

1. The total payments from U.S. customers to the BVI corporation for consultation services were \$140,000 throughout the year.
2. During the same calendar year, the BVI corporation compensates Johnny a \$120,000 Salary. As the performance of work is based on where the work was performed, rather than the location of the customer, all income is considered foreign-source income. Furthermore, his salary from a foreign corporation while working in a foreign country is not subject to U.S. Social Security and Medicare tax per Internal Revenue Code §3121.
3. In addition to his salary, \$12,000 of dividends from retained earnings were also paid to Johnny before the end of the year.
4. Surfs Up, Ltd. earned a total of \$140,000 for consultation income, paid \$120,000 of salary expenses to Johnny, had other administrative expenses of \$8,000 throughout the year, resulting in a Net Income of \$12,000.

U.S. Tax Filing Compliance

5. **Form 1040 (Johnny Utah).** Based on his U.S. worldwide income of \$132,000, he elects a Foreign Earned Income Exclusion to exclude his salary of \$120,000 on [Form 2555, Foreign Earned Income](#). After also claiming the Standard Deduction of \$12,000, his taxable income is reduced to \$0. He must also file Form [5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#), in relation to his ownership of Surfs Up, Ltd., to satisfy the reporting requirements of Internal Revenue Code §6038. As a result of all retained earnings being paid to Johnny as related part dividends, the taxable portion of Net CFC Taxable Income (NCTI) is \$0 per Internal Revenue Code §951A.

Summarized Tax Returns and Financial Statements

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Surfs Up Ltd. Income Statement

Consultation Income	\$140,000
Salary Expense	\$120,000
Administrative Expenses	\$8,000
Net Income	\$12,000
Dividends Paid	\$12,000
Retained Earnings	\$0

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Form 1040

Johnny Utah (Single)

Salary	\$120,000
Dividends	\$12,000
Total Income	\$132,000
Standard Deduction	- \$12,000
Foreign Earned Income Exclusion	- \$120,000
Federal Taxable Income	\$0

Form 5471

(Surfs Up Ltd.)

Net Income	\$12,000
Related Party Dividends Exemption	\$-12,000
Taxable NCTI	\$0

Resulting Tax Implications
Direct Foreign Corporation Structure

As a result of this structure and his income, the Federal personal U.S. tax liability of Johnny Utah is \$0. No state income tax is due, as he is not a resident of any U.S. state, nor has any income been sourced in any U.S. state.

Gross Income from All Sources	\$140,000
Gross Expenses from All Sources	\$8,000
Total Net Income	\$132,000
Federal Income Tax	\$0
Effective Tax Rate (Single)	0%

Direct Foreign Corporation Structure

Simplicity & Compliance

The Foreign Corporation is a relatively simple tax structure: a single entity, but it comes with compliance costs and procedures for foreign corporations that may require more work than a U.S. entity. This will likely involve complex record-keeping, and potentially large amounts of legal/tax compliance paperwork.

Tax Implications

Assuming it falls under the annual Foreign Earned Income Exclusion threshold, the entire U.S. tax liability can be eliminated, making it one of the most advantageous structures for Americans living offshore.

Overall Effectiveness

A combination of simplicity and a potentially tax-free scenario makes this an effective choice for U.S. tax purposes. Yet, this structure may not be as optimal given its compliance costs and the difficulty of customer payments. Oftentimes, receiving payments from customers into foreign corporations comes with added difficulty.



Compliance Warning: Ideally, the Controlled Foreign Corporation should show some level of Net Income, at least occasionally, to avoid compliance issues with tax authorities. Zero Net Income or continual losses year after year could give the appearance of base erosion.

Chapter 5

S-Corporation with Foreign Corporation Subsidiary

In this Chapter, we explore the International Tax Structure of Co-owners of an S-Corporation (with a foreign subsidiary) who provide consulting services while working overseas to claim the Foreign Earned Income Exclusion and the foreign housing exclusion from their salaries paid from the foreign corporation in the British Virgin Islands. **This is an ideal structure for owners of an S-Corporation** claiming the Foreign Earned Income Exclusion and who prefer to be compensated by a foreign corporation to be **exempt from U.S. Social Security Taxes** on their salary.

This structure is described in the International Tax Structures for Americans Living Abroad guidebook, Offshore Consultants (Foreign Salary from BVI Entity with S-Corporation Agreement), and you can read more at <https://pacifico.tax/international-tax-structures>.

