

International Tax Structures

for Americans Living Abroad

Foreign Tax Credit Structure #4

Israeli Foreign Tax Credit & Refundable U.S. Child Tax Credit

A U.S. citizen and resident in Israel claims a foreign tax credit for income taxes paid in Israel to eliminate double taxation and receive a refundable U.S. child tax credit. This structure is a situation in which a U.S. citizen paying foreign taxes can eliminate their U.S. tax liability and claim an additional child tax credit refund from the United States.

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.



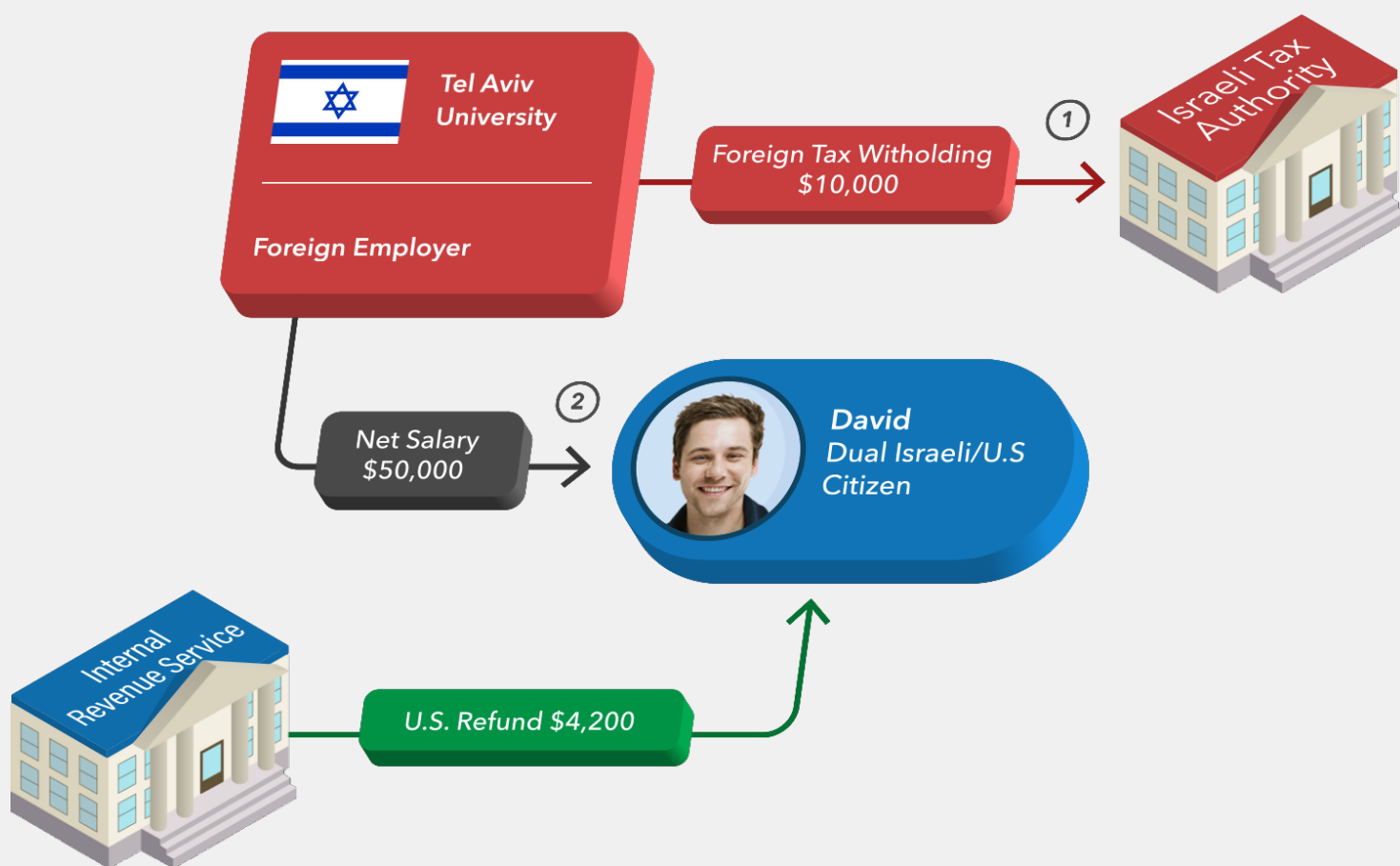
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Structure Background

David, a dual United States and Israeli citizen and resident of Israel, works as a Teacher at Tel Aviv University. David is also married with three children living with him at his foreign residence.

His salary is subject to Israeli income tax, which is automatically withheld from his pay and sent directly to the Israeli Tax Authority. On his U.S. tax return, David claims a Foreign Tax Credit per Internal Revenue Code §901.



Monetary Transactions & Accounting

1. During the year, David receives \$60,000 of gross salary from his employment as a teacher, of which \$10,000 is withheld throughout the year and sent automatically to the Israeli Tax Authority.
2. The remaining earnings \$50,000 is sent to David throughout the year.

U.S. Tax Filing Compliance

3. **Form 1040 (David).** Based on his U.S. taxable income, his U.S. tax is \$3,600, which he claims a Foreign Tax Credit of \$3,600 on [Form 1116, Foreign Tax Credit \(Individual, Estate, or Trust\)](#). The remaining \$6,400 foreign taxes paid are a carryover for 10 years per Treasury Regulation §1.904-2 to be claimed against foreign source income in future years. David is eligible for a refundable Additional Child Tax Credit per Foreign Tax Credit per Internal Revenue Code §24, in which he receives a refund of \$4,200 (based on \$1,400 per child).

Summarized Tax Returns and Financial Statements

3

Form 1040 David (Married Joint)	
Salary	\$60,000
Standard Deduction	- \$24,000
Taxable Income	\$36,000
Tax	\$3,600
Foreign Tax Credit	\$3,600
Total Tax	\$0
Refundable Child Tax Credit	(\$4,200)

Resulting Tax Implications

As a result of this structure, David's U.S. tax liability is \$0, and he receives a refundable credit of \$4,200 from the IRS.

Effective Tax Rate

Gross Income from All Sources	\$60,000
Gross Expenses from All Sources	\$10,000
Total Net Income	\$50,000
Federal Income Tax	\$-4,000
Effective Tax Rate (Single)	-8%

* 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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