

International Tax Structures

for Americans Living Abroad

Foreign Earned Income Exclusion Structure #4

Married Filing Jointly Offshore Consultants (Foreign Salary from an S-Corporation)

A married couple provides consulting services through an S-Corporation while working overseas to claim the Foreign Earned Income Exclusion and foreign housing exclusion. This structure is ideal for married couples who are claiming the Foreign Earned Income Exclusion, have an S-Corporation structure, and prefer not to incorporate a potentially more tax-effective foreign corporation due to additional costs and compliance requirements.

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.



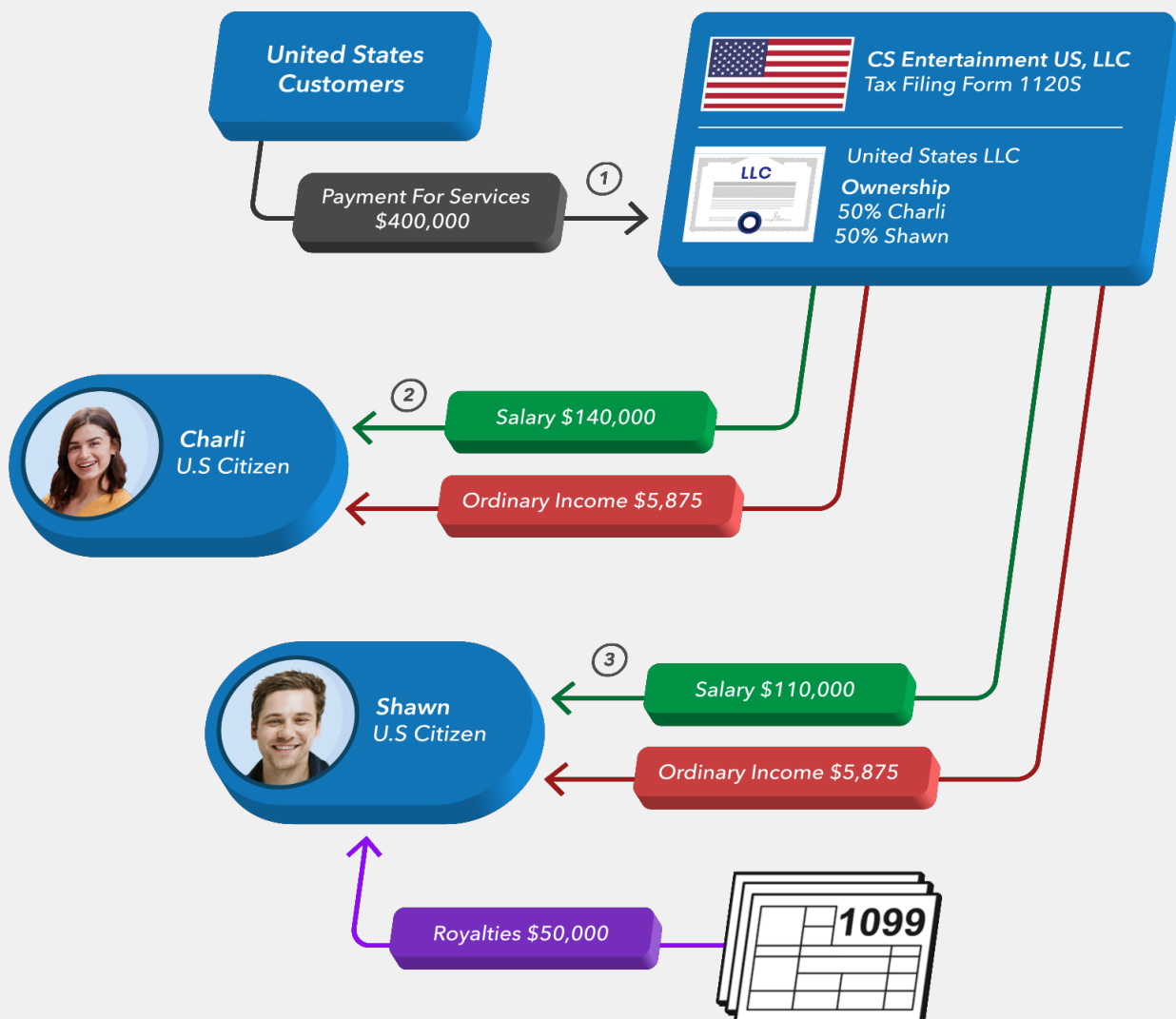
Prepared By
PACIFICOTAX

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Structure Background

CS Entertainment US, LLC (owned 50% by Charli and 50% by Shawn, a married couple and both of whom are U.S. citizens) is taxed as an S-Corporation per Internal Revenue Code §1361 and received payment for social media video services for the year from U.S. customers. As the corporation actively employs each shareholder, they both receive a Form W-2 salary, in addition to their Schedule K-1 ordinary income from the business's profits.

Both Charli and Shawn 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 living abroad, they each incur a significant amount of housing expenses, which are also partially excludable per Treasury Regulation §1.911-7. Additionally, Shawn also receives royalties from U.S. sources reported on Form 1099.



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. During the year, CS Entertainment US, LLC compensates Charli \$140,000 of salary. Additionally, net income from the S-Corporation of \$5,875 was allocable to her during the year.
3. During the year, CS Entertainment US, LLC compensates Shawn \$110,000 of salary. Additionally, net income from the S-Corporation of \$5,875 was allocable to him during the year.

U.S. Filing Tax Compliance

4. **Form 1120S (CS Entertainment US, LLC).** At the conclusion of the year, CS Entertainment US, LLC has Ordinary Net Income of \$11,750 (Revenue of \$400,000 less \$100,000 of Cost of Sales, less \$250,000 of salary expenses, less \$11,750 of Payroll Expenses). As income is shared equally, Charli receives a Schedule K-1 reporting \$5,875 of Ordinary Income, and Shawn receives a Schedule K-1 reporting \$5,875 of Ordinary Income as well.