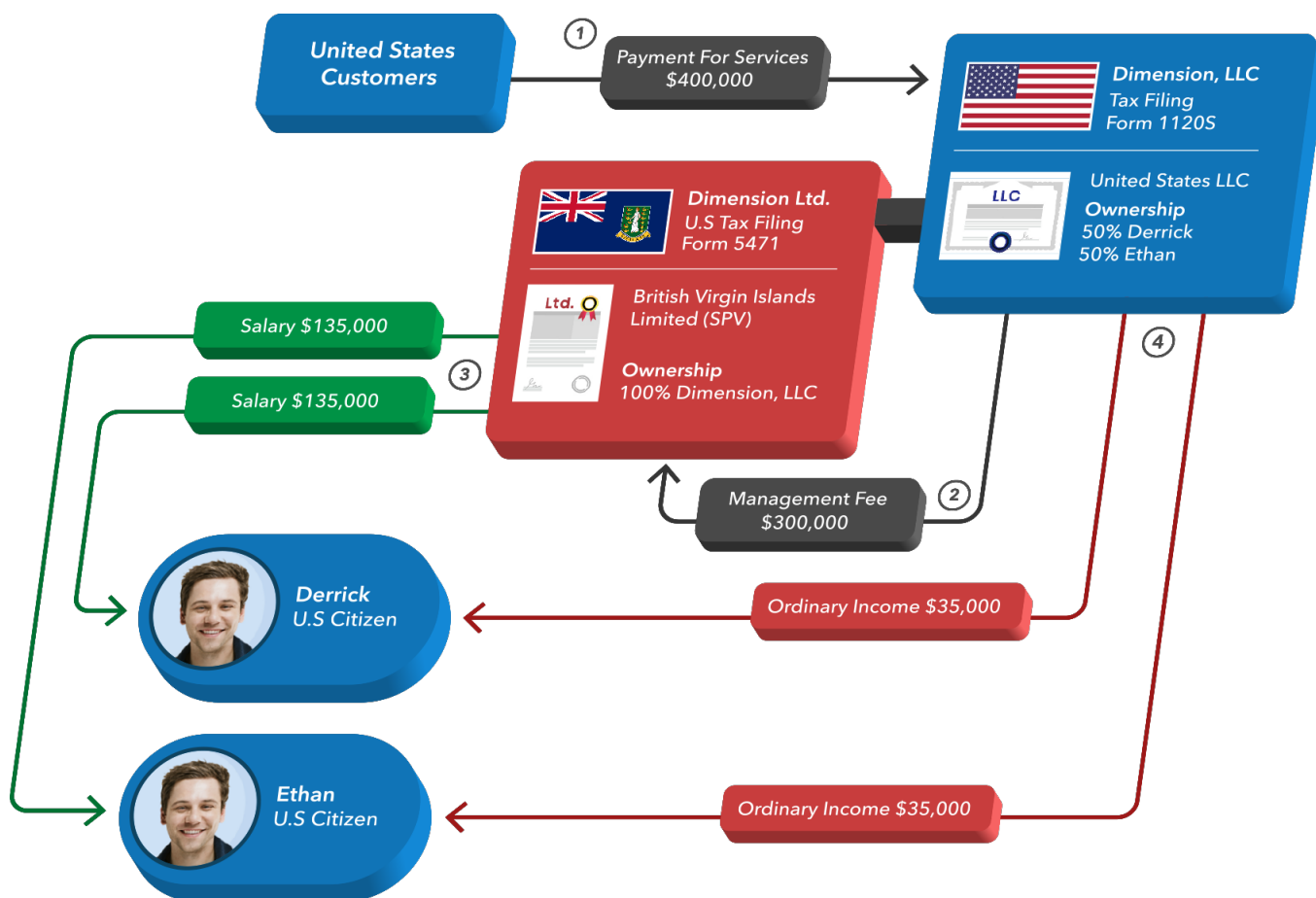
Structure Background

S-Corporation with Foreign Corporation Subsidiary

Dimension, LLC (owned 50% by Ethan and 50% by Derrick, brothers who are U.S. citizens) is taxed as an S-Corporation per Internal Revenue Code §1361 and received payment from U.S. customers for consulting services.

The S-Corporation is a parent company of a foreign subsidiary, Dimension Ltd., a British Virgin Islands wholly owned subsidiary. The S-Corporation has an intracompany agreement to compensate the foreign subsidiary for management services provided on its behalf. Both Ethan and Derrick are employed by the foreign corporation, Dimension Ltd., and they receive wages, in addition to their ordinary income from the S-Corporation.

Both Ethan and Derrick are residents of Sudan, and also remain outside the United States for more than 330 days during the year, qualifying them for the Foreign Earned Income Exclusion under the physical presence test per Internal Revenue Code §911. While traveling and living abroad, they each incur a significant amount of housing expenses, which are also partially excludable per Treasury Regulation §1.911-7.



Monetary Transactions & Accounting

1. The total payments from U.S. customers for services were \$400,000 for the entire year. The business recognizes income under the cash basis of accounting.
2. There is an Intracompany Agreement between Dimension, LLC, and Dimension, Ltd. for an annual Management Fee of \$300,000 per year.
3. During the year, Dimension, Ltd. compensates both Ethan and Derrick \$135,000 each of an annual salary.
4. During the year, Dimension, LLC has \$70,000 of Net Income, and compensates Derrick and Ethan \$55,000 each, as to be shown on their Schedule K-1 as Ordinary Income.

U.S. Tax Filing Compliance

5. **Form 1120S (Dimension, LLC).** At the conclusion of the year, Dimension, LLC has Ordinary Net Income of \$70,000 (Revenue of \$400,000 less \$300,000 of Management Expenses, less \$30,000 of Administrative Expenses). As income is shared equally, Ethan receives a Schedule K-1 reporting \$35,000 of Ordinary Income, and Derrick receives a Schedule K-1 reporting \$35,000 of Ordinary Income as well.
6. **Form 5471 (Dimension Ltd.).** Form [5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#), is required to be reported as an attachment to the S-Corporation in relation to its ownership of Dimension, Ltd., to satisfy the reporting requirements of Internal Revenue Code §6038. The resulting Net Income of the Foreign Corporation is \$0.
7. **Form 1040 (MFJ Derrick).** On his Married Filing Joint tax return, Derrick reported a total income of \$250,000 (\$135,000 of wages from Dimension, Ltd., \$80,000 of wages from his spouse, and \$35,000 of Ordinary Income from Dimension LLC. He elects to claim the Foreign Earned Income Exclusion on [Form 2555, Foreign Earned Income](#), for a maximum exclusion of \$216,000. Additionally, their foreign housing costs are partially deductible, resulting in a foreign housing exclusion of \$16,000 (*total foreign housing expenses of \$32,000 were paid during the year). After also claiming the Standard Deduction of \$24,000, their taxable income is reduced to \$0. It will also be noted Ethan's tax situation is similar.

