

International Tax Structures

for Americans Living Abroad

Foreign Tax Credit Structure #1

Offshore Salary Earner Netherlands (Higher Foreign Rate)

A U.S. citizen employee and resident in the Netherlands claims a foreign tax credit for taxes paid in the Netherlands to eliminate double taxation. This structure occurs when foreign taxes are withheld automatically from his foreign salary.

Summary of the Foreign Tax Credit (§901)

The Foreign Tax Credit (FTC) is a U.S. tax benefit that helps prevent double taxation by allowing taxpayers to offset U.S. tax liability with income taxes paid to a foreign country. It's available to U.S. citizens, resident aliens, and some corporations that have foreign-source income. Instead of excluding the income like the FEIE, the FTC lets you claim a dollar-for-dollar credit for eligible foreign taxes, up to the amount of U.S. tax owed on that income.



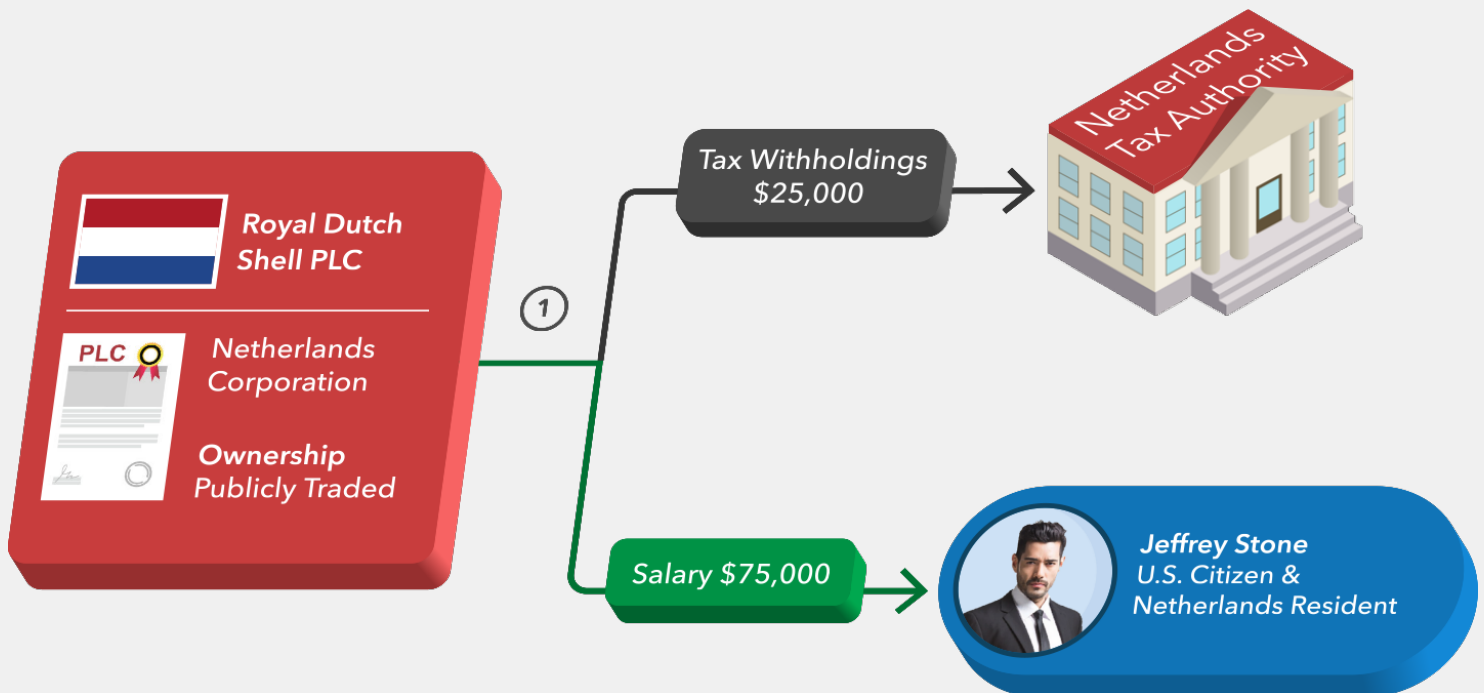
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Structure Background

A Netherlands Corporation, Royal Dutch Shell PLC. (a publicly traded company) hired Jefferey Stone, a United States citizen and resident of the Netherlands, as an employee for an annual compensation of \$100,000.

Jeffrey travels to the United States for work and pleasure for 60 days during the year. Although he would have otherwise qualified for the Foreign Earned Income Exclusion under the bona fide residence test, he chose instead to claim a Foreign Tax Credit per Internal Revenue Code §901.



Monetary Transactions & Accounting

1. During the year, the corporation compensates Jeffrey \$100,000. Of his annual compensation, \$25,000 is withheld for income tax and paid directly to The Belastingdienst (Netherlands Tax Authority), and his remaining net earnings of \$75,000 are paid to him.

U.S. Tax Filing Compliance

2. **Form 1040 (Jeffrey Stone).** Based on his U.S. tax of \$13,200, Jeffrey claims a Foreign Tax Credit of \$13,200 on [Form 1116, Foreign Tax Credit \(Individual, Estate, or Trust\)](#). As a result, his U.S. tax is eliminated to \$0. The remaining \$11,800 in foreign taxes paid is a carryover for 10 years, to be claimed against foreign source income in future years.

Summarized Tax Returns and Financial Statements

2	Form 1040 Jeffrey Stone (Single)	
	Salary	\$100,000
	Standard Deduction	- \$12,000
	Taxable Income	\$88,000
	U.S. Tax	\$13,200
	Foreign Tax Credit	- \$13,200
	Total U.S. Tax	\$0

Resulting Tax Implications

As a result of this structure, the U.S. tax liability of Jeffrey Stone is \$0, with a Foreign Tax Credit carryover of \$11,800 available in future years.

Effective Tax Rate

Gross Income from All Sources	\$100,000
Gross Expenses from All Sources	\$25,000
Total Net Income	\$75,000
Federal Income Tax	\$0
Effective Tax Rate (Single)	0%

* For the purposes of this U.S. Federal Income Effective Tax Rate calculation, the Foreign Tax Credit is treated as an expense.

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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