

# The Form 5471 Series

## Episode 11. CFCs vs. Other Structures

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March 29, 2024

# The Form 5471 Series — 2023-2024

Date	Episode	Title
<b>Part 1. The Filer</b>		
April 28, 2023	1	Overview: Who is a Form 5471 Filer?
May 26, 2023	2	The Attribution Rules for Form 5471
June 30, 2023	3	The Nine Categories of Form 5471 Filers
July 28, 2023	4	Filing Exceptions and Reduced Filing Requirements
<b>Part 2. The Income Items</b>		
August 25, 2023	5	Subpart F Income
September 29, 2023	6	Global Intangible Low-Taxed Income
October 27, 2023	7	Distributions from Controlled Foreign Corporations
<b>Part 3. Damage Control</b>		
November 17, 2023	8	Foreign Tax Credit
January 26, 2024	9	Restructuring, Reorganization, and Liquidation of a Controlled Foreign Corporation
February 23, 2024	10	The Section 962 Election
March 29, 2024	11	Tax Performance Comparison: CFCs vs. Other Structure Types

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# Introduction

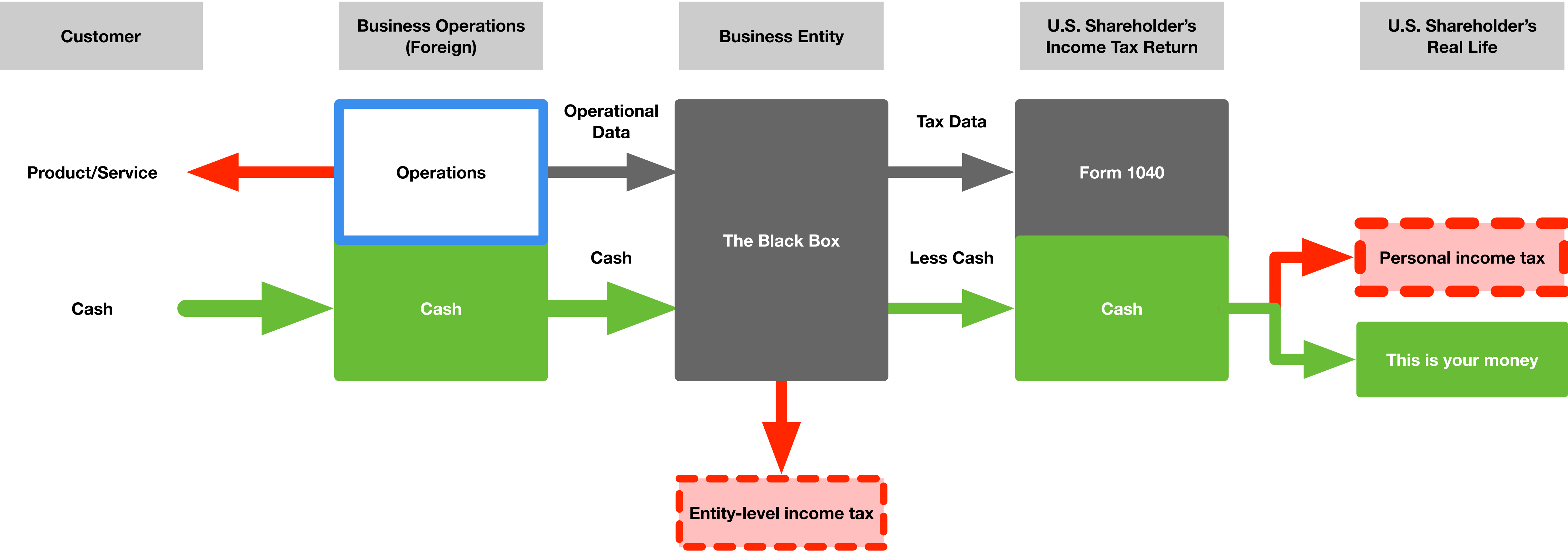
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# A business structure is just plumbing for money (but really data)

