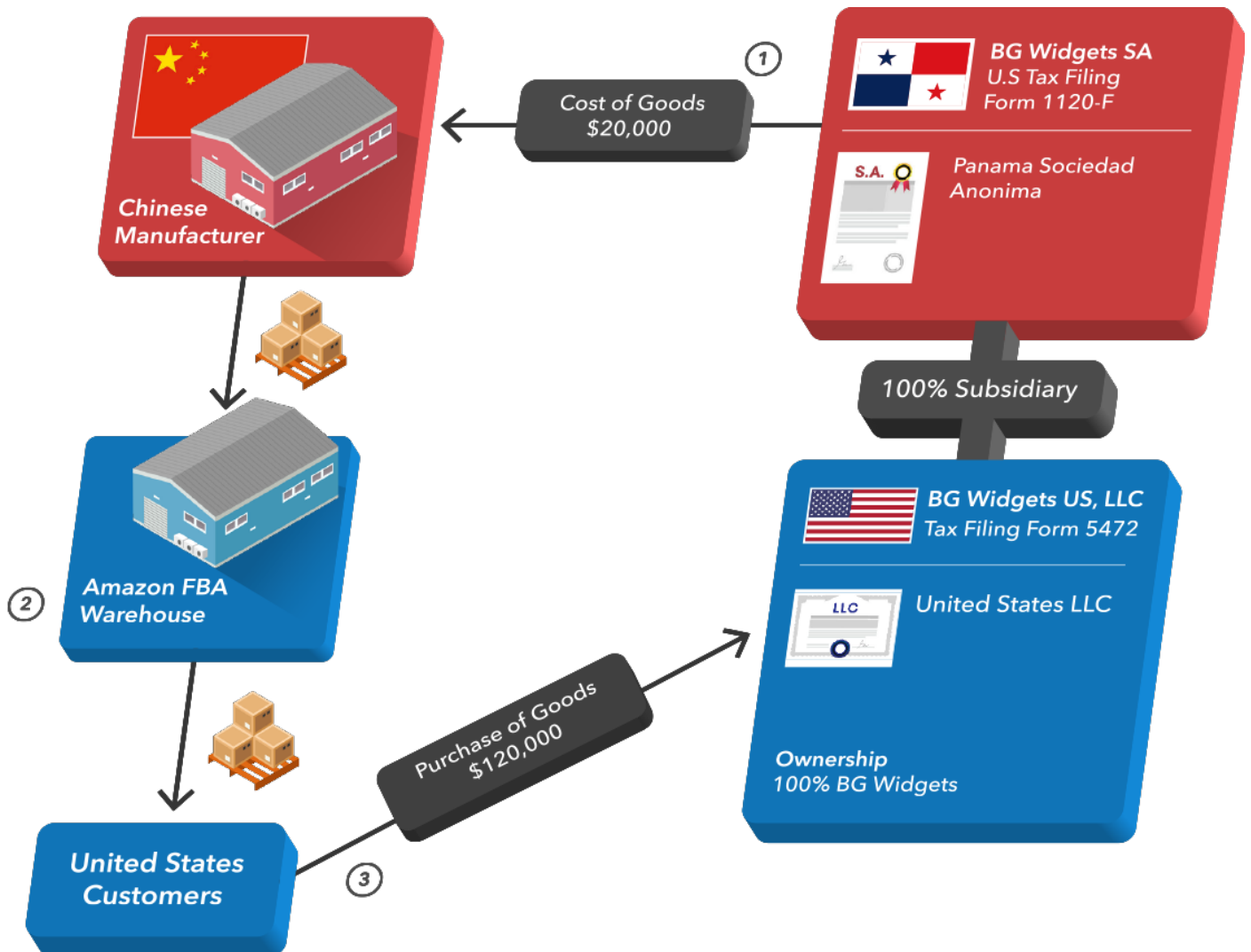


Branch Profits Tax from SMLLC Amazon Sales (Panama)

Tax Structures of United States Foreign-Owned Corporations - Structure #5

Structure Summary

A Panamanian foreign corporation sells widgets primarily in the United States, which are produced by a third-party Chinese manufacturer to be sold in the U.S. In doing so, both a U.S. corporate income tax and branch profits tax apply.



