

# TAX STRUCTURES *Of* UNITED STATES *Foreign Owned Corporations*

**PACIFICO**TAX

A guidebook that takes a simplistic approach to explaining the U.S. tax implications of Foreign-Owned Corporations.

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# **Tax Structures of United States**

## *Foreign-Owned Corporations*

***By Marcus Marcial***

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A guidebook that takes a simplistic approach to explaining the U.S. tax implications of Foreign-Owned Corporations.

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## About The Author

Marcus Marcial is a seasoned tax professional with experience predominantly dealing with International Taxation. Originally from Southern California, he attended Hunter College in New York City and has resided abroad for many years.

While employed at the IRS, he learned from examining and preparing tax returns for individuals residing and businesses operating offshore. After leaving the IRS, he started his own tax firm, helping various international clients with tax compliance, accounting, and consultation.

## Tax Consultations

To schedule a consultation to discuss the concepts, structures, and tax law references found in this book or for a custom tax structure development or consultation for tax compliance, planning, and strategy, visit <https://pacifico.tax/schedule-appointment>

PacificoTax, LLC is a professional tax firm specializing in International Tax and providing income tax return filing, consultation, tax planning, sub-contracted accounting and IRS representation/resolution services.

# Concepts Covered in This Book

This book is designed as a primer for understanding the fundamental concepts of international tax transactions for Foreign-Owned U.S. Limited Liability Companies. It is not intended to replace international tax law references, comprehensive client planning and strategy, or a single reference for international structures. This book only describes the BASIC understanding of the *most relevant and commonly occurring* concepts for LLCs, which include:

1. Income Sourcing
2. Taxation of Individual Non-Residents in reference to Ownership of Corporations (in Limited Circumstances)
3. Fixed, Determinable, and Periodic (FDAP) Withholding Tax
4. Determination of Effectively Connected Income (ECI)
5. Tax Treaty Exemptions
6. Tax Treaty Special Withholding Tax Rates

# Concepts NOT Covered in This Book

Concepts related to the U.S. International Tax system are vastly complex and a continually growing and changing field. This book does not claim to describe every situation and every legal reference in a given structure. Instead, this book only describes the basic understanding of the most relevant and commonly used concepts for the average international tax transaction, which do not include the following concepts not covered in this book:

- General Taxation of Individual Non-Residents
- Taxation of Dual Residents
- Foreign Trusts, Foreign Estates & Foreign Gifts
- U.S. Taxation of Foreign Partnerships
- Tax Effects of Entity Acquisitions, Dispositions, and Reorganizations
- Certain Foreign Source and U.S. Source Income Apportionments
- Subjective Tax Law regarding a number of opinionated issues such as Arm's Length, Form vs. Substance, Agency, etc...
- Other Complex Concepts (Redemptions, Financial Hedging, Derivatives, Foreign Currency Straddles, Transfer Pricing Models, Cost Sharing Arrangements etc...
- Certain Tax Effects of Intercompany Transactions (Such as the Base Erosion and Anti-Abuse Tax)



# Structures

Structure #1 - Foreign-Owned U.S. Corporation Danish Resident Dividend Withholding

Structure #2 - Non-Resident Salary and Dividends from C-Corporation

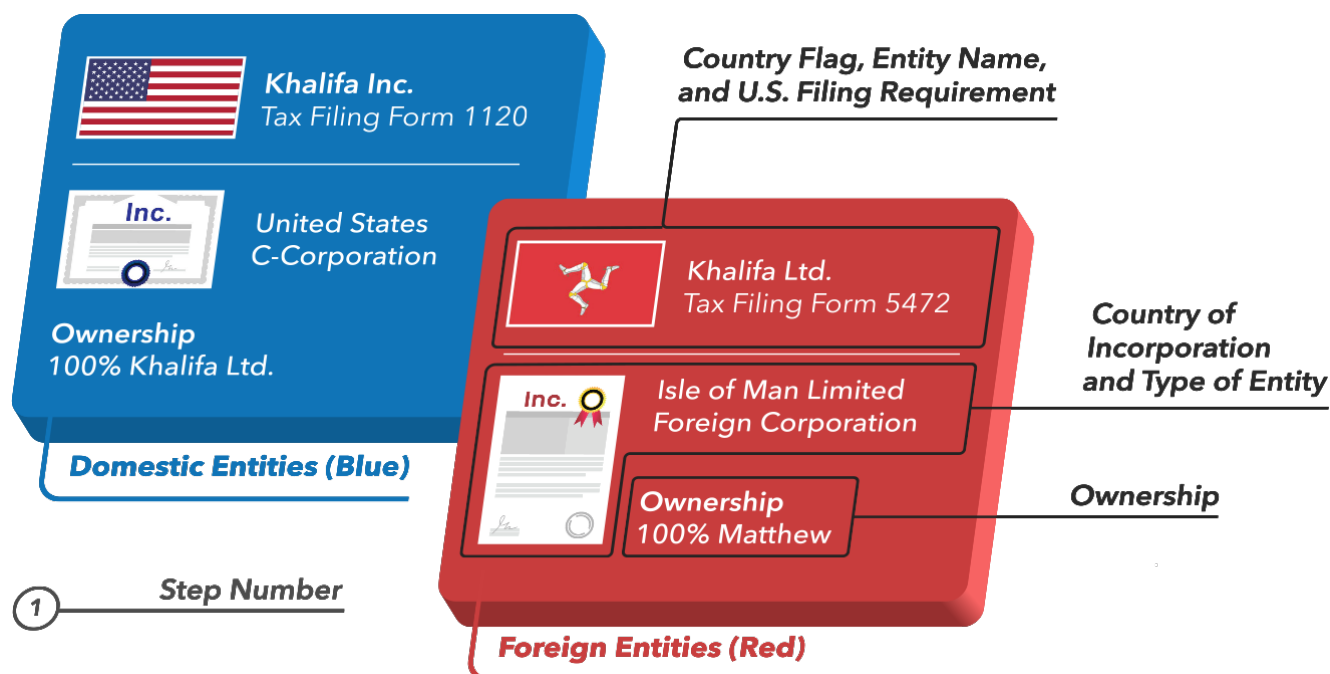
Structure #3 - Mexican Resident Contractor as C-Corporation Shareholder