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# Abstractions (accounting data) and reality (cash) flow through the pipes

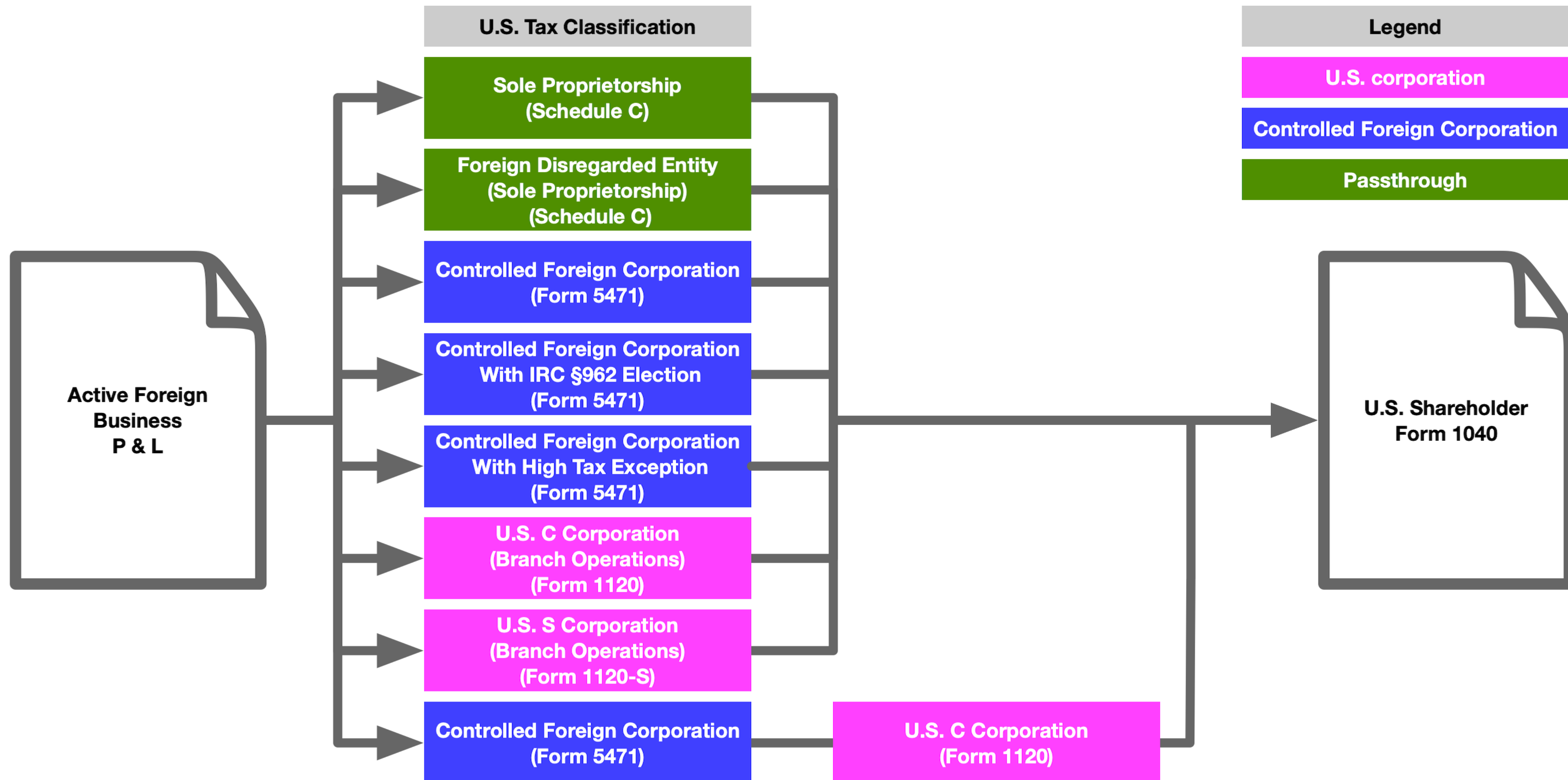


# Straight, Clear Pipes? Or Clogged, Convoluted, Corroded Pipes?

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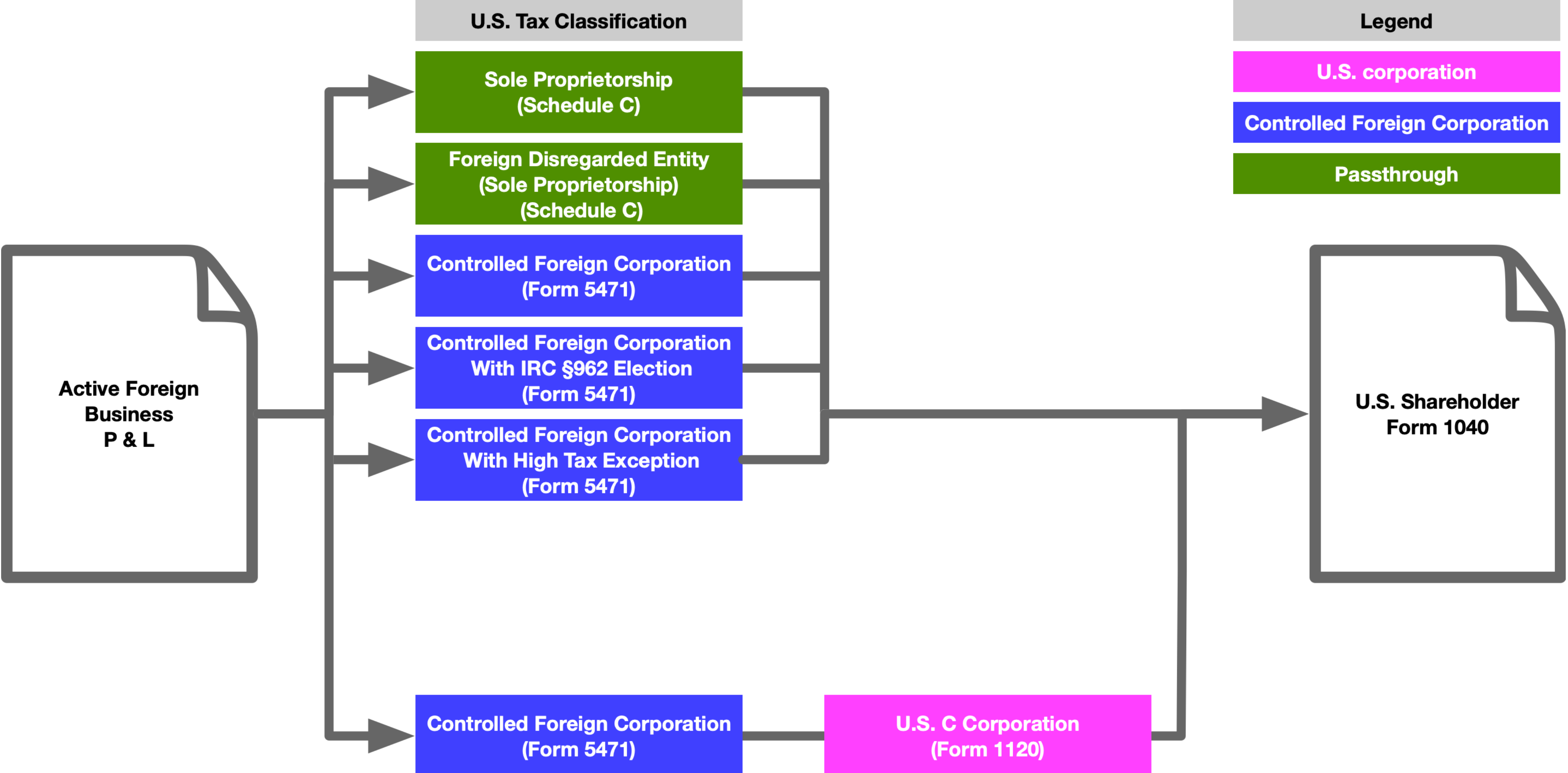
- **Passthrough structures:** income is reported on Schedule C. Income retains its character.
- **Controlled foreign corporations:** you get passthrough treatment even if you don't want it. That's what IRC §§951, 951A do.
- **Controlled foreign corporations + high-tax exception:** the same horrible CFC tax paperwork, but there's no income to pass through to the shareholder.