Summarized Tax Returns and Financial Statements

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Form 1040 (MFJ) Derrick

Wages (Derrick)	\$135,000
Wages (Spouse)	\$80,000
Ordinary Income	\$35,000
Total Income	\$250,000
Foreign Earned Income Exclusion	- \$216,000
Foreign Housing Exclusion	- \$16,000*
Standard Deduction	- \$24,000
Taxable Income	\$0
U.S. Tax	\$0

5

Form 1120-S Dimension, LLC

Income	\$400,000
Management Expense	- \$300,000
Administrative Expenses	- \$30,000
Net Ordinary Income	<u>\$70,000</u>

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Form 5471 Dimension Ltd.

Management Income	\$300,000
Salary Expense	- \$270,000
Administrative Expenses	- \$30,000
Net Ordinary Income	<u>\$0</u>

Resulting Tax Implications

S-Corporation with Foreign Corporation Subsidiary

As a result of this structure, the U.S. tax liability of Derrick is \$0, after claiming the Foreign Earned Income Exclusion, Foreign Housing Exclusion, and Standard Deduction.

Gross Income from All Sources	\$250,000
Gross Expenses from All Sources	\$0
Total Net Income	\$250,000
Federal Income Tax	\$0
Effective Tax Rate (Married Filing Jointly)	0%



Compliance Warning. The deductible portion of the Management Fee paid to a foreign related party is subject to interpretation. Transfer Pricing rules and other factors should be considered when making this determination. The IRS can re-apportion the Management Fee if it determines that the Management Fee paid to a foreign-related party is too high.

S-Corporation with Foreign Corporation Subsidiary

Simplicity & Compliance

An S-Corporation with a Foreign Corporation subsidiary is a complex tax structure: a two-entity structure in which one entity legally owns the other. This will often entail very high compliance costs and a multitude of procedures that will require additional work for both the U.S. and foreign entities. This will involve complex record-keeping and potentially substantial legal and tax compliance paperwork.

Tax Implications

Assuming it falls under the annual Foreign Earned Income Exclusion threshold, the entire U.S. tax liability can be eliminated, making it also one of the most advantageous structures for Americans living offshore.

However, there are additional tax compliance risks when involving transfers between entities, and accurate record-keeping is key to tax efficiency.

Overall Effectiveness

A combination of tax effectiveness and payment processing flexibility with the U.S. financial system makes this an optimal choice for U.S. tax purposes. Yet this structure is highly complex, with additional legal, tax, and financial record-keeping and compliance costs.

Chapter 4

Foreign Owned LLC Structure

In this Chapter, we explore the International Tax Structure of A Real Estate salesman receives a salary and dividends through a U.S. Limited Liability Company (taxed as a Disregarded Entity for U.S. tax purposes), which is the subsidiary of a Costa Rican corporation parent company. This structure is ideal for real estate professionals who prefer to receive commissions into a U.S. bank account while at the same time qualify for the **Foreign Earned Income Exclusion**.

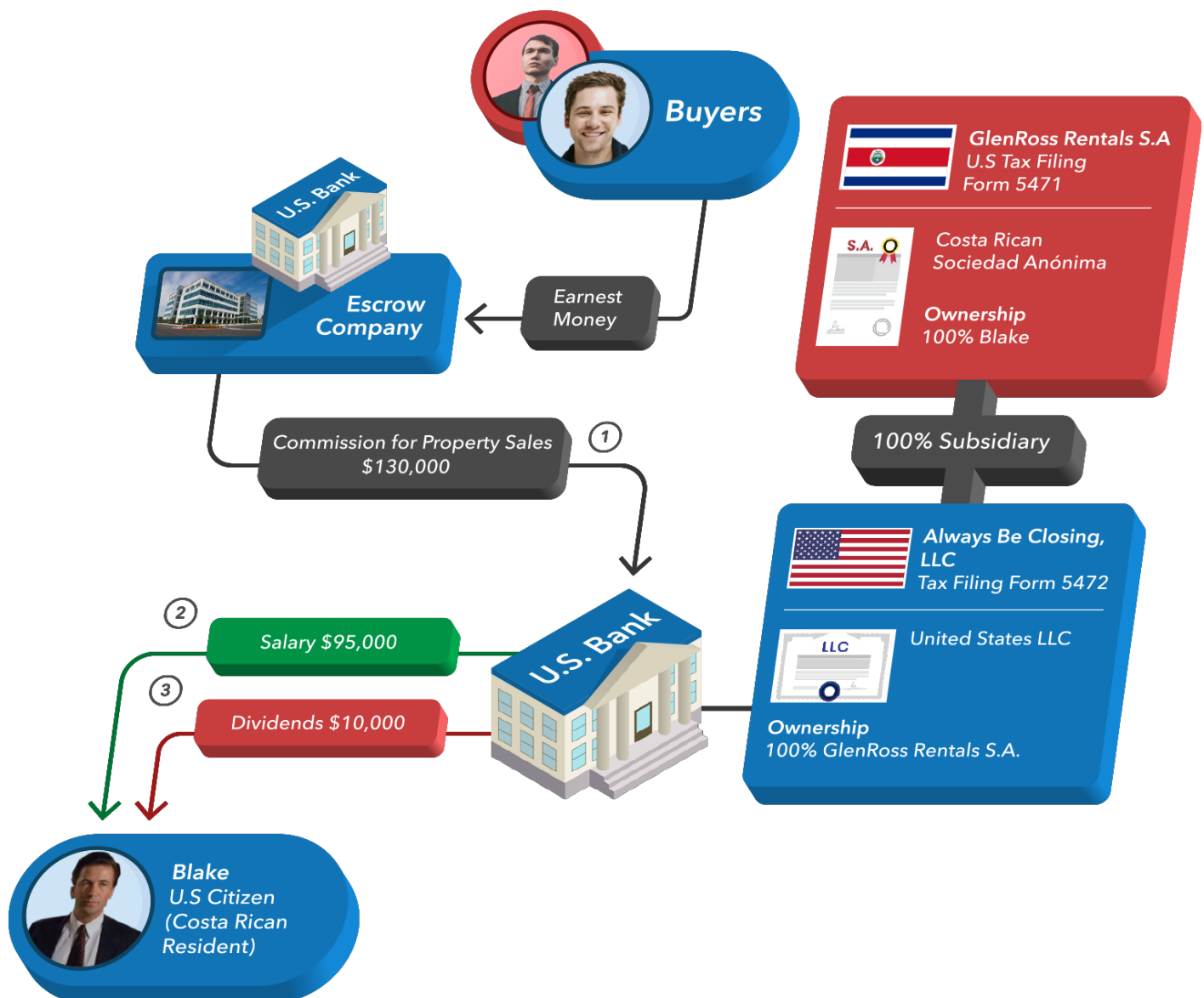
This structure is described in the International Tax Structures for Americans Living Abroad guidebook, Real Estate Agent (Costa Rican SA Parent U.S. LLC Subsidiary). You and you can read more about this structure at <https://pacifico.tax/international-tax-structures>.