Structure #4 - Capital Injection and Dividend Withholding for Foreign-Owned U.S.  
Corporation Belgian Resident

Structure #5 - Branch Profits Tax from SMLLC Amazon Sales Panama

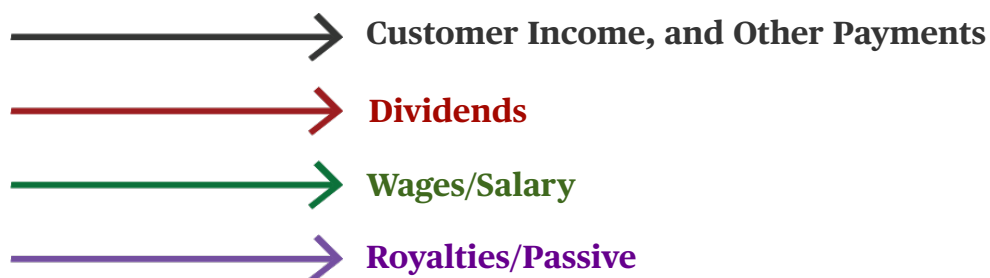
Structure #6 - Isle of Man E-Commerce C-Corporation with Transfer Price Agreement

# Structure Icon Legend



Legal Entities are two-dimensional flat icons that portray U.S. entities (in blue) and foreign entities (in red), including a country flag, name, U.S. filing requirement, and ownership. The cash transfer is shown in a lined arrow, generally colored based on the character of income.

## Flow of Cash & Character of Income



## Humans



Humans are shown with a photo, with a background/border in blue for U.S. citizens and residents and red for non-resident aliens

