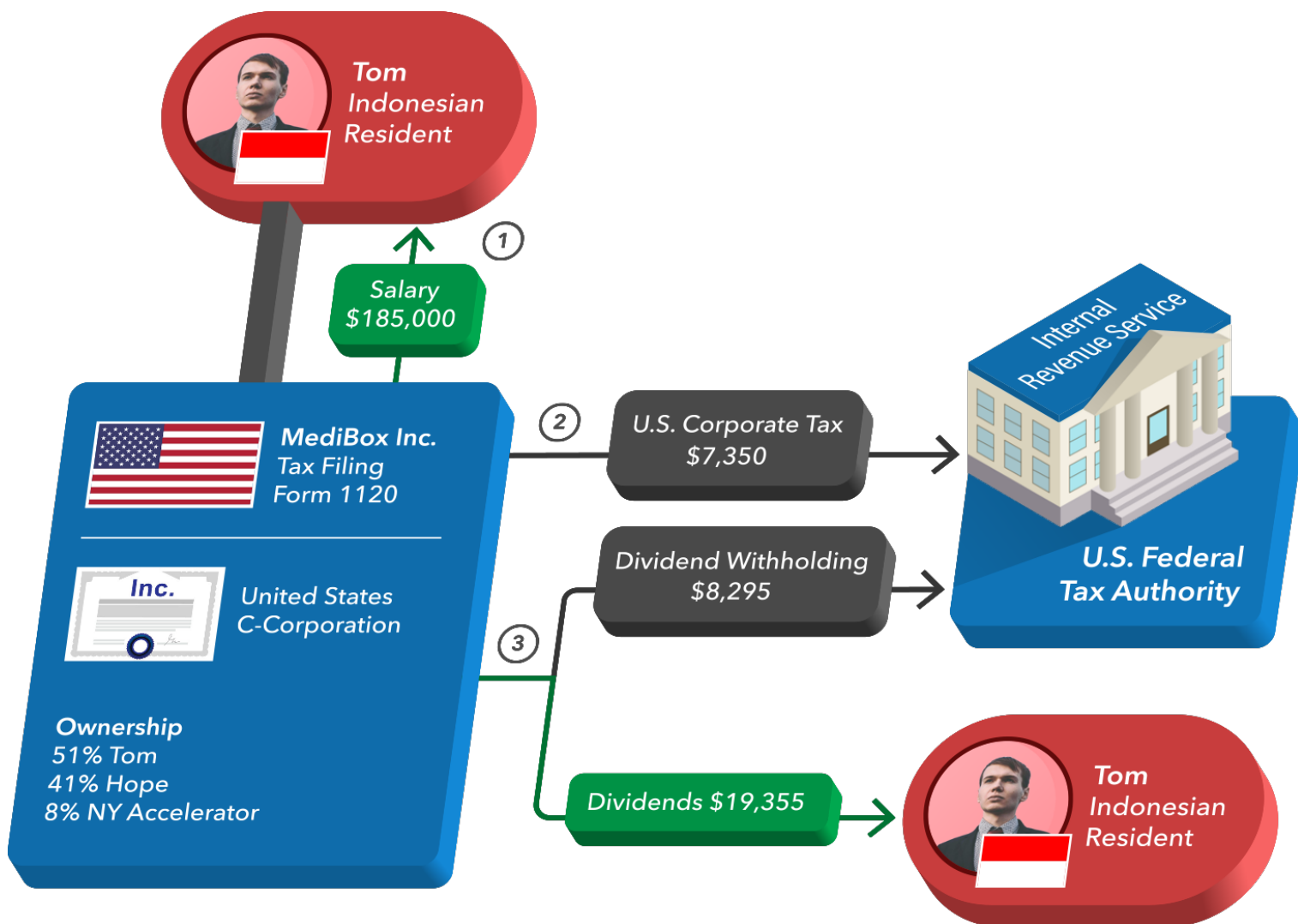


Non-Resident Salary and Dividends from C-Corporation

Tax Structures of United States Foreign-Owned Corporations - Structure #2

Structure Summary

A Non-Resident Alien and shareholder of a U.S. corporation earns a salary from the corporation. The U.S. C-Corporation is also subject to tax at the corporate level and an additional withholding tax upon the payment of dividends to him as an Indonesian Resident. However, the Salary is not subject to a withholding tax.



Non-Resident Salary and Dividends from C-Corporation

Structure Background

A United States Corporation, MediBox Inc., is a service provider and is owned 51% by Tom, an Indonesian Resident, his wife, 41% by Hope, also an Indonesian resident, and 8% by New York Accelerator, a United States Investor. The U.S. Corporation is subject to a 21% Federal corporate tax rate on all net earnings per Internal Revenue Code §11.

During the year, the U.S. corporation generates \$600,000 in gross revenue, incurs a Cost of Goods Sold of \$180,000, and Marketing and Administrative costs of \$200,000. Additionally, it pays Tom a Salary of \$185,000. As Tom performs work in Indonesia, his salary is not subject to U.S. taxation¹.

At the end of the year, it was decided that all retained earnings are paid as dividends to Tom. In addition to the corporate tax, dividends paid to Tom as an individual non-resident shareholder are subject to a 30% withholding tax based on the no-tax treaty rate for Indonesia², per Internal Revenue Code §1441.

Monetary Transactions & Accounting

1. Tom receives a salary of \$185,000 from the Corporation.
2. During the year, MediBox Inc. earns a Net Income of \$35,000, resulting in \$7,350 of U.S. Federal Corporate Income Tax based on a corporate income tax rate of 21%.
3. After the Federal tax is paid, the remaining earnings of \$27,650 are declared dividends. Of this amount, the entire \$27,650 was Tom's allocable share of dividends. A withholding tax of \$8,295 (30% for Indonesian Residents) applies, which is paid directly to the Internal Revenue Service, and the remaining \$19,355 is paid to Tom.

U.S. Tax Filing Compliance

4. **Form 1120 (MediBox Inc.) with Form 5472 Attachment.** 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 to satisfy the reporting requirements of Internal Revenue Code §6038.
5. **Form 1042 (Dividends from MediBox Inc. Paid to Tom).** Withholding tax applies to dividends paid to nonresidents per Internal Revenue Code §1441. In this structure, at tax treaty rate of 30% applies to individual residents of Indonesia. As a result, \$8,295 is

¹ <https://www.irs.gov/individuals/international-taxpayers/nonresident-aliens-source-of-income>

² <https://www.irs.gov/individuals/international-taxpayers/tax-treaty-tables>

Non-Resident Salary and Dividends from C-Corporation

withheld from dividends ($\$27,650 \times 30\%$). The withholding is recorded and paid on [Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#). Assuming Tom 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.

Summarized Tax Returns and Financial Statements

4

Form 1120
MediBox, Inc.

Gross Revenue	\$600,000
COGS	\$180,000
Administrative & Marketing	\$200,000
Salary	\$185,000
Net Income	<u>\$35,000</u>
Corporate Income Tax	\$7,350

Form 5472
MediBox, Inc.

Foreign Owned U.S. Corporation

5

Form 1042
MediBox Inc. (Tom)

U.S Source Dividends
 $\$27,650 \times 30\% = \$8,295$ Tax

Resulting Tax Implications

As a result of this structure, the Federal corporate income tax is \$7,350, and the U.S. withholding tax liability of dividends paid to Tom as a foreign shareholder is \$8,295. No U.S. withholding tax applies on the Foreign Salary paid to Tom.