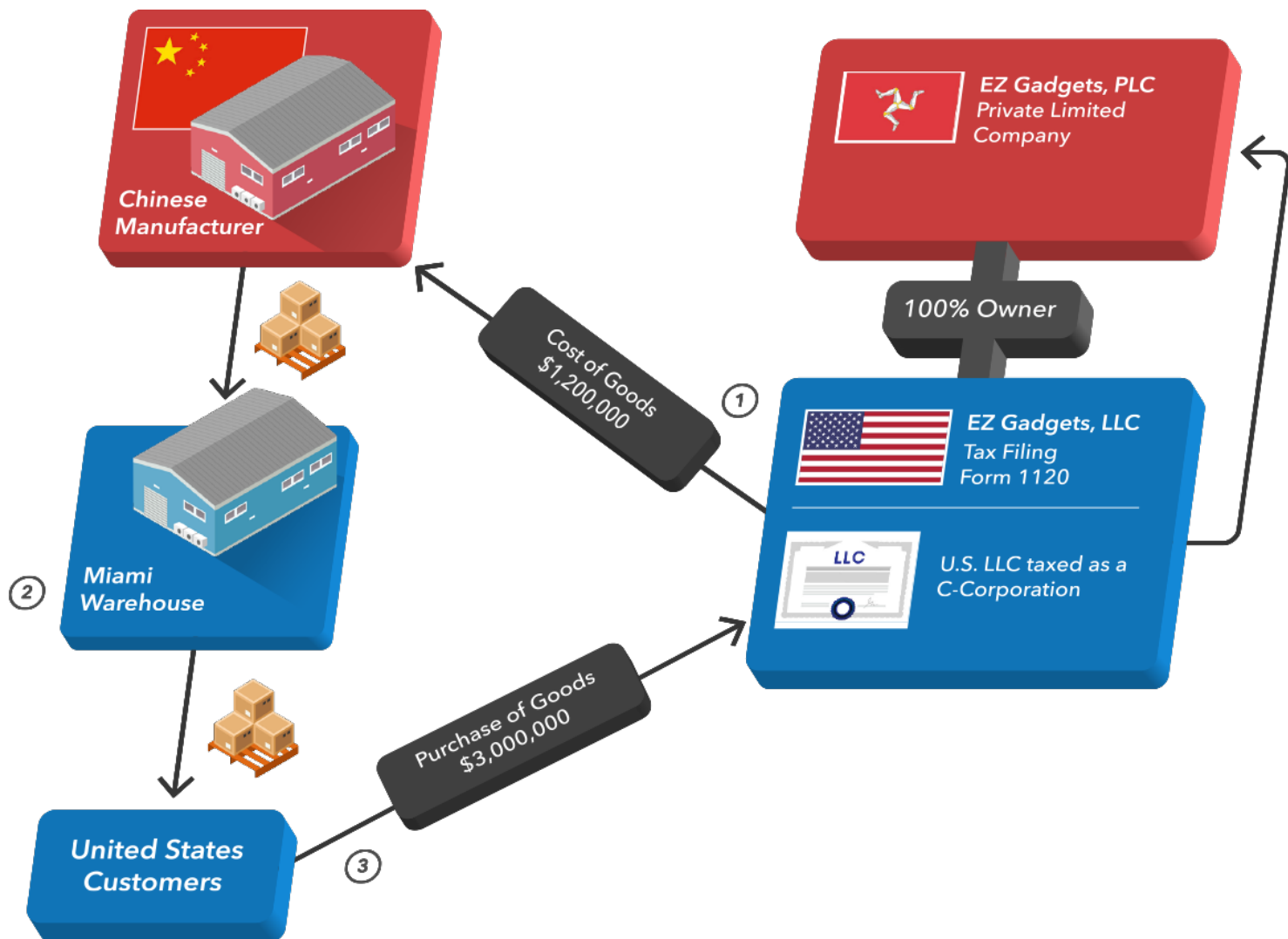


# Isle of Man E-Commerce C-Corporation with Transfer Price Agreement

*Tax Structures of United States Foreign-Owned Corporations - Structure #6*

## Structure Summary

An Isle of Man Private Limited Company conducts business with its Delaware Limited Liability Company subsidiary through a Transfer Pricing agreement.