Structure Background

Real Estate Agent Costa Rican SA Parent US LLC Subsidiary

Blake, a U.S. citizen and Costa Rican Resident, is the owner and manager of GlenRoss Rentals S.A. (Sociedad Anónima), which provides rental management services for Glen Ross Farms, luxury real estate units along the shoreline of Costa Rica.

Occasionally, a unit within Glen Ross Farms is sold, and Blake, being a highly motivated salesman, acts as a real estate agent for the transaction. However, the buyer is often paying in U.S. Dollars and requires escrow services to be completed by a U.S. escrow provider. As a result, a U.S. bank account is required for Blake to receive commission revenue. In order to accept payments in U.S. dollars, Always Be Closing, LLC, a Delaware Limited Liability Company, is formed as a subsidiary of GlenRoss Rentals S.A., and a bank account is opened to have funds wired to the account for commission revenue.



Funds from this bank account also cover administrative expenses related to business activities, including sales commissions, as well as salaries and dividends paid to Blake throughout the year.

Blake did not travel to the United States during the year and qualifies for the Foreign Earned Income Exclusion under both the bona fide residence test and the physical presence test per Internal Revenue Code §911. His salary from a foreign corporation while working in a foreign country is not subject to U.S. Social Security and Medicare tax per Internal Revenue Code §3121.

Subsidiary Classified as a Disregarded Entity (DE)

As a Single-Member LLC, Always Be Closing, LLC is classified as a disregarded entity for Federal tax purposes per Treasury Regulation § 301.7701-3, and conducts no business in the United States (further explanation below).

Not 'Engaged in a U.S. Trade or Business' in the United States

The primary purpose of the United States LLC is to easily collect payment from customers in U.S. Dollars, easily pay for expenditures, and easily conduct business through the use of the domestic banking system. Always Be Closing, LLC also owns a virtual mailbox in the state of Florida in order to receive U.S. mail, as required by financial institutions. Blake performs his services related to sales in Costa Rica. Based on the circumstances, the foreign corporation is determined not to be “conducting business” in the United States solely by owning a U.S. LLC for banking and mailing purposes per Internal Revenue Code §862 and related definitions found in Internal Revenue Code §864.

The subsidiary disregarded entity or the foreign parent maintains a Permanent Establishment in the United States within the meaning of Article 5 of the OECD Model Convention with respect to taxes.

Monetary Transactions

1. The total payments from all sales originating from the United States escrow company to the United States LLC for commission revenue was \$130,000 for the entire year.
2. During the year, the U.S. LLC compensates Blake a salary of \$95,000.
3. Additionally, \$10,000 of dividends (total Net Earnings of the LLC business activity) were also paid to Blake during the year.
4. On its annual Income Statement, Always Be Closing, LLC earned a total of \$130,000 for commission revenue, paid \$95,000 of salary expense to Blake, had other Administrative expenses of \$25,000, resulting in Net Income of \$10,000 all of which were paid out as dividends during the current year.

Tax Compliance

5. **Pro Forma Form 1120, with Form 5472 (Always Be Closing, LLC).** Foreign Owned Disregarded Entities must generally file [Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business](#) to report certain reportable transactions per Internal Revenue Code §6038.
6. **Form 1040 (Blake).** On his U.S. Federal income tax return, Blake's worldwide income is \$105,000 (Comprising \$95,000 of a salary and \$10,000 of ordinary dividends). He elects a Foreign Earned Income Exclusion to exclude his wages of \$95,000 on [Form 2555, Foreign Earned Income](#). After also claiming the Standard Deduction of \$12,000, his taxable income is reduced to \$0. He must also file [Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#) in relation to his ownership of GlenRoss Rentals S.A. to satisfy the reporting requirements of Internal Revenue Code 6038.
 - Attached to his personal income tax return, Blanke is required to file [Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#) in relation to their ownership of the foreign corporation, to satisfy the reporting requirements of Internal Revenue Code §6038. All earnings are paid out as dividends, and as a result of all retained earnings being paid to Matthew and Chrissy as related part dividends, there is no taxable Global Intangible Low-Taxed Income (GILTI) per Internal Revenue Code §951A.

Summarized Tax Returns and Financial Statements

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Always Be Closing, LLC Income Statement

Commission Revenue	\$130,000
Salary Expense	- \$95,000
Administrative Expenses	- \$25,000
Net Income	\$10,000

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Form 5472 (Always Be Closing, LLC)

Foreign Owned DE

Salary	\$95,000
Dividends	\$10,000

6

Form 1040 Blake (Single)

Salary	\$95,000
Dividends	\$10,000
Foreign Earned Income Exclusion	- \$95,000
Standard Deduction	- \$12,000
U.S. Taxable Income	\$0

Form 5471 (GlenRoss Rentals S.A.)