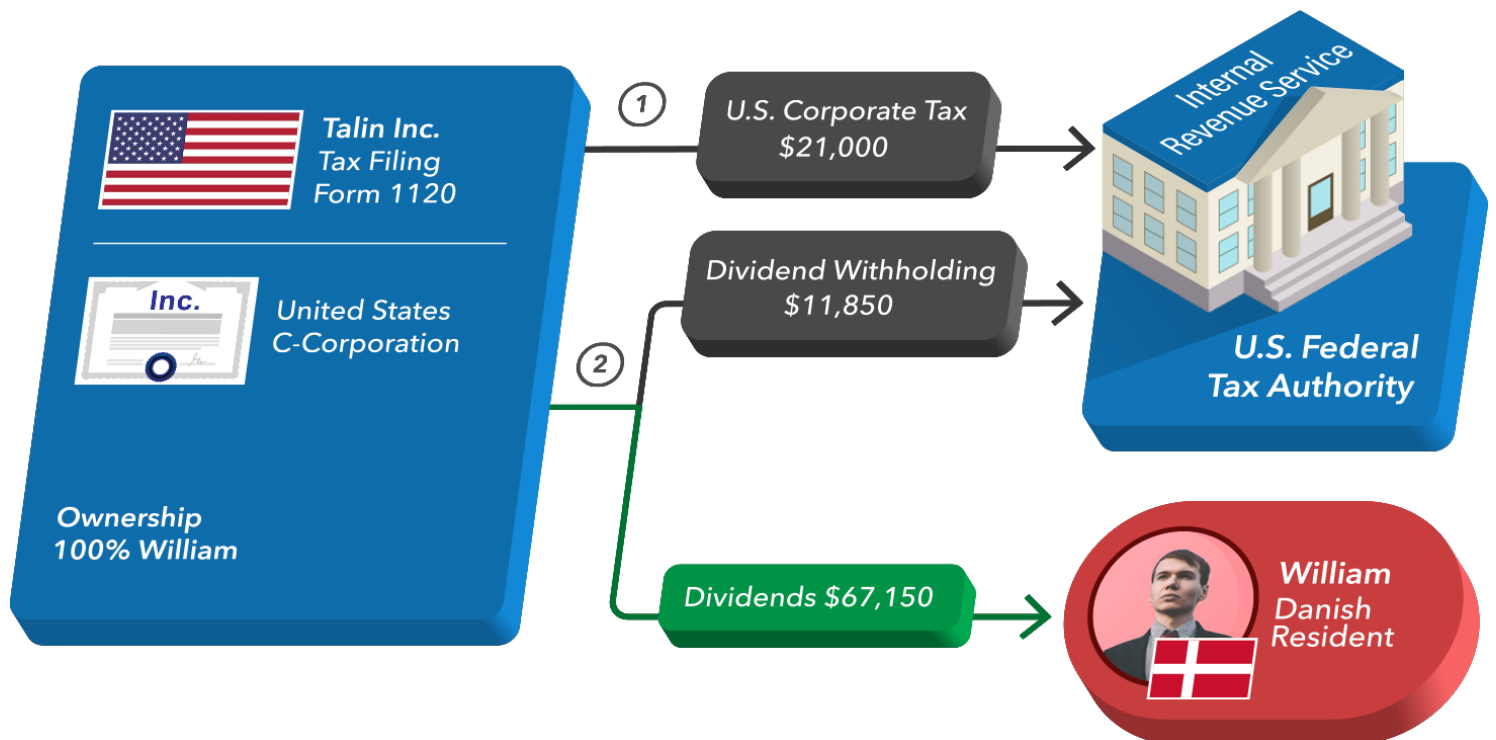
\*Note, certain electronic readers and print publications do not display colors, but are instead in greyscale.

# Foreign Owned U.S. Corporation (Danish Resident) Dividend Withholding

*Tax Structures of United States Foreign-Owned Corporations - Structure #1*

## Structure Summary

A Non-Resident Alien and sole owner of a United States corporation is subject to income tax at the corporate level and an additional withholding tax upon the payment of dividends to him directly. This withholding tax is based on Fixed, determinable, annual, or periodical (FDAP) income, with a special tax treaty rate.



## Foreign Owned U.S. Corporation (Danish Resident) Dividend Withholding

### Structure Background

A United States Corporation, Talin Inc., is a provider of marketing and sales platforms owned 100% by William, a Danish resident. The U.S. Corporation is subject to a 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.

At the end of the year, it was decided that all retained earnings would be paid as dividends to the sole foreign shareholder. In addition to the corporate tax, dividends paid to William as a non-resident shareholder are subject to a 15% withholding tax based on the tax treaty rate for Denmark<sup>1</sup>.

### Monetary Transactions & Accounting

1. During the year, Talin Inc. earns a Net Income of \$100,000, resulting in \$21,000 federal income tax based on a corporate tax rate of 21%.
2. After the Federal tax is paid, retained earnings of \$79,000 are distributed to the sole non-resident shareholders. A withholding tax of \$11,850 (15% for Denmark) applies, which is paid directly to the Internal Revenue Service, and the remaining \$67,150 is paid to the sole shareholder.

### U.S. Tax Filing Compliance

3. **Form 1120, with Form 5472 (Talin Inc.).** 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.
4. **Form 1042 (Talin Inc.).** Withholding tax applies to dividends paid to nonresidents per Internal Revenue Code §1441. In this structure, a tax treaty rate of 15% applies to both residents of Denmark. As a result, \$11,850 is withheld from dividends (\$79,000 x 15%). The withholding is recorded and paid on [Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#). Assuming William 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.

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



## Foreign Owned U.S. Corporation (Danish Resident) Dividend Withholding

### Summarized Tax Returns and Financial Statements

3

Form 1120  
Talin, Inc.

Revenue	\$100,000
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Net Income	<u>\$100,000</u>
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Corporate Income Tax	\$21,000
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4

Form 1042  
Talin, Inc.

U.S Source Dividends  
 $\$79,000 \times 15\% = \$11,850$  Tax

Form 5472  
Talin, Inc.