# Isle of Man E-Commerce C-Corporation with Transfer Price Agreement

## Structure Background

EZ Gadgets, PLC is an Isle of Man Private Limited Company and the sole owner of EZ Gadgets, LLC, a U.S. Delaware Limited Liability Company, which sells various products related to pain relief gadgets in the United States. The subsidiary EZ Gadgets, LLC, elects to be taxed as a C-Corporation per Treasury Regulation § 301.7701-3, and files Form 1120, U.S. Corporation Income Tax Return.

The gadgets are first produced in China and then shipped to a Miami warehouse, where they are subsequently shipped and fulfilled through the same warehouse in Miami upon sale to a U.S. Customer. Payment for products is then paid to the LLC.

### *Agreement for Marketing Services & Fair Market Price*

A marketing agreement exists between the parent Isle of Man company and the U.S. subsidiary LLC, with a monthly fee of \$30,000. Based on this contractual agreement, the price of the marketing services will meet the standards and scrutiny of Internal Revenue Code §482, Which Pertains to the Allocation of income and deductions among taxpayers.

## Monetary Transactions & Accounting

1. EZ Gadgets, LLC pays a third-party China company \$1,200,000 for the manufacture of the gadgets.
2. The gadgets are then shipped from China to the Miami warehouse in the United States
3. The United States customers pay for the purchase of the gadgets totaling \$3,000,000. This payment is processed through the LLC account and paid to its bank account.

## U.S. Tax Filing Compliance

4. **Form 1120 (EZ Gadgets, LLC).** Based on this structure, the LLC files a corporate tax return, [Form U.S. Corporation Income Tax Return](#), and reports net income totaling \$540,000 (Gross Income of \$3,000,000 - \$1,200,000 Cost of Goods Sold - \$360,000 Marketing Services - \$900,000 Administrative Costs). The resulting U.S. corporate tax is \$113,400.
5. **Form 5472 (EZ Gadgets, LLC).** Attached to its corporate tax return is [5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation](#)

## Isle of Man E-Commerce C-Corporation with Transfer Price Agreement

[Engaged in a U.S. Trade or Business](#) to report certain reportable transactions per Internal Revenue Code §6038.

6. **Form 1042-S (EZ Gadgets, PLC).** At the conclusion of the year, the remaining cash available is distributed as dividends of \$426,600. [Form 1042, Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#), is filed, and payments are subject to a 30% tax to Isle of Man corporations, totaling \$127,980.

## Summarized Tax Returns and Financial Statements

4

Form 1120EZ Gadgets, LLC

Gross Income\$3,000,000

Cost of Goods Sold - \$1,200,000

Administrative Costs - \$900,000

Marketing - \$360,000

Net Income\$540,000

U.S. Tax\$113,400

5

Form 5472(EZ Gadgets, LLC)

Foreign Owned DE

6

Form 5472(EZ Gadgets, PLC)

U.S Source Dividends

\$426,600 x 30% = \$127,980 Tax

## Resulting Tax Implications

As a result of this structure, the total tax liability is \$241,380, which includes \$113,400 of corporate income tax and \$127,980 of dividend withholding tax on Fixed, Determinable, and Periodic Income (FDAP).



**Compliance Warning.** The deductible portion of the Marketing costs paid to a foreign related party is subject to interpretation. Transfer Pricing rules and other factors should be considered when making this determination. A Base Erosion and Anti-Abuse Tax (BEAT) could apply if the IRS determines the Marketing costs paid to a foreign related party is too high.