

International Tax Structures

for Americans Living Abroad

Foreign Earned Income Exclusion Structure #1

Offshore Consultant Salary from BVI Ltd.

A consultant working overseas 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 method of obtaining 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.

Summary of the the Foreign Earned Income Exclusion (\$911)

The Foreign Earned Income Exclusion (FEIE) allows U.S. citizens or resident aliens living and working abroad to exclude a certain amount of foreign-earned income from U.S. federal income tax. To qualify, you must have a tax home in a foreign country and meet either the bona fide residence test or the physical presence test.



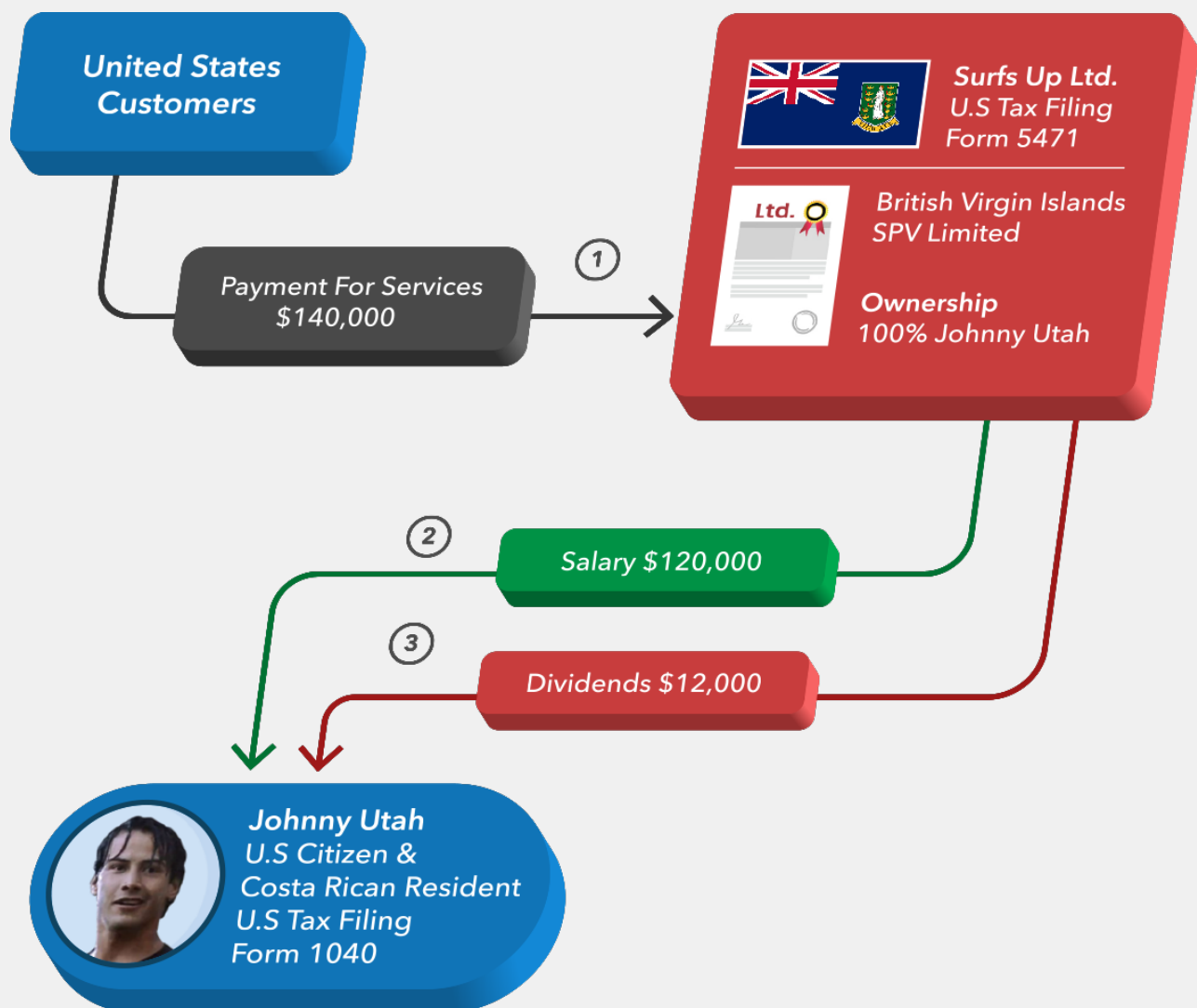
Prepared By
PACIFICOTAX

The International Tax Structures included in this publication are hypothetical structures. Read the attached Disclaimer and read our [Terms](#) to learn more.

Structure Background

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 Global Intangible Low Taxed Income (GILTI) is \$0 per Internal Revenue Code §951A.

Summarized Tax Returns and Financial Statements

4

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

5

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 GILTI	\$0

Resulting Tax Implications

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.

Effective Tax Rate

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%

About the Author



Marcus Marcial is a seasoned tax professional with experience predominantly dealing with 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, accounting, and consultation.



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

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.

PacificoTax, LLC does not guarantee, certify, or ensure the outcome of tax liability and related interest and penalties. The tax due (or refund expected) from filing a foreign or domestic tax return is never guaranteed. The liability is based on several factors, including changes in tax law, varying interpretations of tax law, adjustments by tax authorities, missing information not provided during the tax preparation process, levies, liens, interest, or other events that may occur.