I suppose there are other variants, but this is close enough to “all”





# The common choices

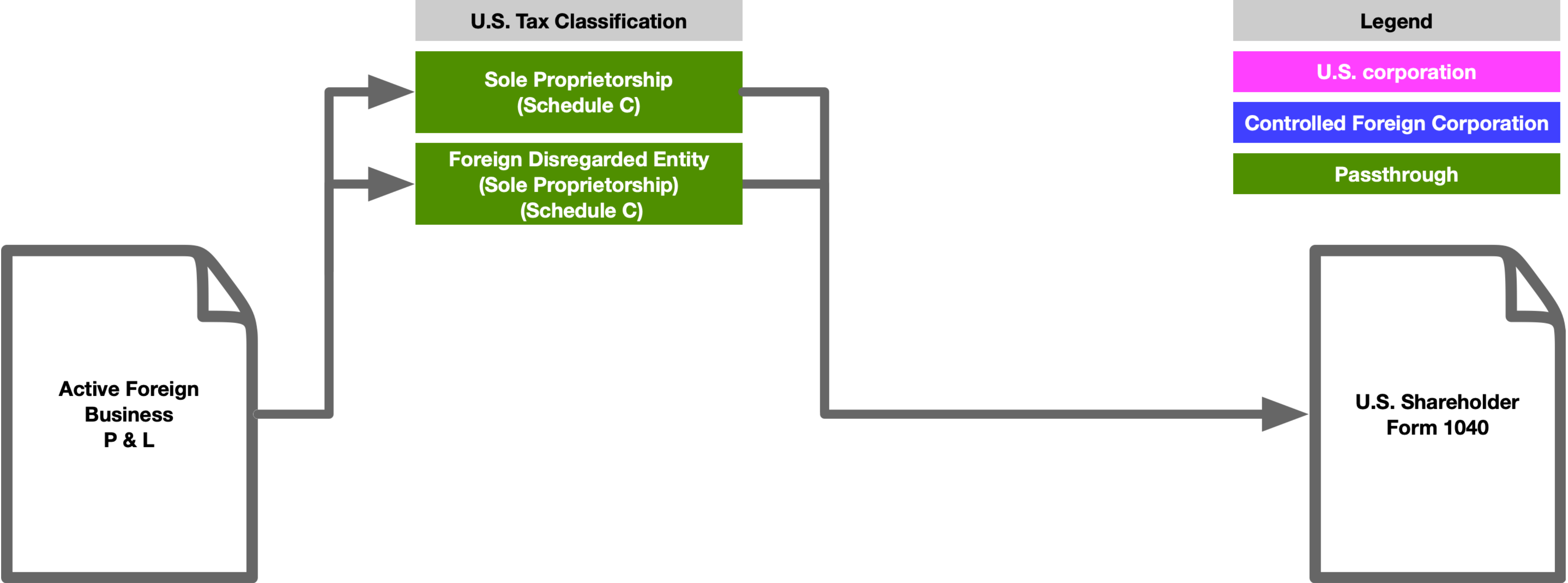


# Passthrough Structures

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Taxable income goes straight to Schedule C, and preparing the tax return is easy.

