

International Tax Structures

for Americans Living Abroad

Net CFC Tested Income Structure #5

NCTI LLC Section 250 Deduction and FEIE Salary to Manager

Managers of a foreign corporation earn a salary that qualifies for the Foreign Earned Income Exclusion, and the parent C-Corporation claims an Internal Revenue Code §250 deduction on the remaining NCTI income.

Summary of the Net CFC Tested Income (§951A)

Net-CFC-Tested Income (NCTI) is a category of income to target profits earned by Controlled Foreign Corporations (CFCs) that are subject to low foreign taxes. U.S. shareholders of CFCs must include a portion of the CFC's income in their current U.S. taxable income, even if it isn't distributed. Corporations (or individuals who claim a valid section 962 election) can claim a 40% deduction and up to 90% foreign tax credits used to reduce the impact.



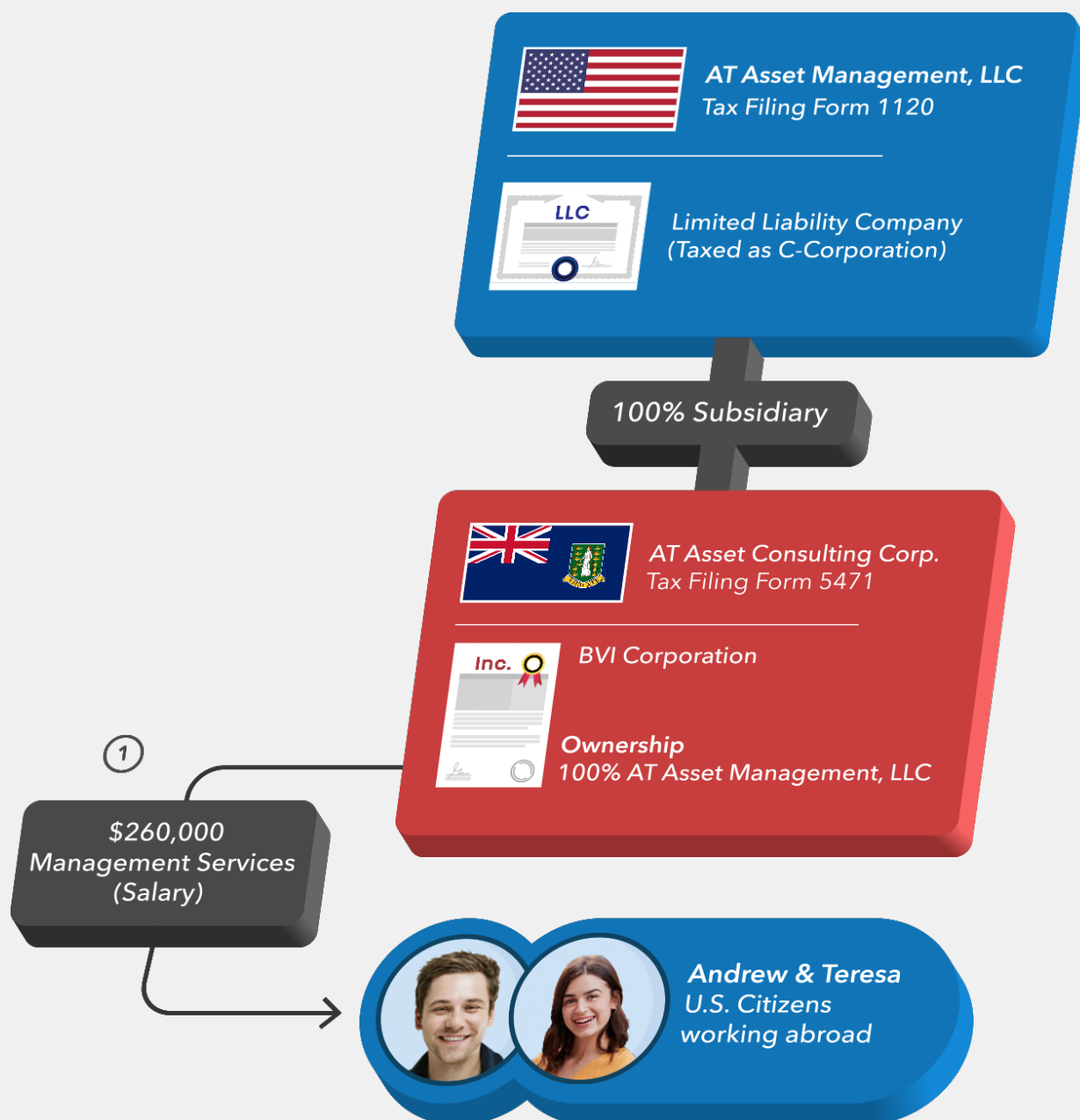
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Structure Background

AT Asset Management, LLC, a United States Limited Liability Company which made an election to be taxed as a C-Corporation, is a provider of asset management services.