Net Income	\$10,000
Related Party Dividends Exemption	- \$10,000
Taxable GILTI	\$0

Resulting Tax Implications

As a result of this structure, the U.S. tax liability of Blake is \$0, as a result of claiming the Foreign Earned Income Exclusion and Standard Deduction.



Compliance Warning. A Foreign-Owned United LLC classified as a Disregarded Entity for Federal Tax Purposes comes with compliance risks to be aware of, including:

- Failure to file the proper Form 5472 disclosure results in a penalty of \$25,000.
- Based on the activity and nature of the business, a U.S. Trade or Business could be established, resulting in negative tax implications.
- Federal banking laws identifying a U.S. person as the beneficial owner could result in improper tax reporting and other compliance issues if foreign operations exist.
- Economic substance issues may also arise, resulting in compliance issues with the IRS.

Effective Tax Rate

Gross Income from All Sources	\$130,000
Gross Expenses from All Sources	\$25,000
Total Net Income	\$105,000
Federal Income Tax	\$0
Effective Tax Rate (Married Filing Jointly)	0%

Foreign Owned LLC Structure

Simplicity & Compliance

The Foreign Owned LLC Structure is not a simple structure: it requires both a Foreign Corporation to be incorporated, and a United States LLC as a subsidiary. For Federal Income tax purposes only one set of Accounting is required, yet there will be two requirements for annual reporting to each jurisdiction of formation.

Tax Implications

When paired with the Foreign Earned Income Exclusion, there is an exemption of income tax unto the annual limit and exemption of Social Security/Medicare tax when a Salary is paid, making it just as advantageous as having a Foreign Corporation.

Overall Effectiveness

Although not necessarily offering simplicity, the ability to be exempt from income tax unto FEIE limited and Self-Employment tax while at the same time having the versatility of a United States Limited Liability Company (LLC) can make it a viable option for some.

Section III

Implementation Checklist

“Establishing solid financial infrastructure—such as proper entity formation, dedicated business bank accounts, business credit cards, and reliable accounting platforms—is essential for American expatriates operating overseas.”

With a visual map of your tax structure in place, the next step is to form any required domestic or foreign entities, including the formation paperwork and operating agreements. From there, you will open bank accounts, credit accounts, and payment processors as needed to **operate each business effectively and more relevant, tax-efficiently.**

Establishing solid financial infrastructure—such as proper entity formation, dedicated business bank accounts, business credit cards, and reliable accounting platforms—is essential for American expatriates operating overseas. This structure creates a **clear separation between personal and business activities**, supports clean financial records, enables access to international banking and payment networks, and ensures compliance with U.S. reporting requirements such as FBAR, FATCA, and business tax filings. It also **protects the taxpayer legally**, enhances credibility with clients and financial institutions, and provides accurate documentation for deductions, payroll, and retained earnings.

When implemented strategically, this infrastructure becomes the foundation for tax-efficient planning. By operating through the correct entity, maintaining proper accounting, and paying oneself a reasonable salary eligible for the Foreign Earned Income Exclusion, many expatriates can legally reduce or even eliminate U.S. income tax liability. Combined with the foreign housing exclusion, applicable deductions, and foreign-sourced business operations, proper financial infrastructure allows Americans abroad to remain compliant while potentially achieving a \$0 federal income tax outcome—fully within IRS rules.

Step #0: Planning & Flowchart Development

Before formally legally implementing a tax structure, a written plan and developed visual representation of your structure must be created on paper to provide a framework of how the structure will be formed. Developing a organizational chart of paper will help the implementation process with better clarity and execution, and be helpful to outside parties when needed.

Ideally, a U.S. tax consultant (and potentially another accountant from other jurisdictions) would be involved and a written/visual deliverable should be maintained for your records.

Step #1: Entity Formation

Choosing the correct entity when developing a tax structure is **highly personalized** based on many factors. Ideally, a tax professional should be involved to understand your situation and provide guidance on the **pros and cons** of each structure with respect to these factors. The factors to be considered are:

- Physical location of the owner
- Proximity to Customers and Operations
- Banking availability and preferences of the owner
- Banking preferences of customers
- Brand Identity
- Specific customer requirements (i.e., government contracts)
- Foreign Residency Requirements
- Payment processor capabilities
- Compliance Costs & Administrative Burdens
- Credit/Vendor Payment Capabilities
- Language Barriers

Yet in summary, these two structures are often the most suitable:

1. For **SIMPLICITY**, have a **single Foreign Corporation** which conducts all business operations, and salary payments to the owner. An alternate, slightly more complicated option is a Foreign Owed LLC structure has certain benefits, but also disadvantages.
2. For **VERSATILITY AND OVERALL EFFECTIVENESS**, consider having an **S-Corporation** (an LLC formed either in Wyoming or Delaware) **with a Foreign Corporation subsidiary**. In some cases, the S-Corporation may act as the payment gateway and “front” of the business to any U.S.-based customers, while the Foreign Subsidiary will pay the foreign salary for FEIE purposes.

Where to form the Foreign Corporation?

One of the most common questions when forming a Foreign Corporation is “Where?”

Again, this is a highly personalized question with no specific answer. Some choose to have a Foreign Corporation in the country where they operate. Yet, this could lead to local income tax, sales tax, and social security tax implications.

In most cases, it is far more efficient to form a corporation outside the country of operations (for the sole purpose of paying a salary as part of the Foreign Earned Income Exclusion).

Below is a sample list of the most common locations used for this purpose:

Panama



Advantages: Territorial tax system, U.S. dollar-based economy, relatively low formation costs, and a favorable geographic position for the Americas.

Drawbacks: Reputation as a tax haven can cause banking friction; Spanish is the primary language.

Belize



Advantages: English-speaking, simple offshore company structures, and relatively low cost.