5. **Form 940/941 (CS Entertainment US, LLC).** Employment tax for the payment of salary totaled \$38,250 during the year (15.3% Social Security/Medicare x \$250,000).
6. **Form 1040 (MFJ Charli and Shawn).** On their individual Married Filing Joint tax return, Charli and Shawn report total income of \$311,750 (\$250,000 of salary, \$11,750 of Ordinary Income, and \$50,000 of Royalties. They elect 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 \$55,750.

Summarized Tax Returns and Financial Statements

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Form 1040 (MFJ)

Charli & Shawn

Salary	\$250,000
Ordinary Income	\$11,750
Royalties	\$50,000
Total Income	\$311,750
Foreign Earned Income Exclusion	- \$216,000
Foreign Housing Expenses	- \$16,000*
Standard Deduction	- \$24,000
Taxable Income	\$55,750
U.S. Tax	\$16,000*

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Form 1120-S

CS Entertainment US, LLC

Revenue	\$400,000
Cost of Sales	- \$100,000
Salary Expense	- \$250,000
Payroll Expense	- \$38,250
Net Ordinary Income	<u>\$11,750</u>

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Form 940/941

CS Entertainment US, LLC

Payroll Tax Due	\$38,250
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Resulting Tax Implications

As a result of this structure, the U.S. tax liability of Charli and Shawn filing jointly is \$16,000, resulting in an effective tax rate of 5.1%, based on receiving worldwide income of \$311,750.

*Note, the marginal tax rate for this year is 29% based on the “stacking rule” per Internal Revenue Code §911(f), which taxes remaining taxable income at a higher tax rate when income was excluded under the Foreign Earned Income Exclusion, which would have otherwise been taxed at a lower rate.

*Also note, a QBI Deduction is not available for income sourced outside the United States. As a result, no QBI Deduction is available for CS Entertainment US, LLC’s income.

Effective Tax Rate

Gross Income from All Sources	\$450,000
Gross Expenses from All Sources	\$38,250
Total Net Income	\$411,750
Federal Income Tax	\$16,000
Effective Tax Rate (Married Filing Jointly)	3.88%

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.

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