To manage employees working offshore, a British Virgin Islands corporation was formed as a wholly-owned subsidiary. The foreign corporation, AT Asset Consulting Corp., is a Controlled Foreign Corporation per Internal Revenue Code §957 and hires offshore employees working physically in outside the United States to provide asset consulting services. For the purposes of this situation, there is no inclusion of Subpart F (Foreign Base Company Sales Income) per Internal Revenue Code §951 and §952.



NCTI LLC Section 250 Deduction and FEIE Salary to Manager

During the year, AT Asset Management, LLC generates no domestic income, and all of its foreign-service income is directly earned through its sole foreign subsidiary. The net earnings for AT Asset Consulting Corp. are subject to Net CFC Tested Income (NCTI) per Internal Revenue Code §951A and §250. There is, however, a 40% deduction for any Internal Revenue Code §951A inclusion of a C-Corporation, referred to as a 'Section 250 Deduction'.

Monetary Transactions & Accounting

1. Salary of \$240,000 are paid to both Andrew & Teresa from the foreign BVI corporation.
2. At the close of the year, the Net Income from the BVI corporation, AT Asset Consulting Corp., was \$610,000 (\$850,000 of Revenue less \$240,000 of Expenses for salary).

U.S. Tax Filing Compliance

3. **Form 1120, with Form 8992 (AT Asset Management, LLC).** On its Federal Income Corporate Tax Return, the LLC reports a Net Income of \$366,000 [\$0 of Revenue + NCTI Inclusion of \$610,000 - minus Section 250 deduction of \$244,000]. The U.S. Corporation must file [Form 8992, U.S. Shareholder Calculation of Net CFC Tested Income \(NCTI\)](#) in order to calculate the includable income. As a result the corporation tax is \$76,860 (21% corporate tax rate).
4. **Form 1040 (Andrew & Teresa).** On their personal tax returns, both spouses report \$320,000 of salary (\$240,000 from AT Asset Consulting Corp., plus additional salaries Teresa earned from outside employment), a Foreign Earned Income Exclusion of \$216,000, a Foreign Housing Exclusion of \$16,000, resulting in \$88,000 of taxable income. The taxable income results in \$22,000 of personal income tax, less a \$2,000 foreign tax credit from the remaining allowable Foreign Tax Credit Teresa paid from outside employment. The resulting total tax is \$20,000.

*Although not shown, the foreign corporation must also be disclosed on [Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#), to satisfy the reporting requirements of Internal Revenue Code §6038.

Summarized Tax Returns and Financial Statements

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AT Asset Consulting Corp. Income Statement

Revenue	\$850,000
Salary Expenses	- \$240,000
Net Income	\$610,000

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Form 1040 Andrew & Teresa

Salary	\$320,000
Foreign Earned Income Exclusion	- \$216,000
Foreign Housing Exclusion	- \$16,000
Taxable Income	\$88,000
Personal Tax	\$22,000
Foreign Tax Credit	\$2,000
Total Tax	\$20,000

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Form 1120 AT Asset Management, LLC

Revenue	\$0
NCTI	+ \$610,000
Section 250 Deduction	- \$244,000
Net Income	\$366,000
Corporate Tax (21%)	\$76,860

Resulting Tax Implications

As a result of this structure, the total tax liability of AT Asset Management, LLC is \$76,860 of corporate tax, and Andrew/Teresa is \$20,000 of personal tax.

Effective Tax Rate

Gross Income from All Sources	\$930,000
Gross Expenses from All Sources	\$0
Total Net Income	\$930,000
Federal Income Tax	\$96,860
Effective Tax Rate (Corporate & Personal)	10.4%

* The above Effective Tax Rate is a combination of Corporate income tax and Individual income tax.