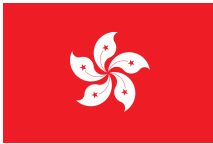
Drawbacks: Limited local banking options, reputational issues in global finance, may trigger anti-deferral scrutiny for passive income businesses.



Costa Rica

Advantages: Stable political environment, relatively low formation costs, good for those living in Central America.

Drawbacks: Spanish language requirement for most administrative tasks, increasing compliance costs and procedures, and slower bureaucratic processes.



Hong Kong

Advantages: Territorial tax system (profits earned outside HK are generally not taxed), efficient banking, and a major international trade hub.

Drawbacks: Increased scrutiny from international banks, geopolitical considerations, and higher setup complexity for Americans due to compliance checks.



Malta or Cyprus (for European Markets)

Advantages: EU access, favorable tax structures for certain foreign-owned businesses, and English is widely spoken.

Drawbacks: Higher compliance burdens, limited relevance for non-EU business models.



Canada

Advantages: English spoken, an economically and financially stable country, proximity to the United States, and relative ease of annual compliance. High-Tax Exemption for Net CFC Tested Income. Good for salary payments to owners.

Drawbacks: A high tax rate can cause inefficiency if any Net Income remains at year-end. Typically, high compliance costs are required to keep legally active.



United Arab Emirates (Dubai)

Advantages: No corporate tax in many free zones, English is widely used, strong global connectivity, and a favorable business environment.

Drawbacks: Certain activities may now fall under new UAE corporate tax rules; local office presence is often required.

Country to Avoid: Ireland

Although Ireland has otherwise beneficial policies and a stable environment, there is a base tax on the compensation to officers who do not reside in the country. This “Non-Resident Directors Tax” makes this option a country to avoid for the purposes of paying out a salary to an American expat.

Country to Avoid: British Virgin Islands (In certain cases)

Historically, BVI has been a favorable haven due to its beneficial tax policies for international businesses and individuals. However, the country has recently required some firms to meet Economic Substance criteria, which can now prevent many from operating.

Country to Avoid: Singapore (In certain cases)

Historically, Singapore has also been a favorable haven for international businesses due to its favorable tax policies. However, the high cost of compliance with annual audits and government reporting has been burdensome for some.

Step #2 - Banking

Every business—whether U.S.-based or foreign—must maintain **dedicated business bank accounts**. When an expat uses a personal account or mixes funds between entities, it can undermine liability protection, jeopardize corporate status, and create confusion in the event of an IRS examination. The IRS requires clear documentation of income, expenses, payroll, and distributions. Having separate business bank accounts ensures:

- Accurate financial reporting for bookkeeping and year-end statements
- Clear substantiation of deductible expenses, reducing audit risk
- Evidence of legitimate salary payments required for claiming the FEIE
- Proper tracking of CFC earnings and distributions under Subpart F and GILTI rules
- Prevention of commingling, which can invalidate corporate formalities

For expats working abroad while earning foreign-source active income, the FEIE allows **exclusion of up to a substantial amount of qualifying income** each year. However, to substantiate that an expat was paid a salary, and not merely taking draws or distributions, the IRS expects documentation from a **legitimate business bank account**. The clearer the records, the stronger the taxpayer's position if questioned about earnings, payroll, or deductions.

Business Credit Cards and Tax Documentation

When needed, a **dedicated business credit card is equally important** for maintaining clean accounting. Business expenses charged to a personal credit card frequently lead to missed deductions, inconsistent classification, and higher bookkeeping costs. A properly structured business credit card system allows for:

- Streamlined tracking of ordinary and necessary business expenses.
- Organized monthly statements that simplify bookkeeping and tax reporting.
- Separation of personal and business use to preserve the corporation's integrity.
- Possible access to financing and corporate credit-building opportunities.

For CFCs, in particular, it is **essential that all corporate expenses flow through corporate accounts**. This prevents the appearance of constructive dividends or shareholder benefits and allows proper classification of operating expenses, reducing a corporation's tested income or earnings and profits (E&P).

Salary Payments and FEIE Requirements

To qualify for the FEIE, an expat must earn foreign-source income from work performed abroad, either through the bona fide residence test or the physical presence test. Critically, this income must be paid as **salary or wages, not owner draws or passive distributions**. That salary must be:

- Paid from a corporate bank account, U.S. or foreign.
- Properly recorded as payroll or compensation.
- Reasonable for the services performed.
- Supported by clear financial documentation.

Maintaining clean business banking ensures the taxpayer can **demonstrate the existence of a real employer-employee relationship**, whether the employer is a U.S. entity or a foreign corporation. Without proper salary documentation, an expat risks losing access to one of the most valuable international tax benefits available.

Step #3 - Payment Processors

Payment processors not only collect revenue—they establish the **financial credibility and operational legitimacy** of the business. For U.S. entities, using U.S.-based merchant processors helps **maintain consistent banking relationships**, supports accurate Forms 1099-K reporting, and creates reliable revenue documentation for IRS, state tax authorities, and lenders. For CFCs, using properly approved international processors ensures compliance with foreign banking regulations, anti-money-laundering rules, and corporate reporting requirements in the country of incorporation.

Well-structured payment processing also **simplifies accounting, payroll, and tax measurement**. Cleanly documented revenue makes it easier to determine **reasonable compensation for expat owners**—an important factor for FEIE qualification. Additionally, using proper processors creates **clear financial audit trails**, which reduce risk during IRS examinations, foreign tax audits, or compliance reviews under FATCA and global information-sharing agreements.

Ways to Receive Income from Clients

Businesses operated by American expats typically rely on several payment pathways, depending on client preferences, billing frequency, and geographic footprint. Common methods include:

Option #1. Credit Card and Debit Card Payments

- Processed through merchant accounts or integrated payment gateways.
- Ideal for e-commerce, subscriptions, and professional services.
- Provide fast settlement and client convenience.

