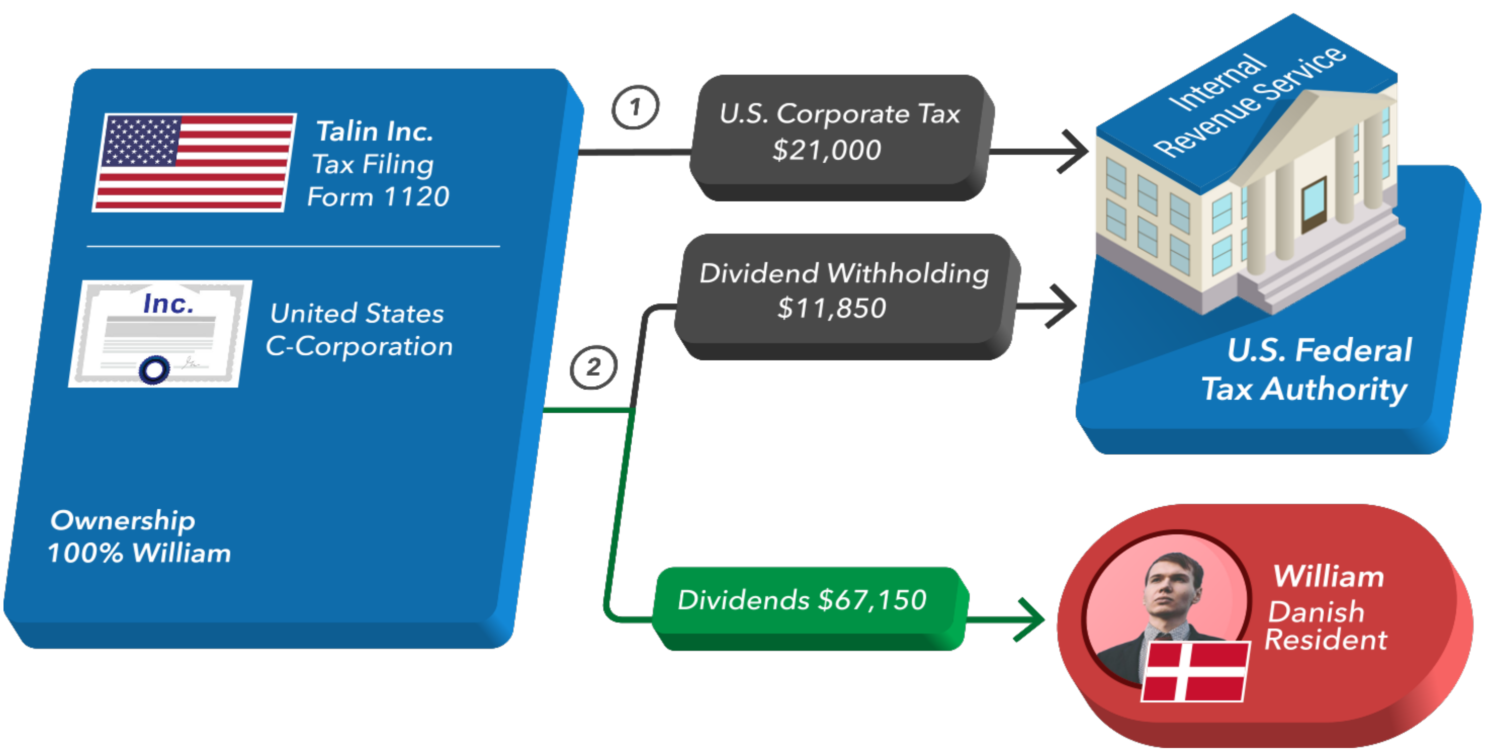
Foreign Owned U.S. Corporation (Danish Resident) Dividend Withholding

Tax Structures of United States Foreign-Owned Corporations - Structure #1

Structure Summary

A Non-Resident Alien and sole owner of a United States corporation is subject to income tax at the corporate level and an additional withholding tax upon the payment of dividends to him directly. This withholding tax is based on Fixed, determinable, annual, or periodical (FDAP) income, with a special tax treaty rate.



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Structure Background

A United States Corporation, Talin Inc., is a provider of marketing and sales platforms owned 100% by William, a Danish resident. The U.S. Corporation is subject to a 21% Federal corporate tax rate on all net earnings per Internal Revenue Code §11. The corporation does not physically operate in a particular state, nor sell physical goods directly to clients, and therefore is not required to pay state income tax.

At the end of the year, it was decided that all retained earnings would be paid as dividends to the sole foreign shareholder. In addition to the corporate tax, dividends paid to William as a non-resident shareholder are subject to a 15% withholding tax based on the tax treaty rate for Denmark[1].

Monetary Transactions & Accounting

1. During the year, Talin Inc. earns a Net Income of $100,000, resulting in $21,000 federal income tax based on a corporate tax rate of 21%.
2. After the Federal tax is paid, retained earnings of $79,000 are distributed to the sole non-resident shareholders. A withholding tax of $11,850 (15% for Denmark) applies, which is paid directly to the Internal Revenue Service, and the remaining $67,150 is paid to the sole shareholder.

U.S. Tax Filing Compliance

3. **Form 1120, with Form 5472 (Talin Inc.).** The U.S. Corporation files an income tax return subject to a 21% rate, and certain Foreign-Owned Corporations must generally file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business to report certain reportable transactions with its foreign-owned parent company.
4. **Form 1042 (Talin Inc.).** Withholding tax applies to dividends paid to nonresidents per Internal Revenue Code §1441. In this structure, a tax treaty rate of 15% applies to both residents of Denmark. As a result, $11,850 is withheld from dividends ($79.000 x 15%). The withholding is recorded and paid on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons. Assuming William has no other U.S. source income, he is not required to file a personal tax return as a result of the dividend withholding tax already being paid.

[1] https://www.irs.gov/individuals/international-taxpayers/tax-treaty-tables

Summarized Tax Returns and Financial Statements

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Form 1120
Talin, Inc.

Revenue	$100,000
Net Income	$100,000
Corporate Income Tax	$21,000

Form 5472 **Talin, Inc.**

Foreign Owned U.S. Corporation

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Form 1042 **Talin, Inc.**

U.S Source Dividends

$79,000 x 15% = $11,850 Tax

Resulting Tax Implications

As a result of this structure, the Federal corporate income tax is $21,000, and the withholding tax liability of dividends to the foreign shareholder is $11,850.