

Offshore Consultant Salary from BVI Ltd.

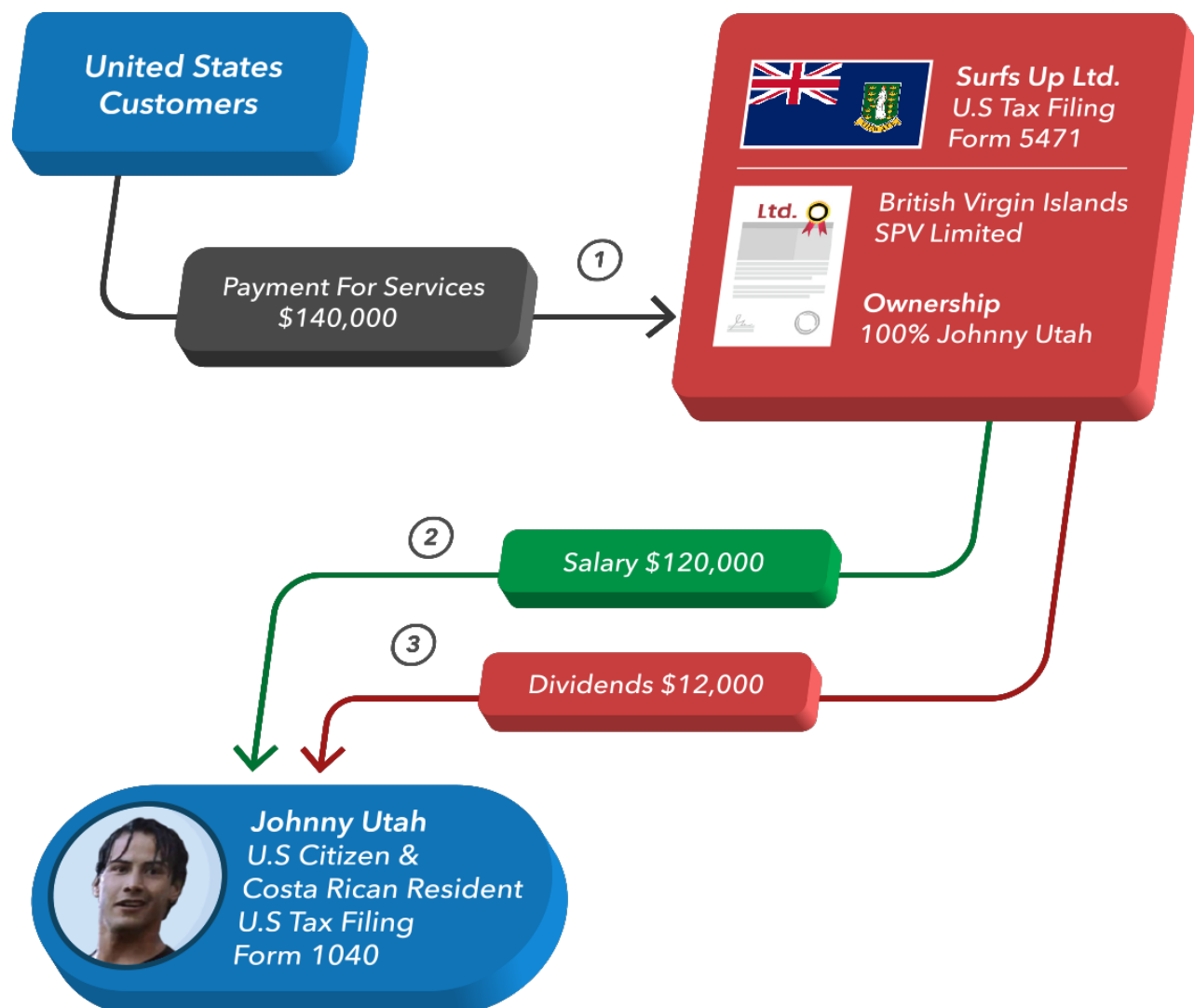
International Tax Structures for Americans Living Abroad
Foreign Earned Income Exclusion Structure #1



By
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Structure Summary

A consultant working overseas earns a salary from a foreign corporation to claim the Foreign Earned Income Exclusion, in addition to receiving dividends, to reduce his U.S. tax liability to zero. This structure is a simple method of obtaining a salary from a foreign corporation to claim the Foreign Earned Income Exclusion, while also being exempt from U.S. Social Security taxes while working in a foreign country.



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Structure Background

A British Virgin Islands SPV, Surfs Up Ltd. (owned wholly by Johnny Utah), received compensation from customers based in the United States for advisory consultation related to the surfing industry. Johnny, a U.S. citizen, resides in Costa Rica as a Permanent Resident, where he spends his free time surfing great waves and watching the sunset.

Johnny did not travel to the United States during the year and qualifies for the Foreign Earned Income Exclusion under both the bona fide residence test and the physical presence test per Internal Revenue Code §911.

Monetary Transactions & Accounting

1. The total payments from U.S. customers to the BVI corporation for consultation services were \$140,000 throughout the year.
2. During the same calendar year, the BVI corporation compensates Johnny a \$120,000 Salary. As the performance of work is based on where the work was performed, rather than the location of the customer, all income is considered foreign-source income. Furthermore, his salary from a foreign corporation while working in a foreign country is not subject to U.S. Social Security and Medicare tax per Internal Revenue Code §3121.
3. In addition to his salary, \$12,000 of dividends from retained earnings were also paid to Johnny before the end of the year.
4. Surfs Up, Ltd. earned a total of \$140,000 for consultation income, paid \$120,000 of salary expenses to Johnny, had other administrative expenses of \$8,000 throughout the year, resulting in a Net Income of \$12,000.

U.S. Tax Filing Compliance

5. **Form 1040 (Johnny Utah).** Based on his U.S. worldwide income of \$132,000, he elects a Foreign Earned Income Exclusion to exclude his salary of \$120,000 on [Form 2555, Foreign Earned Income](#). After also claiming the Standard Deduction of \$12,000, his taxable income is reduced to \$0. He must also file Form [5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations](#), in relation to his ownership of Surfs Up, Ltd., to satisfy the reporting requirements of Internal Revenue Code §6038. As a result of all retained earnings being paid to Johnny as related part dividends, the taxable portion of Global Intangible Low Taxed Income (GILTI) is \$0 per Internal Revenue Code §951A.

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Summarized Tax Returns and Financial Statements

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Surfs Up Ltd. Income Statement

Consultation Income	\$140,000
Salary Expense	\$120,000
Administrative Expenses	\$8,000
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Net Income	\$12,000
Dividends Paid	\$12,000
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Retained Earnings	\$0

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Form 1040 Johnny Utah (Single)

Salary	\$120,000
Dividends	\$12,000
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Total Income	\$132,000
Standard Deduction	- \$12,000
Foreign Earned Income Exclusion	- \$120,000
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Federal Taxable Income	\$0

Form 5471 (Surfs Up Ltd.)

Net Income	\$12,000
Related Party Dividends Exemption	\$-12,000
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Taxable GILTI	\$0

Resulting Tax Implications

As a result of this structure and his income, the Federal personal U.S. tax liability of Johnny Utah is \$0. No state income tax is due, as he is not a resident of any U.S. state, nor has any income been sourced in any U.S. state.

This International Tax Structure is based on a set of hypothetical circumstances, and real-world results may vary. For more information and additional structures, visit <https://pacifico.tax/international-tax-structures>