Option #2. ACH, EFT, or Bank Transfers (U.S. Banking System)

- U.S. ACH for domestic customers.
- SEPA, SWIFT, Faster Payments, or local banking rails for international clients.
- Lower fees than card transactions and suitable for recurring billing.

Option #3. Digital or Alternative Payment Platforms

- PayPal, Stripe, Square, Google Pay, Apple Pay, Venmo Business, etc.
- Often, easier onboarding and faster approval.

- Useful for online businesses, freelancers, and global client bases.

Option #4. Wire Transfers

- Used for high-value B2B transactions or international payments.
- More expensive, but highly secure and traceable.

Option #5. Global Payout and Collection Services

- Wise Business, Payoneer, Rapyd, Airwallex, and similar platforms.
- Provide multi-currency accounts and foreign exchange tools.
- Beneficial for CFCs receiving revenue in multiple countries.

Option #6. Cryptocurrency Payments

- Less common and higher compliance risk.
- Must be recorded properly for tax and reporting purposes.

Option #7. Cash Payments

- Recordkeeping and tracking can often be difficult.
- Requires physical presence with the customer

Each collection method affects timing of deposits, accounting categorization, fees, currency exchange exposure, access to banking, and regulatory oversight. From the perspective of the American Expat (who intends to file a tax return) and maintains proper recordkeeping, **Option #1** or **Option #2** is the most often used in the fiat-based U.S. Dollar-dominated ecosystem. With **Option #4** also common for business owners with a large client base making significant lump sum payments. The remaining options are not as common at the time this book was written.

Types of Payment Processors

Payment processors vary in structure, risk tolerance, and regulatory responsibility. Primary categories include:

1. Traditional Merchant Account Providers

Examples: [Authorize.net](#), [Chase Paymentech](#), [Elavon](#).

- Require underwriting and business approval.
- Offer lower processing fees, greater stability, and dedicated support.
- Ideal for established or higher-volume businesses.

2. Third-Party Payment Aggregators

Examples: [Stripe](#), [PayPal](#), [Square](#).

- Faster onboarding and fewer documentation requirements.
- Funds run through a shared master merchant account.
- Determines whether distributions, dividends, or salary can be paid.
- Higher likelihood of freezes and rolling reserves.

3. High-Risk Merchant Processors

- Serve industries with higher fraud, refund, or chargeback potential.
- More expensive but more tolerant of elevated risk categories.

4. International and Multi-Currency Processors

Examples: [Wise](#), [Airwallex](#), [Payoneer](#).

- Designed for cross-border commerce.
- Support multi-currency wallets, local receiving accounts, and FX management.

The choice depends on whether the entity is U.S.-based or foreign, industry classification, customer location, and expected transaction patterns.

Step #4 - Setup an Accounting Platform

For American expatriates who own and operate a U.S. business or a Controlled Foreign Corporation (CFC), maintaining accurate accounting records is not simply an operational necessity—it is a **foundational requirement for U.S. tax compliance, Foreign Earned Income Exclusion (FEIE) qualification, and proper government reporting**. Selecting the right accounting platform ensures that income, expenses, payroll, and intracompany transactions are recorded correctly, enabling tax advisors to prepare compliant U.S. and foreign filings, substantiate deductions, and support FEIE salary requirements.

Why Proper Accounting Platforms Matter

* **FEIE Salary Substantiation and Required Payroll Records**

To claim the Foreign Earned Income Exclusion, expat business owners must demonstrate that salary payments were real, timely, reasonable, and properly recorded. Accounting platforms allow for accurate tracking of payroll, contractor payments, and owner compensation. These records are critical when the IRS reviews whether your income qualifies as “earned abroad” and whether your foreign corporation or U.S. business followed proper corporate formalities.

* **Ensuring Deductibility of Business Expenses**

To claim a business deduction, the IRS requires that expenses be ordinary, necessary, and adequately documented. Accounting platforms such as QuickBooks Online, Xero, Wave, or multinational ERPs allow for real-time tracking of expenses, receipt uploads, audit trails, and proper categorization. Without an accounting system, many deductions are lost due to lack of documentation, incorrect categorization, or incomplete reporting.

* **Mandatory Government Reporting for CFCs and U.S. Entities**

Expat-owned entities frequently file complex U.S. information returns—including **Forms 5471, 926, 8858, 1120, 1120-S, or Schedule C**, depending on the structure. These filings require accurate financial statements, balance sheets, retained earnings calculations, and transactional detail. Using a proper accounting platform ensures that required data, such as intracompany loans, retained earnings, foreign taxes paid, and shareholder distributions, are properly tracked throughout the year.

Benefits of Accurate & Current Accounting

* Real-Time Financial Visibility

Up-to-date accounting reveals your business's true financial health. This helps owners understand profitability, cash flow, and expense patterns, especially when managing operations across multiple countries or currencies.

* Simplified Tax Preparation and Reduced Risk

Accurate books significantly lower the risk of IRS penalties, inaccurate filings, and foreign reporting errors. Clean accounting reduces preparation time and ensures information is readily available for tax professionals.

* Improved Strategic Decision-Making

Well-maintained books help expats forecast revenue, determine optimal salary levels for FEIE, plan for estimated taxes, structure distributions, and evaluate expansion opportunities.

* Compliance with Foreign Jurisdiction Requirements

Many foreign countries require statutory reporting, VAT or GST filings, employment tax reports, and local ledger maintenance. Cloud-based accounting platforms enable cross-border compliance while aligning with U.S. reporting requirements.

The Three Essential Financial Statements

Expat-owned businesses and CFCs rely on **three core financial statements**. These documents are required for U.S. tax filings, financial management, and foreign reporting.

