SEO DETAILS:

Page Title: C Corps Can Offset Tax Liability with Foreign Tax Credits | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] describes how corporations – especially C corps – can utilize indirect foreign tax credits to offset their tax liabilities.

Headline: C Corps Can Offset Tax Liability with Foreign Tax Credits

BODY COPY:

The foreign tax credit (FTC) is an essential tool to understand when thinking about your tax liability this tax season. This credit can be taken for individuals and corporations alike; however, corporations (specifically C corps) may receive an additional, indirect benefit from this credit by taking advantage of the indirect foreign tax credit. The indirect form of the FTC can be a very difficult concept, so I will simplify it for you.

Direct Foreign Tax Credit

Let's start with what the direct FTC entails. The FTC is a dollar-for-dollar offset against a U.S. taxpayer's federal tax liability. You can claim this credit for any direct taxes that were paid to a foreign jurisdiction. The credit is calculated using the following formula:

(Foreign Source Income/Worldwide Income)*US Tax

Don't be too concerned if you did not take advantage of the FTC in previous years—its statute of limitations extends 10 years, so you still have an opportunity to claim this valuable credit. It is worth noting that this is a non-refundable credit meaning if the credit exceeds your U.S. tax liability, you cannot get the excess refunded. However, you can carry any unused credit back one year and forward up to 10 years.

Indirect Foreign Tax Credit

You must own a C corp, to take advantage of the indirect FTC. Specifically, this credit can only be taken for C corps that own 10% or more of the voting stock of a dividend-paying foreign corporation, also known as the "first tier" corporation. Dividends paid to the first tier corporation, made by other foreign C corps, (tiers 2-6), can also qualify for this credit. The credit is redeemed when the first tier pays out their dividend to the U.S. corporation. The formula for this credit is:

(Dividend/Post 1986 Undistributed Earnings)*Foreign Taxes

It might help to picture the indirect FTC as a Ponzi scheme. The top of the scheme is the U.S. corporation, which will benefit from the first tier, which benefitted from the second, which benefitted from the third, and so on down the list. The only difference here is that the first through sixth tiers don't actually benefit, per se. The only true beneficiary is the U.S. corporation.

A couple of limitations to note: Tiers 4-6 must be controlled foreign corporations (CFCs). Furthermore, tiers 2-6 must be at least five percent owned by the U.S. corporation. Hopefully I didn't just burst your bubble.

The overall concept of the FTC and indirect FTC is to avoid double taxation by applying these credits, if you qualify. Essentially, the dividend received by the U.S. corporation has already been taxed on the earnings it derived from. If you pay the entire tax on the dividend, you are thereby paying taxes twice on the amount of the dividend that is derived from foreign entities. Do you really want to pay an additional tax on your hard-earned income?

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