Foreign Owned U.S. Corporation

### Resulting Tax Implications

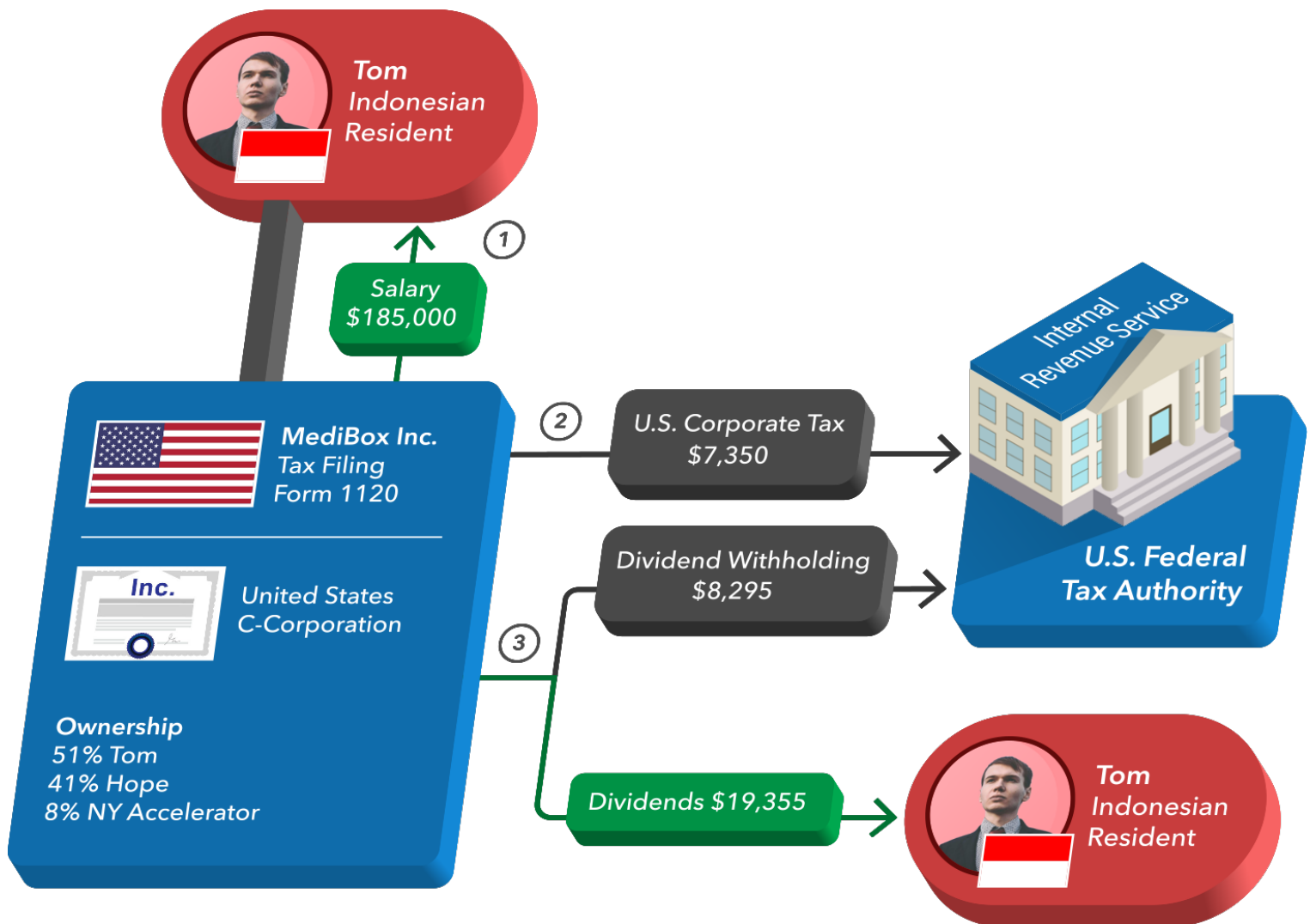
As a result of this structure, the Federal corporate income tax is \$21,000, and the withholding tax liability of dividends to the foreign shareholder is \$11,850.

# 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. taxation<sup>1</sup>.

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 Indonesia<sup>2</sup>, 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