# Sole proprietorship and hybrid entity



# Sole proprietorship and its variant: the hybrid entity

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- **Sole proprietorship.** Income and expense from foreign operations are reported on Schedule C.
- **Hybrid entity.** Form a foreign eligible entity (i.e., *not* an entity listed on the last page of the Form 8832 instructions), then make a disregarded entity election for U.S. tax purposes.
  - C corporation treatment in the foreign country.
  - Sole proprietor treatment for U.S. tax purposes.

# Hybrid entity and self-employment taxes

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- A U.S. person operating as a sole proprietor pays self-employment tax no matter what. Reg. §301.7701-2(c)(2)(iv)(C)(2) (emphasis added):

“. . . [A]n entity that is treated in the same manner as a sole proprietorship under paragraph (a) of this section is not treated as a corporation for purposes of employing its owner; instead, the entity is disregarded as an entity separate from its owner for this purpose and is not the employer of its owner. **The owner will be subject to self-employment tax on self-employment income with respect to the entity's activities.** \* \* \*

# Problem: self-employment/social security tax

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- There may be a parallel requirement to pay foreign country social security tax: (1) their equivalent of self-employment tax (for true sole proprietorship) or (2) social security (if a hybrid entity is used, the shareholder will probably be an employee of the foreign corporation for foreign country purposes).
- Solutions: (1) a totalization agreement (if it exists) between the two countries solves the double-taxation problem, (2) suck it up and pay 2x employment taxes, or (3) choose a different structure type.

# Hybrid entities

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- A “foreign eligible entity” is a foreign business entity where (1) all owners have limited liability and (2) the entity type is not on the list of “per se” corporations (always treated as corporations for U.S. tax purposes, no matter what). Reg. §301.7701-3(b)(2).
- Make a check-the-box election (Form 8832). A one-owner entity is disregarded, and the entity is treated as a sole proprietorship. Reg. §301.7701-2(a).
- File Form 8858 for the foreign disregarded entity.

# Passthrough Structure - Sole Proprietorship

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# Tax assumptions for all models

Item	Assumption
Social security taxes, self-employment taxes (foreign, U.S.)	Ignored
Foreign earned income exclusion	Ignored
State income taxes	Ignored
Foreign corporate income tax rate	25%
Foreign personal income tax rate	35%
U.S. corporate income tax rate	21%
U.S. personal income tax rate	30%
U.S. net investment income tax rate	3.8%
U.S. standard deduction (2024 single) Rev. Proc. 2023-34, §3.15	\$14,600

# Profit & Loss Assumptions

Gross revenue	600,000
Expenses	0
<b>Net Profit</b>	<b>600,000</b>

# U.S. personal income tax liability

<b>U.S. individual's Schedule C income</b>	
Gross revenue	600,000
Expenses	0
<i>U.S. individual's Schedule C income</i>	<i>600,000</i>
<b>U.S. individual's taxable income</b>	
U.S. individual's Schedule C income	600,000
Less 50% of self-employment tax	Ignored
Less standard deduction	(14,600)
<i>U.S. individual's taxable income</i>	<i>585,400</i>
<b>U.S. individual's U.S. personal income tax before foreign tax credit</b>	
U.S. individual's taxable income	585,400
U.S. personal income tax rate	30%
<i>U.S. individual's U.S. personal income tax before foreign tax credit</i>	<i>175,620</i>
<b>U.S. individual's U.S. foreign tax credit allowed</b>	
Foreign country personal income tax liability	210,000
U.S. individual's U.S. personal income tax before foreign tax credit	175,620
<i>U.S. individual's U.S. foreign tax credit allowed (lower of foreign income tax paid or U.S. income tax liability)</i>	<i>175,620</i>
<b>U.S. individual's U.S. personal income tax liability after foreign tax credit</b>	
U.S. individual's U.S. personal income tax before foreign tax credit	175,620
U.S. individual's U.S. foreign tax credit allowed (lower of tax paid or U.S. income tax liability)	(175,620)
<b><i>U.S. individual's U.S. personal income tax liability after foreign tax credit</i></b>	<b><i>0</i></b>

