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Top 5 Things to Know About US Expat Taxes When Starting a Business Overseas

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No matter where your business is located, you will always have US tax reporting requirements. From how to structure your company to what forms you may need to file, here are the top 5 things about expat taxes that you need to know.



Businesses are no longer tied to a particular location, thanks to the giant leaps in technology. In particular, the location-independent company with a virtual workforce has become increasingly popular—and with good reason! As an entrepreneur, you can live wherever you want and run a successful company with the help of employees located around the world (or locally if you choose). But whether you start a remote business overseas or a more traditional, location-dependent company, it is important to understand how expat taxes will impact your bottom line. From corporate structure to self-employment taxes, here are the top 5 things you need to know!

1. Corporate structure matters.

Your tax reporting requirements will differ based on the type of corporate structure you choose. The most popular structure for both domestic and foreign businesses is the Limited Liability Company. A domestic LLC is ‘disregarded’ for tax purposes—meaning, no separate filing is required and all reporting flows through the individual’s US income tax return. With a foreign LLC, you can elect the disregarded status by a one-time filing of Form 8832, and then you will must continue to file Form 8858 (Information Return of US Persons with Respect to Foreign Disregarded Entities) annually thereafter. This form is required by any US person owning 100% of a foreign LLC that chooses the disregarded treatment. If you don’t choose the disregarded status, your foreign LLC will likely be treated as a corporation for tax purposes and you’ll need to file Form 5471, Information Return of US Persons with Respect to Certain Foreign Corporations, which is a time-consuming task!

If you have ownership in a Foreign Corporation, you will need to file the aforementioned (and lengthy) Form 5471, particularly if you own 10% or more of the company. In addition, if you make a transfer to the corporation during the year, you may be required to complete and attach Form 926 to your individual return.

With Foreign Partnerships, you must include a Form 8865 (Return of US Persons with Respect to Certain Foreign Partnerships) with your individual tax return. This form is also required if you acquire, change or shed your interest in the partnership.

2. FBAR filing is critical

FBAR, Foreign Bank Account Report, is part of the US initiative to uncover tax cheats hiding money in overseas accounts. As a business owner, you’ll likely have more than \$10,000 in your foreign account(s) so you will need to file FBAR. It is filed electronically by June 30th each year and there are no extensions. Willful non-filing of FBAR can result in steep penalties, so you would be wise to file if you meet the specified requirements. Note that FBAR applies to both individual and corporate accounts, so if your personal account balance exceeds \$10,000 at any point in the year, you would need to file an FBAR for that, as well.

3. Self-employed individuals still have filing requirements.

If you are self-employed and earn over \$400 a year (yes, just \$400) then you must file a US tax return. You will need to file a Schedule C, Profit or Loss from Business (just like you would in the US) or a Schedule C-EZ, Net Profit from Business, along with your 1040. And don’t forget about self-employment taxes! Just because the business is located overseas, that doesn’t mean that Uncle Sam doesn’t still want a piece of the action.

The self-employment tax rate for 2014 is 15.3%. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance). The first \$117,000 of your combined wages, tips and net earnings are subject to these taxes. In addition, those earning over a specific threshold (which varies by your filing status) may also pay a new .9% Medicare tax that was just created last year.

You may need to make estimated payments throughout the year to avoid an ‘underpayment penalty’ come tax time.

4. There are limitations to your deductions

Your self-employment tax gets paid out BEFORE the Foreign Earned Income Exclusion or the Foreign Tax Credit can be applied. So, for example, let’s say you make \$150,000 in 2014. You must pay self-employment taxes on this amount, *then* you can exclude \$99,200 with the Foreign Earned Income Exclusion. If you are also paying additional taxes to your host country, you may be able to use the Foreign Tax Credit or the Foreign Housing Exclusion to help offset the US tax liability of the remaining \$50,800 of income.

5. Deduct ordinary and necessary expenses

You may deduct those expenses that are common and accepted in your line of work, provided they are helpful and appropriate for your business. Your expensive Nike sneakers wouldn’t be deductible if you were a computer technician, but they may be deductible if you are a personal trainer! Some of the expenses you can deduct on your Schedule C include:

- Advertising
- Legal and professional services
- Travel
- Car/truck expenses
- Supplies
- Rent (business space and equipment)
- Taxes and licenses
- Meals and entertainment

As you can see, there are many tax considerations when starting a business abroad. The biggest variable will be where you choose to reside. If you choose to start a business in, say, the United Arab Emirates (UAE), you won’t pay any corporate taxes at all. However, if you choose to start your company in Japan, the corporate tax rate is 40%! So before you head abroad to start your company, it is important to investigate the tax rates and laws of the host country to ensure the tax structure is an affordable one for your business.

Carrie & David McKeegan are the co-founders of Greenback Expat Tax Services, which specializes in the expert preparation of US expat taxes for business owners and individuals around the world. For more information, visit <http://www.greenbacktaxservices.com>.



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