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

<sup>2</sup> <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

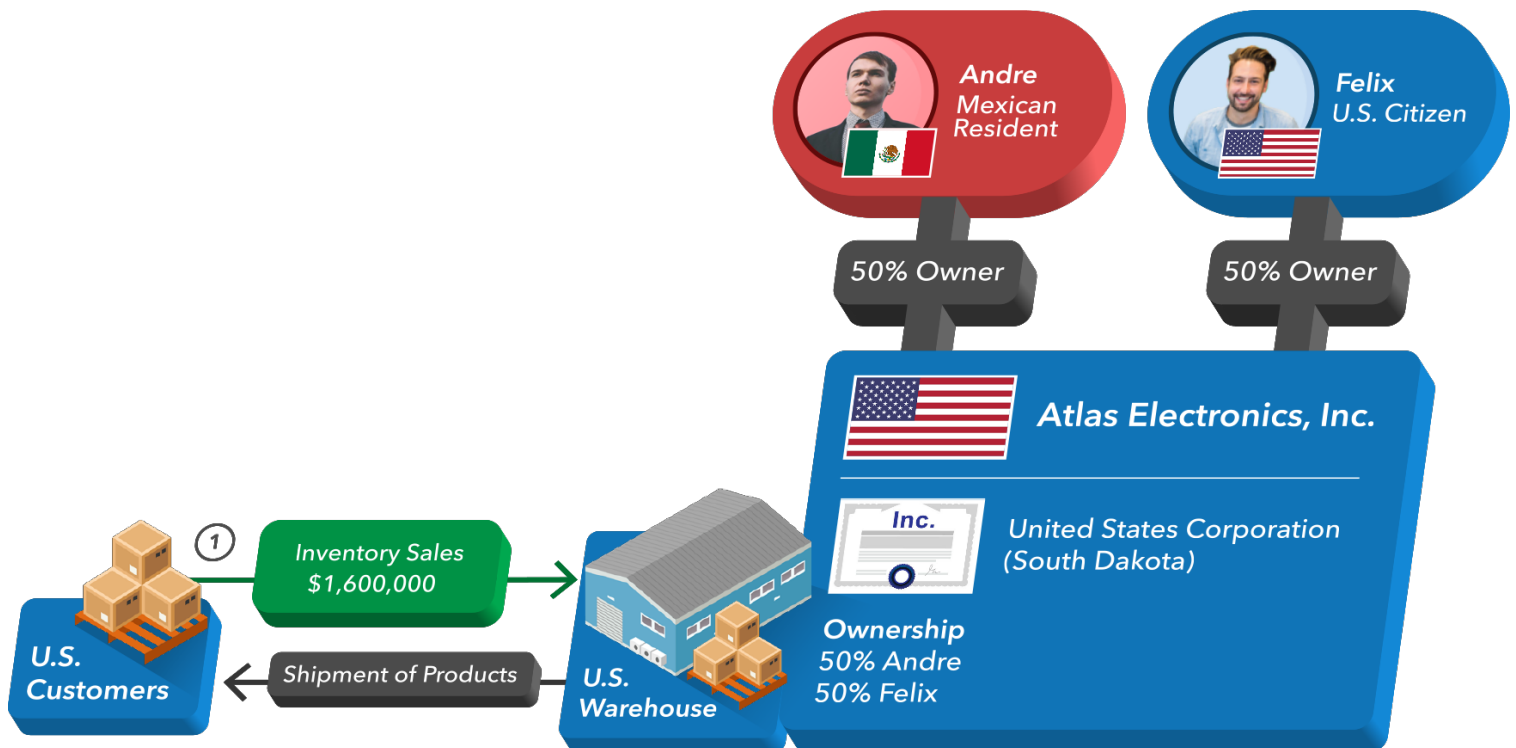
As a result of this structure, the Federal corporate income tax is \$7,350, and the U.S. withholding tax liability of dividends paid to Tom as a foreign shareholder is \$8,295. No U.S. withholding tax applies on the Foreign Salary paid to Tom.

# Mexican Resident Contractor as C-Corporation Shareholder

## *Tax Structures of United States Foreign-Owned Corporations - Structure #3*

### Structure Summary

A Non-Resident Alien Shareholder of a U.S. Corporation receives dividends, which are subject to a 10% withholding rate in his home country of Mexico. Additionally, he provides services as a contractor for the Corporation, which are not subject to U.S. tax because the income is a foreign source, as he works in a foreign country.



## Mexican Resident Contractor as C-Corporation Shareholder

### Structure Background

Atlas Electronics, Inc. is a Corporation that sells electronics equipment to U.S. customers. Andre is a U.S. Non-Resident Alien and Mexican Resident, and Felix is a United States citizen, and each is a 50% owner of the corporation.

#### *Foreign Source Income (Contractor Income for Andre)*

Andre provides services as a contractor to the corporation, including management, marketing, and other services. Generally, foreign source income received by a nonresident alien is not subject to U.S. taxation<sup>1</sup>.

The performance of personal services by a Non-Resident Alien outside the United States is not subject to U.S. tax per Internal Revenue Code §871.

#### *Source and Taxation of Dividend Income*

Upon the issuance of dividends to Andre, a withholding tax applies. Based on the Tax Treaty rate of Dividends earned in the United States, residents of Mexico are taxed at a flat rate of 10%<sup>2</sup>.

### Monetary Transactions & Accounting

1. Atlas Electronics, Inc. sells inventory totaling \$1,600,000 originating from the warehouse in the United States, all of which is sent to U.S. customers.