# Sole proprietor's worldwide income tax load

<b>Total worldwide income tax paid</b>	
Foreign country personal income tax liability	210,000
U.S. personal income tax liability after foreign tax credit	0
<i>Total worldwide income tax paid</i>	<i>210,000</i>
<b>Worldwide tax paid as a percentage of net income from foreign operations</b>	
Total worldwide income tax paid	210,000
Net income from foreign operations	600,000
<b><i>U.S. individual's taxable income</i></b>	<b><i>35%</i></b>

# Compare three similar sole proprietorship structures

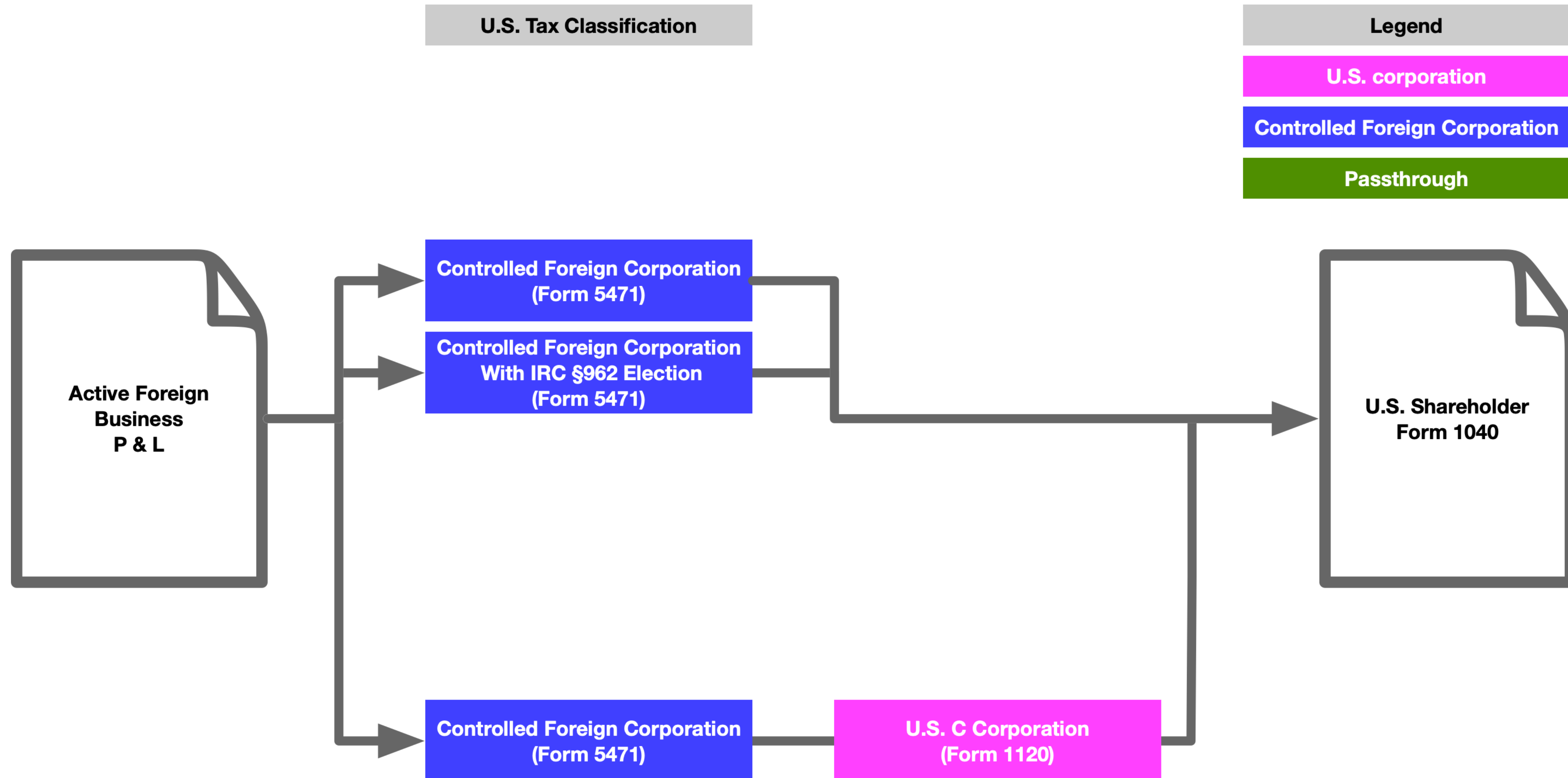
	Sole Proprietorship, \$600,000 Profit	Hybrid Entity, Owner Receives \$600,000 Salary	Hybrid Entity, Owner Receives \$450,000 Dividend
Total foreign corporation's corporate income tax liability		0	150,000
Foreign country personal income tax liability (sole prop)	210,000		
Foreign country personal income tax liability (salary)		210,000	
Foreign country personal income tax liability (dividend)			157,500
U.S. personal income tax liability after foreign tax credit	0	0	0
Total worldwide income tax paid	210,000	210,000	307,500
<i>Total worldwide tax as percentage of \$600,000 net profit</i>	<i>35%</i>	<i>35%</i>	<i>51.25%</i>