INCOME - Profit & Loss Statement (Income Statement)

- The Profit and Loss (P&L) statement shows the company's revenue, cost of goods sold, operating expenses, and net income for a specified period.
- Helps determine business profitability.
- Required for determining FEIE-compatible salary levels.
- Forms the basis for U.S. tax calculations.

FINANCIAL STANDING - Balance Sheet

- The balance sheet shows the company's assets, liabilities, and equity on a specific date.
- Required for U.S. corporate tax returns and CFC reporting.
- Tracks intracompany loans, shareholder loans, and retained earnings.
- Determines whether distributions, dividends, or salary can be paid.
- Used for analyzing liquidity and financial stability.

EQUITY - Statement of Owner's Distribution (or Equity Statement)

- This document shows how much money the owners withdrew (or contributed) during the year.
- Critical for distinguishing salary (eligible for FEIE) from distributions/dividends (not eligible).
- Required for accurate retained earnings and CFC reporting.
- Helps ensure owners do not inadvertently misclassify compensation or create taxable constructive dividends.

For American expats managing U.S. entities or Controlled Foreign Corporations, the **use of a proper accounting platform is not optional—it is essential** for maintaining compliance, claiming tax benefits such as the Foreign Earned Income Exclusion, and providing the financial clarity needed to run a profitable international business. Proper accounting ensures accurate reporting, supports IRS requirements, preserves deductions, and provides a stable foundation for strategic decision-making, no matter where in the world you operate.

Step #5 - Gather & Organize Documents for Tax Return Preparation

At the conclusion of the year, the financial statements for all managed entities should, if planned and controlled properly, have paid out a Salary to its owners in order to maximize the Foreign Earned Income Exclusion. The most important statements being **Profit and Loss, Balance Sheet for ALL entities involved in the tax free structure, and a report of the total of the Foreign Salary paid.** In addition to these statements, other documents related to each foreign or U.S. entity may be necessary for the proper reporting and disclosures for tax purposes (for example, residency documents, and foreign banking information). Yet, if properly planned and executed, the resulting effect should be an organized set of documents that support claiming the exclusion to its full potential.

Tax Free Expat Implementation

List of action items to implement a tax free structure for American expats living offshore. Review the fill guidebook at <https://pacifico.tax/tax-free-expat> for further detail.

Phase I - Understanding the Foreign Exclusion and Planning the Proper Structure

Step #1 - Planning & Structure Development

- ☐ Determine Source and projected amounts of income
- ☐ Schedule a consultation (at <https://pacifico.tax/schedule-consultation>), if needed, to determine best structure that fits your situation. During the consultation, this will help determine the following:
 - ☐ Which structure is best based your business needs:
 - ▶ Direct Foreign Corporation
 - ▶ S-Corporation Parent
 - ▶ C-Corporation Parent
 - ▶ Foreign Owned LLC Disregarded Entity
 - ☐ Consider if a Domestic Entity is necessary based on your business needs.
 - ☐ Determine foreign country of incorporation based on geographical location, customer location(s), and other requirements.
- ☐ Develop a written structure and visual org chart showing the source of income, path of cash flow, and projected income tax result, and re-consult with Tax Professional as needed. Review example structures at <https://pacifico.tax/international-tax-structures>

Phase II - Entity Formation, Banking, and Payment Processing

Step #2 - Entity Formation

- ☐ Research the legal office or legal service provider that is the best fit for that country.
- ☐ Engage with legal service provider to form foreign corporation, and understand expectations of cost, time, and completing the process.

Step #3 - Bank Account Opening

- ☐ Research the the best banking service providers for the foreign country.
- ☐ Apply for a bank account at either a brick and mortar bank or virtual bank that provides the services needed for customer deposits, expenses, and transfers. Understand the KYC process and develop documentation as necessary.
- ☐ In addition, consider opening credit accounts as necessary, and available options.

Step #4 - Create Payment Processor Account(s)

- ☐ Research the the best payment processor service providers (if needed) for the foreign country.
- ☐ Apply for a payment processor account, and connect to your bank account accordingly. Understand the KYC process and develop documentation as necessary.
- ☐ Consider a second “backup” payment processor in case of risk assessment closures by the initial payment processor.

Step #5 - Setup an Accounting Platform

- ☐ Setup an Accounting Platform that will connect with your banking and credit card accounts and is a good fit in terms of cost, feasibility, and functionality. Tools which automate the accounting process should be preferred. The platform should be able to export the following statements at the end of the year:
 - ▶ Profit and Loss (also referred to as an Income Statement)
 - ▶ Balance Sheet
 - ▶ Statement of Owners Equity
 - ▶ Transaction Report of Salary Payments

Phase III - Accounting & Document Compilation

Step #6 - Review, Gather, and Organize Documents for Tax Return Preparation

- ☐ Review all Financial Statements (for all entities) during a mid-year and year-end review for accuracy and consistency with written plan and projections.
- ☐ For the initial year of incorporation of Foreign Corporation provide all cooperate documents for initial disclosure on the tax return. Review Controlled Foreign Corporation Checklist at <https://documents.pacifico.tax/checklists/PacificoTax-Controlled-Foreign-Corporation-Questionnaire.pdf>
- ☐ Gather all financial statements, and salary statements in order to claim, and maximize the Foreign Earned Income Exclusion. Review International Checklist at <https://documents.pacifico.tax/checklists/PacificoTax-International-Tax-Return-Checklist.pdf>
- ☐ Gather all foreign tax returns, if applicable, to claim the Foreign Tax Credit for relevant years.

Appendix - Tax Liability Disclaimer

The International Tax Structures included in this publication are hypothetical structures and set of circumstances and tax rates that do not apply to any particular taxpayer and for any purpose. The information included in this tax structure is non-transferable or reusable, as each taxpayer's situation is factually unique.

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