### U.S. Tax Filing Compliance

2. **Form 1120 (Atlas Electronics, Inc.).** On its Income Statement and related [Form 1120, U.S. Corporation Income Tax Return](#), Atlas Electronics, Inc. reports a Net Income of \$780,000. As a result, \$163,800 of corporate tax is owed.
3. **Form 1042-S (Andre).** Withholding tax applies to dividends paid to non-residents per Internal Revenue Code §1441. During the year, \$135,000 of dividends was paid to Andre at a tax treaty rate of 10%, which applies to residents of Mexico for Dividend Income. As a result, \$13,500 is withheld from dividends (\$135,000 X 10%). The withholding is recorded and paid on [Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons](#).

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<sup>1</sup> <https://www.irs.gov/individuals/international-taxpayers/nonresident-aliens-exclusions-from-income>

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

**Mexican Resident Contractor as C-Corporation Shareholder**

4. **Form 1040NR (Andre).** As a non-resident with Not Effectively Connected Income (NEC), Andre files [Form 1040NR, U.S. Nonresident Alien Income Tax Return](#), to report the dividend income of \$135,000 taxed at a 10% rate, or a \$13,500 withholding tax. As the tax has already been withheld at source, no additional tax is due.

**Summarized Tax Returns and Financial Statements**

2

Form 1120	Atlas Electronics, Inc. U.S. Corporation Income Tax Return
Sales to U.S. Customers (Inventory)	\$1,600,000
Cost of Goods Sold	\$600,000
Contractor Payments (Andre)	\$120,000
Administrative Expenses	\$100,000
Net Income	\$780,000
Tax (21%)	\$163,800

4

Form 1040NR	(Andre)
Schedule NEC	
Total U.S. Source Dividend Income	\$135,000
Dividend FDAP Withholding (Mexico)	10%
Withholding Tax	\$13,500
Tax Liability	\$13,500
Tax Due	\$0

3

Form 1042-S	Andre
U.S Source Dividends	
\$135,000 x 10% = \$13,500 Tax	

**Resulting Tax Implications**

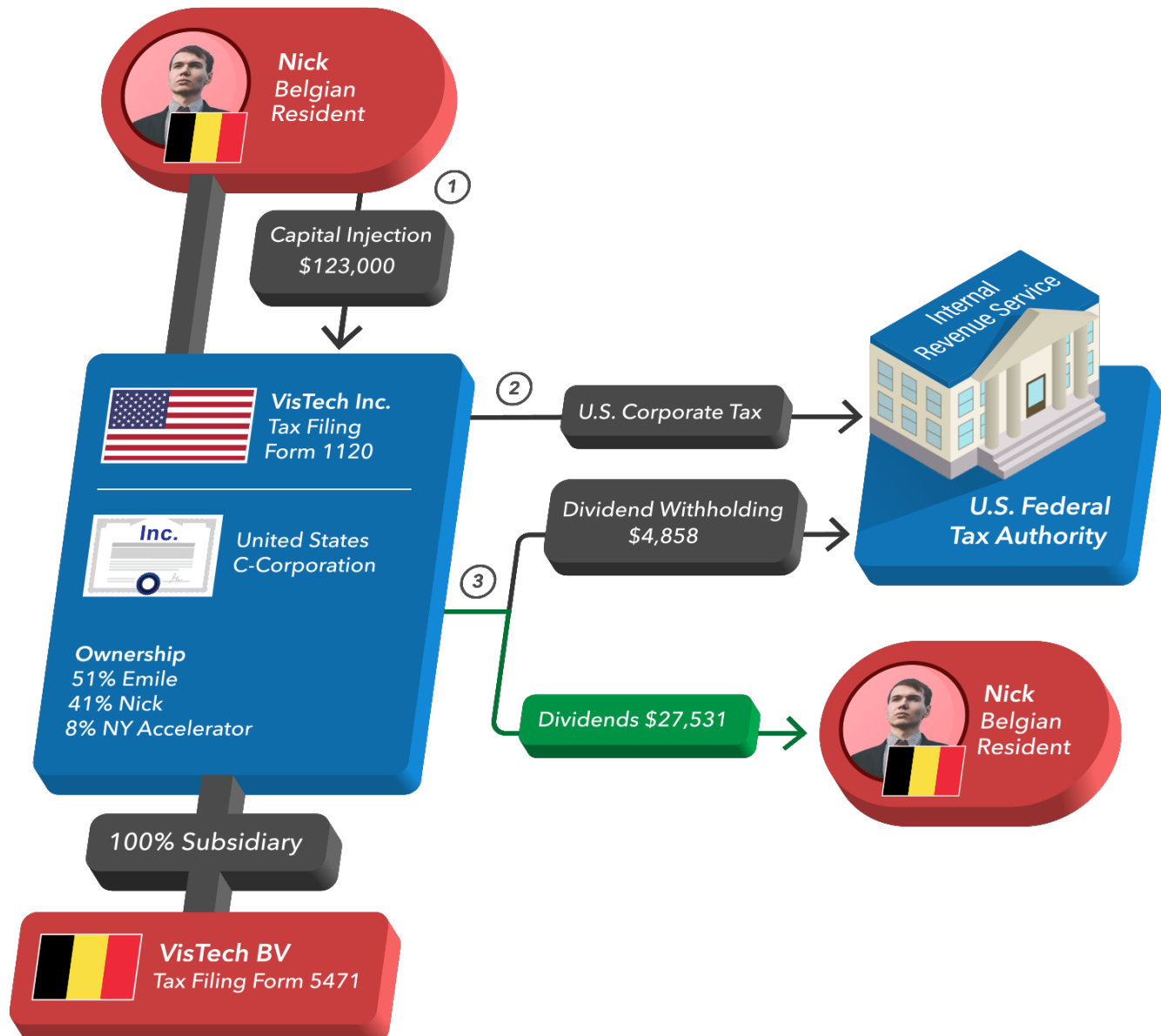
As a result of this structure, the U.S. corporate income tax liability of Atlas Electronics, Inc. is \$163,800, and the dividend withholding tax for Andre is \$13,500.