# Controlled Foreign Corporations with Subpart F Taxation

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Income is passed through to the U.S. shareholders.

# Foreign corporations subjected to IRC §§951, 951A



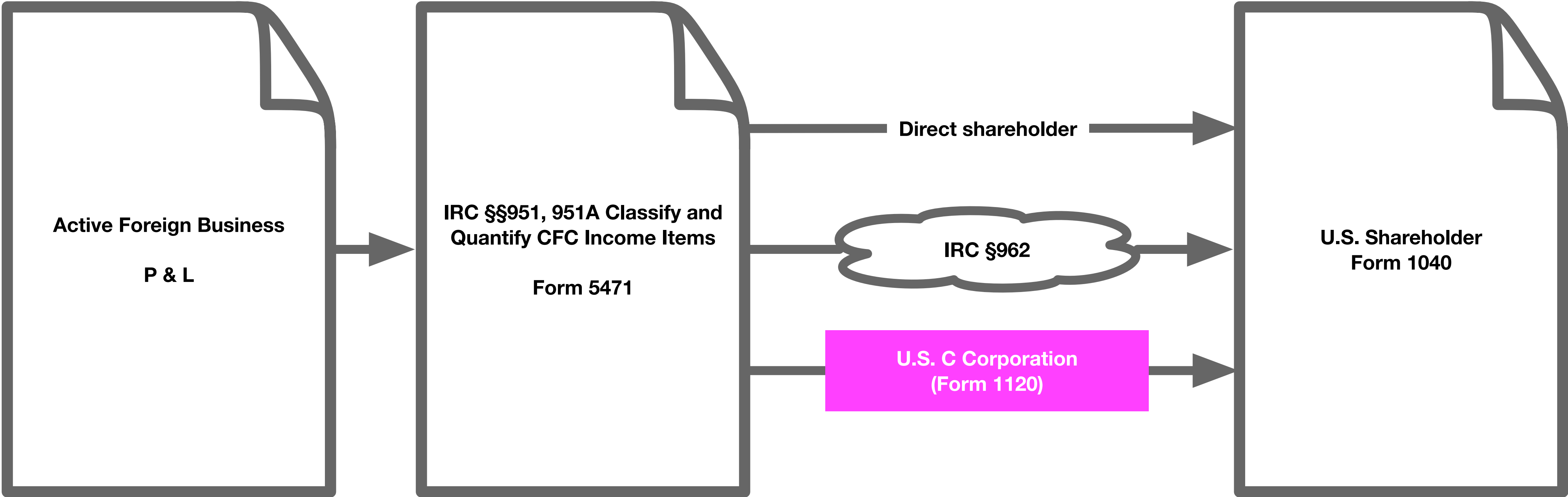
# Tax differences depend on who/what is the CFC shareholder