Branch Profits Tax from SMLLC Amazon Sales (Panama)

Structure Background

BG Widgets SA is a Panamanian Sociedad Anonima selling widgets primarily in the United States, which are produced by a third-party Chinese manufacturer. In order to sell in the United States market easily, a U.S. Limited Liability Company, BG Widgets US, LLC was formed as a wholly-owned subsidiary of BG Widgets SA. All sales in the United States are sold and fulfilled through Amazon FBA held by an account of BG Widgets US, LLC.

As a Single-Member LLC (SMLLC), BG Widgets US, LLC is disregarded for Federal tax purposes¹ per Treasury Regulation § 301.7701-3.

Once manufactured, the widgets are shipped directly from China to an Amazon FBA warehouse in the United States. Once sold to a customer, the goods are then shipped from Amazon's warehouse directly to customers throughout the United States. Payment for the purchase of goods to customers is made to the U.S. LLC.

The sale of goods from Amazon FBA warehouse to the U.S. customer is considered Effectively Connected Income (ECI) earned by the foreign corporation per Internal Revenue Code §864(c)(3), as the result of sale of inventory attributable to a U.S. shipping and destination location per Internal Revenue Code §865(e)(2) and §882 is subject to U.S. Corporate Income Tax.

Additionally, a Branch Profits tax applies based on Internal Revenue Code §884(a) imposes the same rate of tax on deemed remittances to a home office (30% or lower treaty rate) as on dividends (or amounts deemed repatriated) paid by a U.S. subsidiary to a foreign parent.

Monetary Transactions & Accounting

1. BG Widgets SA pays a third party Chinese company \$20,000 for the manufacture of the widgets.
2. The widgets are then shipped from China to the Amazon FBA warehouse in the United States. BG Widgets US, LLC is the Amazon account holder and title owner of the goods.
3. The United States customers pay for the purchase of the widgets totaling \$120,000. This payment is processed through Amazon's payment system.

¹ <https://www.irs.gov/businesses/small-businesses-self-employed/single-member-limited-liability-companies>

Branch Profits Tax from SMLLC Amazon Sales (Panama)

U.S. Tax Filing Compliance

- 4. **Form 1120-F (BG Widgets SA).** Based on this structure, the Panamanian Sociedad Anonima files [Form 1120-F, U.S. Income Tax Return of a Foreign Corporation](#). A corporate income tax of \$21,000 applies (\$100,000 Effectively Connected Income multiplied by a corporate tax rate of 21%). Additionally, a Branch Profits Tax of \$23,700 also applies based on amounts deemed repatriated (\$79,000 multiplied by 30%).
- 5. **Pro Forma 1120, with Form 5472 (BG Widgets US, LLC).** Foreign-Owned Disregarded Entities 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 per Internal Revenue Code §6038.

Summarized Tax Returns and Financial Statements

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**Form
1120-F**

BG Widgets BV

Effectively Connected Income (ECI)	\$100,000
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Corporate Tax (21%)	- \$21,000
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Amounts Deemed Repatriated	\$79,000
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Branch Profits Tax (30%)	- \$23,700
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Form 5472 (BG Widgets US, LLC)

Foreign Owned DE

Branch Profits Tax from SMLLC Amazon Sales (Panama)

Resulting Tax Implications

As a result of this structure, the total U.S. tax liability of BG Widgets SA (to include BG Widgets US, LLC by extension, as a disregarded entity) is \$44,700. This amount includes both a Federal corporate income tax \$21,000 as well as a branch profits tax on net earnings of \$23,700.