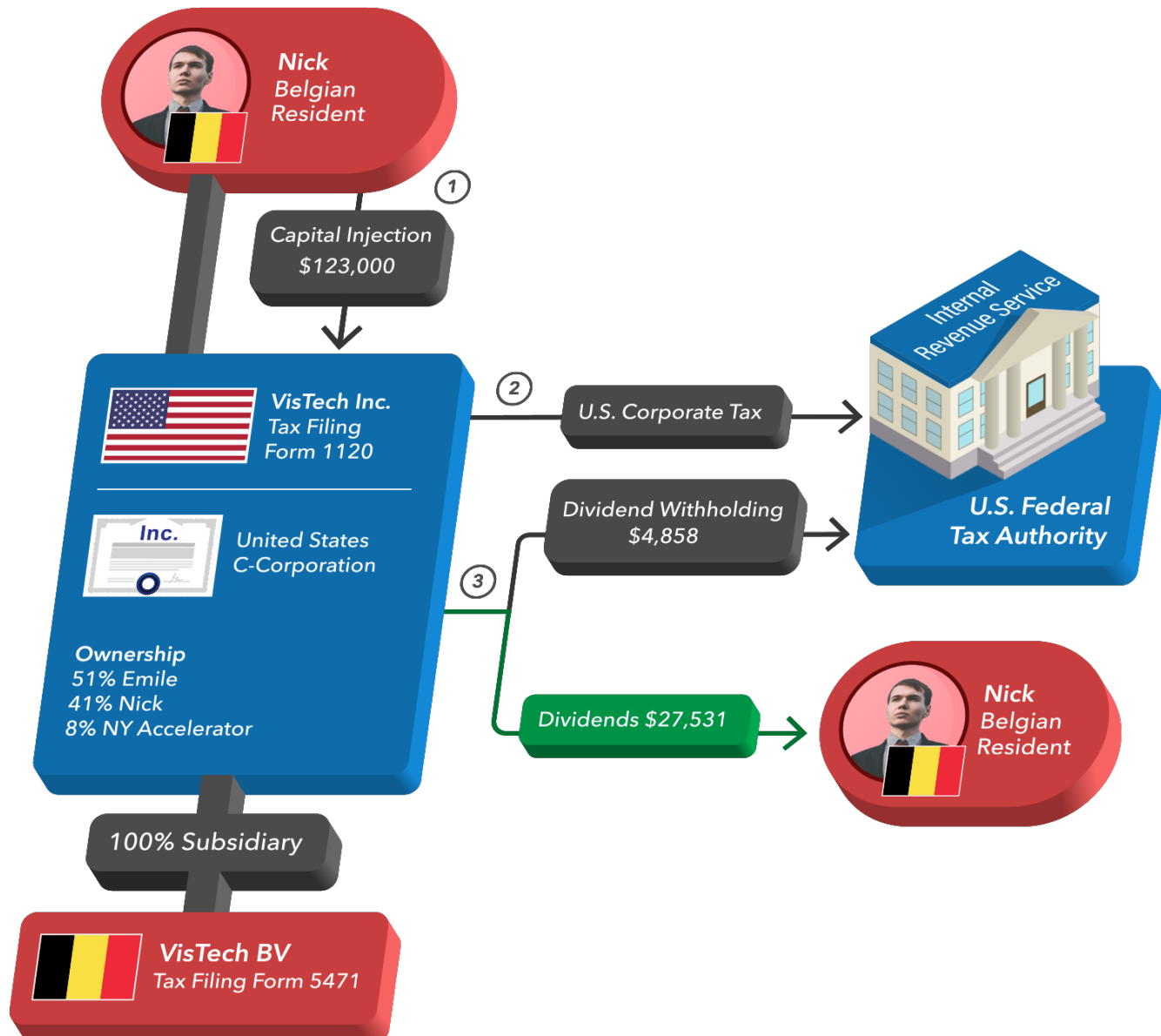


Capital Injection and Dividend Withholding for Foreign Owned U.S. Corporation (Belgian Resident)

Tax Structures of United States Foreign-Owned Corporations - Structure #4

Structure Summary

A Non-Resident Alien and shareholder of a U.S. corporation makes a capital injection into the corporation (not a taxable event). Separately, the corporation is subject to income tax at the corporate level on its net earnings, as well as an additional withholding tax upon the payment of dividends to them directly, with a special tax treaty rate, similar to that of a Belgian Resident.



