

International Tax Structures

for Americans Living Abroad

Foreign Earned Income Exclusion Structure #5

Sole Trader (New Zealand) Self-Employed Foreign Exclusion

A Self-Employed U.S. citizen Attorney performed work outside the United States to claim the Foreign Earned Income Exclusion. Although his income tax liability is eliminated, Self-Employment Tax is owed. This structure is a summary of a sole trader conducting business as an unincorporated personal business, ideal for simplicity and low compliance costs.

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.



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Structure Background

Jeffrey Stone, an Attorney by trade, is a U.S. citizen residing in New Zealand. He forms a sole trader registration in New Zealand, allowing him to conduct a licensed business and operate a separate bank account. This sole trader registration is not a separate legal entity from its owner, but operates similarly to a “Doing Business As” in the United States. As a New Zealand sole trader, there are no Controlled Foreign Corporation requirements under Internal Revenue Code §957. This registration also does not have limited liability per Treasury Regulation §301.7701-3b. As a result, the income and expenses are reported on Schedule C of Jeffrey’s personal income tax return.

Jeffrey did not travel to the United States during the year and therefore qualifies for the Foreign Earned Income Exclusion under the physical presence test, as per Internal Revenue Code §911.



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Monetary Transactions

1. During the year, Jeffrey earns \$120,000 of Self-Employed Income he earned individually for his legal services. Expenses related to his services total \$40,000 during the year.

Tax Compliance

2. **Form 1040 (Jeffrey Stone).** Jeffrey's total Self-Employed earnings of \$ 120,000 are reported on his Schedule C of his U.S. tax return, including expenses related to his services totaling \$40,000 during the year. Based on his U.S. worldwide Net Income of \$80,000, he elects a Foreign Earned Income Exclusion to exclude his self-employment earnings on [Form 2555, Foreign Earned Income](#). The method in which the exclusion is claimed, the entire amount of his net earnings is not excludable, and the maximum exclusion is only \$70,000 (as the maximum exclusion is reduced due to expenses being claimed). However, his Standard Deduction of \$12,000 for the year reduces his taxable income to \$0. As a Self-Employed Attorney, his Self-Employment Tax is \$12,240 for the year ($15.3\% \times \$80,000$).

Summarized Tax Returns and Financial Statements

2

Form 1040		Jeffrey Stone
Self Employed Income	\$120,000	
Self Employed Expenses	\$40,000	
Total Income	\$80,000	
Foreign Earned Income Exclusion	- \$70,000	
Standard Deduction	- \$12,000	
Taxable Income	\$0	
Self Employment Tax	\$12,240	

Resulting Tax Implications

As a result of this structure, the U.S. tax liability of Jeffrey Stone is \$12,240, the entire amount of which is Social Security/Medicare Tax from Self-Employment. As a result, his effective tax rate is 15.3% on Net Income.

Effective Tax Rate

Gross Income from All Sources	\$120,000
Gross Expenses from All Sources	\$40,000
Total Net Income	\$80,000
Federal Income Tax	\$12,240
Effective Tax Rate (Married Filing Jointly)	15.3%

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>

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