

# Foreign Tax Credit for Costa Rican Rental Property (U.S. Higher Rate)

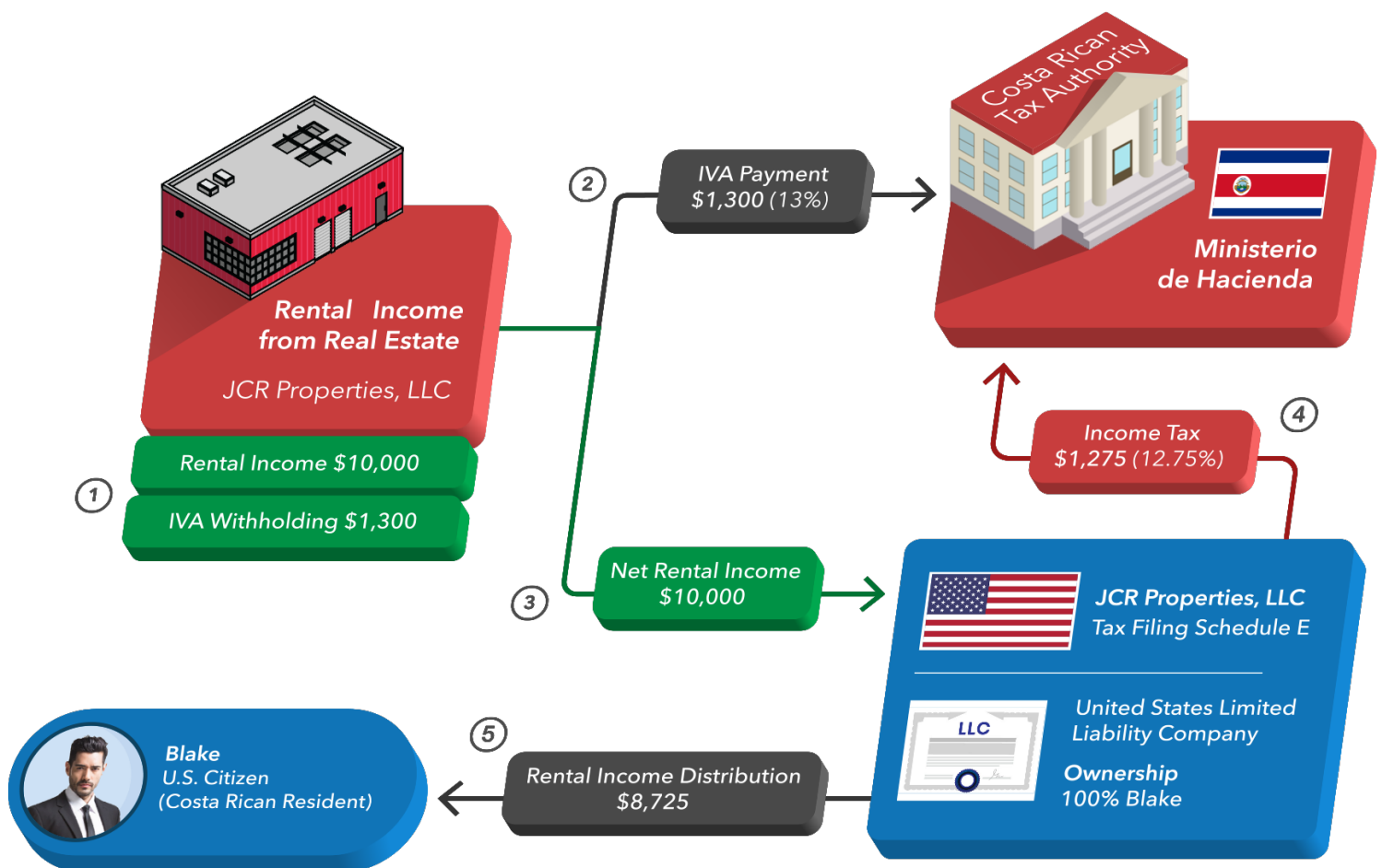
*International Tax Structures for Americans Living Abroad*  
**Foreign Tax Credit Structure #5**



By  
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## Structure Summary

A U.S. Individual claims a Foreign Tax Credit for Real Estate Property rented in Costa Rica, with a Value Added Tax (IVA), and a Foreign Income Tax applies. As his U.S. tax rate is higher than the foreign tax imposed in Costa Rica, the difference in tax is paid to the United States.



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### Structure Background

Blake, a U.S. Citizen and Costa Rica resident, is the sole owner of JCR Properties, LLC, a Single Member LLC that owns properties for rent in Costa Rica. The income, expenses, and related credits are reported on his individual tax return (Schedule E), as JCR Properties, LLC is a Disregarded Entity for Federal tax purposes per Treasury Regulation § 301.7701-3.

There are two taxes imposed on rental income:

- El Impuesto sobre el Valor Agregado (IVA), a Value Added Tax of 13%, is charged based on the sales income from rental properties.
- An Income Tax of 12.75% based on Gross Receipts of income from business activities generated in the country.

Blake claims a Foreign Tax Credit for taxes that are an Income Tax, per Internal Revenue Code §901.

### Monetary Transactions

1. During the year, the rental property generates \$10,000 of rental income, of which \$1,300 is withheld from customers for IVA, totaling \$13,000 of gross income.
2. The IVA payment is made to the Ministerio de Hacienda, in the amount of \$1,300.
3. Net Rental Income of \$10,000 is deposited into the bank account held by JCR Properties, LLC.
4. An Income Tax payment is made to the Ministerio de Hacienda, in the amount of \$1,275.
5. A rental income distribution is made to Blake of \$8,725 for the remaining profits.

### Tax Compliance

6. **Form 1040 (Blake).** Based on its foreign source rental income, Blake reports \$11,300 of gross income, \$1,300 as an IVA Expense from the rental property, and a Foreign Tax Credit of \$1,275. As his effective tax rate in the U.S. is 20% (a \$2,000 liability), the difference in the higher tax is \$725 owed to the United States.

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### Summarized Tax Returns and Financial Statements

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Form 1040	Blake
U.S. Individual Income Tax Return	
Foreign Rental Income	\$11,300
IVA Expense	- \$1,300
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Taxable Income	\$10,000
U.S. Individual Tax	\$2,000
Foreign Tax Credit	- \$1,275
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Total U.S. Individual Tax	\$725

### Resulting Tax Implications

As a result of this structure, the creditable foreign taxes are \$1,275, and Blake's U.S. income tax liability is \$725.

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>