Capital Injection and Dividend Withholding for Foreign Owned U.S. Corporation (Belgian Resident)

Structure Background

A United States Corporation, VisTech Inc., is a provider of services and is owned 51% by Emile, a Belgian Resident, 41% by Nick, also a Belgian resident, and 8% by NY Accelerator, a United States Investor. VisTech Inc. is also the sole owner of a foreign subsidiary, VisTech BV, a Belgian Foreign Corporation. The U.S. Corporation is subject to 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 under current law.

Prior to operations, all shareholders decided to invest \$300,000 of capital into the U.S. C-Corporation. Of this amount, Nick made a capital injection of \$123,000 based on his allocable share of ownership. This capital injection is not subject to tax in the United States, as it is not gross income per Internal Revenue Code §61.

During the year, the U.S. corporation generates \$100,000 of earnings as the result of services performed overseas. At the end of the year, it was decided all retained earnings are paid as dividends to the sole foreign shareholder. In addition to the corporate tax, dividends paid to Nick as an individual non-resident shareholder are subject to a 15% withholding tax based on the tax treaty rate for Belgium¹, per Internal Revenue Code §1441.

Monetary Transactions & Accounting

1. Nick makes a Capital contribution of \$123,000 based on his share of ownership.
2. During the year, VisTech Inc. earns a Net Income of \$100,000, resulting in \$21,000 of U.S. Federal income tax based on a corporate income tax rate of 21%.
3. After the Federal tax is paid, retained earnings of \$79,000 are distributed to all shareholders. Of this amount, \$32,390 was Nick's allocable share of dividends. A withholding tax of \$4,858 (15% for Belgian residents) applies, which is paid directly to the Internal Revenue Service, and the remaining \$27,531 is paid to Nick.

U.S. Tax Filing Compliance

4. **Form 1120 (VisTech Inc.) with Form 5471 and 5472 Attachments.** 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. Additionally, the U.S. corporation must also file [Form 5471, Information Return of U.S.](#)

¹ <https://www.irs.gov/individuals/international-taxpayers/tax-treaty-tables>

Capital Injection and Dividend Withholding for Foreign Owned U.S. Corporation (Belgian Resident)

[Persons With Respect To Certain Foreign Corporations](#), in relation to its ownership of VisTech BV to satisfy the reporting requirements of Internal Revenue Code §6038.

5. **Form 1042 (Dividends from VisTech Inc. Paid to Nick).** Withholding tax applies to dividends paid to nonresidents per Internal Revenue Code §1441. In this structure, the tax treaty rate of 15% applies to individual Belgian residents. As a result, \$4,858 is withheld from dividends (\$32,390 x 15%). The withholding is recorded and paid on [Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#). Assuming Nick 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

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Form 1120
VisTech, Inc.

Revenue	\$100,000
Net Income	<u>\$100,000</u>
Corporate Income Tax	\$21,000

Form 5472
VisTech, Inc.

Foreign Owned U.S. Corporation

Form 5471
VisTech BV

Controlled Foreign Corporation

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Form 1042
VisTech, Inc. (Nick)

U.S Source Dividends
 $\$32,390 \times 15\% = \$4,858$ Tax

Resulting Tax Implications

As a result of this structure, the Federal corporate income tax is \$21,000, and the U.S. withholding tax liability of Nick as a foreign shareholder is \$4,858.