# 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 Belgium<sup>1</sup>, 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.](#)

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<sup>1</sup> <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

4

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

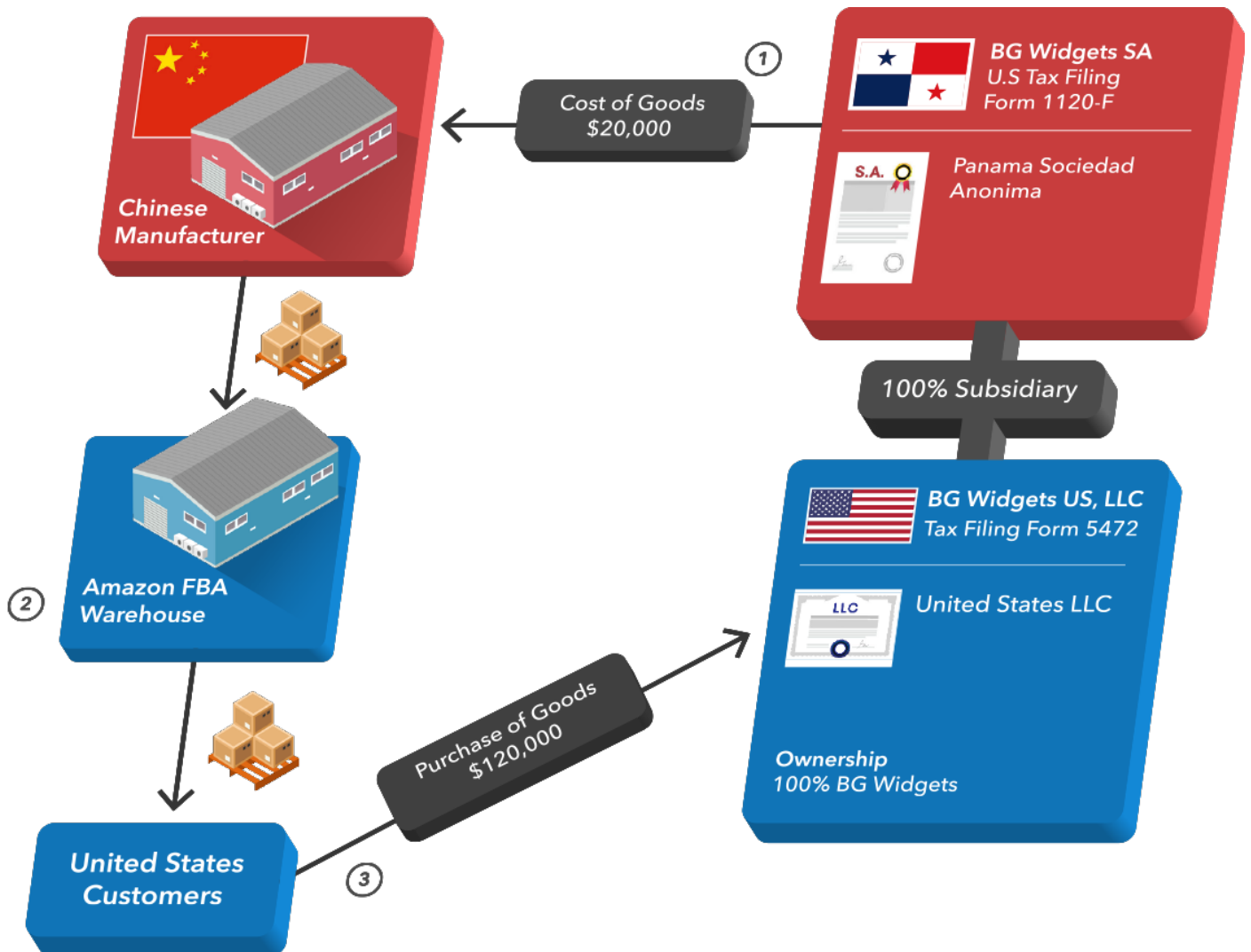
As a result of this structure, the Federal corporate income tax is \$21,000, and the U.S. withholding tax liability of Nick as a foreign shareholder is \$4,858.

