

International Tax Structures

for Americans Living Abroad

Foreign Tax Credit Structure #2

Offshore Salary Earner Ireland (Lower Foreign Rate)

A U.S. citizen employee living in Ireland claims a foreign tax credit for taxes paid in Ireland 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.



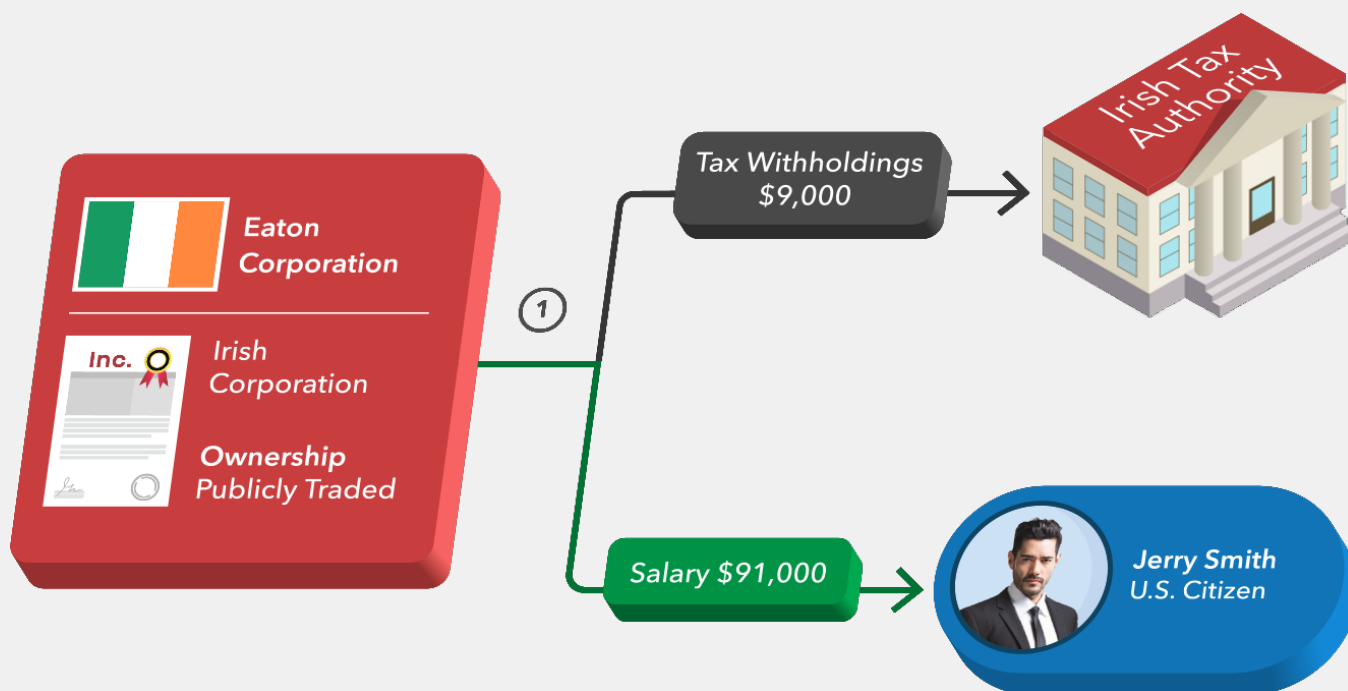
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Structure Background

Eaton Corporation, an Irish Corporation (and publicly traded company), hired Jerry Stone, a United States citizen, as an employee for an annual compensation of \$100,000.

Jerry travels to the United States for work and pleasure for 60 days and does not meet the bona fide residence test, solely claiming a Foreign Tax Credit under Internal Revenue Code §901.



Monetary Transactions & Accounting

1. During the year, the corporation compensates Jerry \$100,000. Of his annual compensation, \$9,000 is withheld for income tax and paid directly to The Revenue Commissioners (Irish Tax Authority), and his remaining net earnings of \$91,000 are paid to him.

U.S. Tax Filing Compliance

2. **Form 1040 (Jerry Smith).** Based on his U.S. tax of \$13,200, Jerry claims a maximum Foreign Tax Credit of \$9,000 on [Form 1116, Foreign Tax Credit \(Individual, Estate, or Trust\)](#). After claiming all available foreign tax credits, his U.S. tax liability is \$4,200.

Summarized Tax Returns and Financial Statements

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Form 1040 Jerry Smith (Single)	
Salary	\$100,000
Standard Deduction	- \$12,000
Taxable Income	\$88,000
U.S. Tax	\$13,200
Foreign Tax Credit	- \$9,000
Total U.S. Tax	\$4,200

Resulting Tax Implications

As a result of this structure, the U.S. tax liability of Jerry Smith is \$4,200, and no available foreign tax credit carryover for future years.

Offshore Salary Earner Irish (Lower Foreign Rate)

Effective Tax Rate

Gross Income from All Sources	\$100,000
Gross Expenses from All Sources	\$9,000
Total Net Income	\$91,000
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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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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