# 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 purposes<sup>1</sup> 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.

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<sup>1</sup> <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

4

**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**

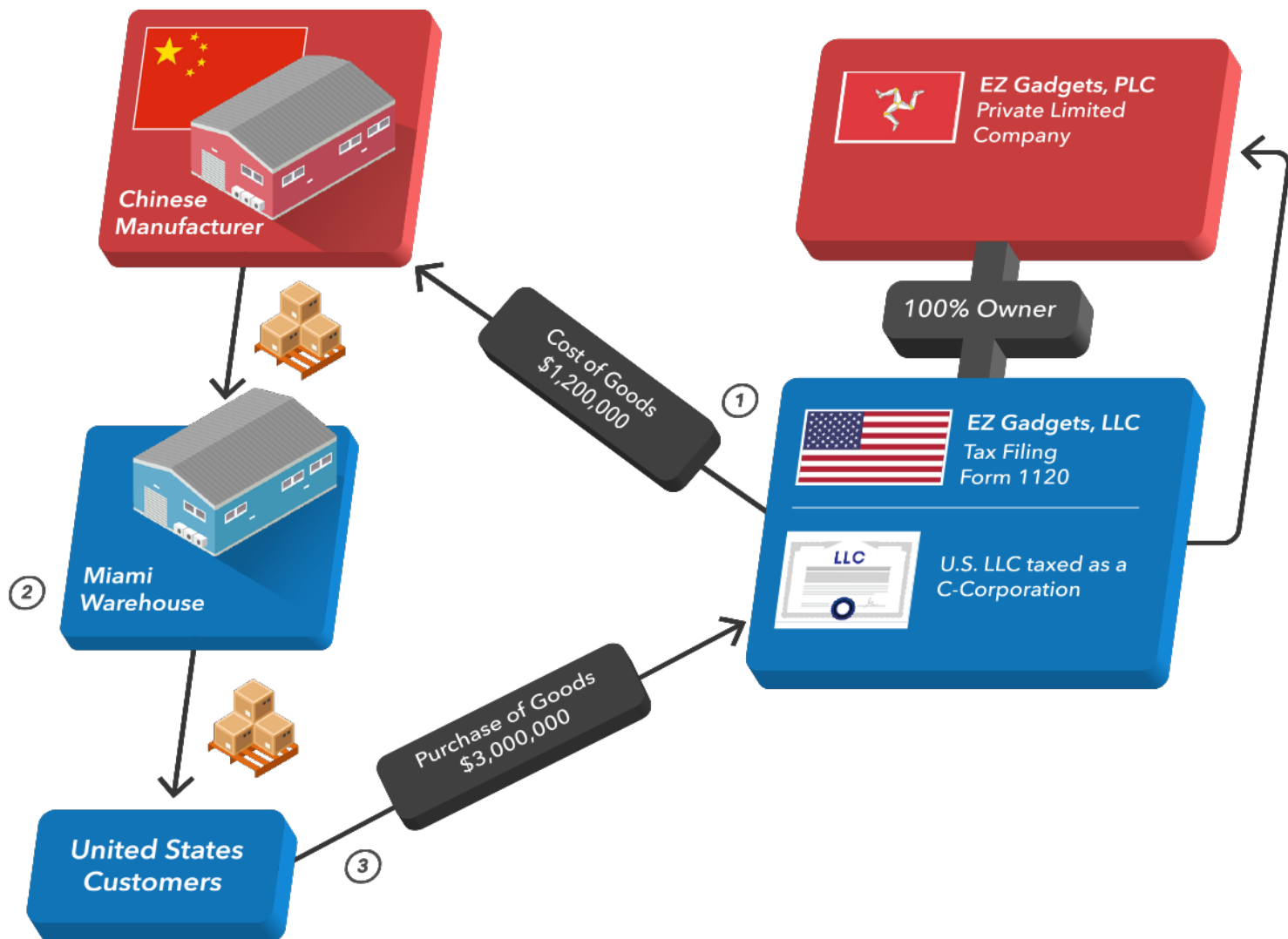
As a result of this structure, the total U.S. tax liability of BG Widgets SA (to include BG Widgets US, LLC by extension, as a disregarded entity) is \$44,700. This amount includes both a Federal corporate income tax \$21,000 as well as a branch profits tax on net earnings of \$23,700.

# 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
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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.