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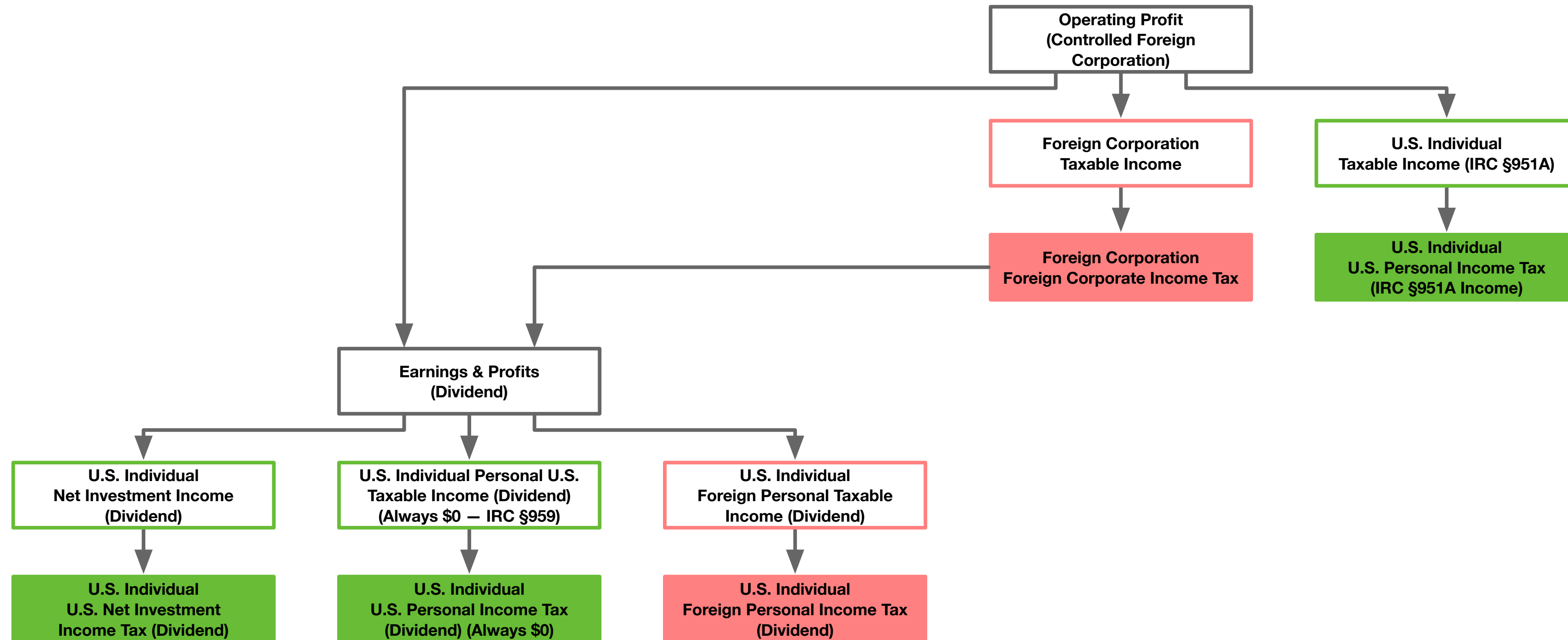
- The default choice: direct stock ownership
- The whole point of Form 5471 is to classify the CFC's income as either subpart F income or global intangible low-taxed income.
- The default choice is “the shareholder is a **human**”.
- Variants (change the shareholder, change the tax result)
  - CFC + Section 962 election (a **human/corporation chimera** is the shareholder)
  - CFC + domestic parent (**C corporation** is the CFC shareholder)



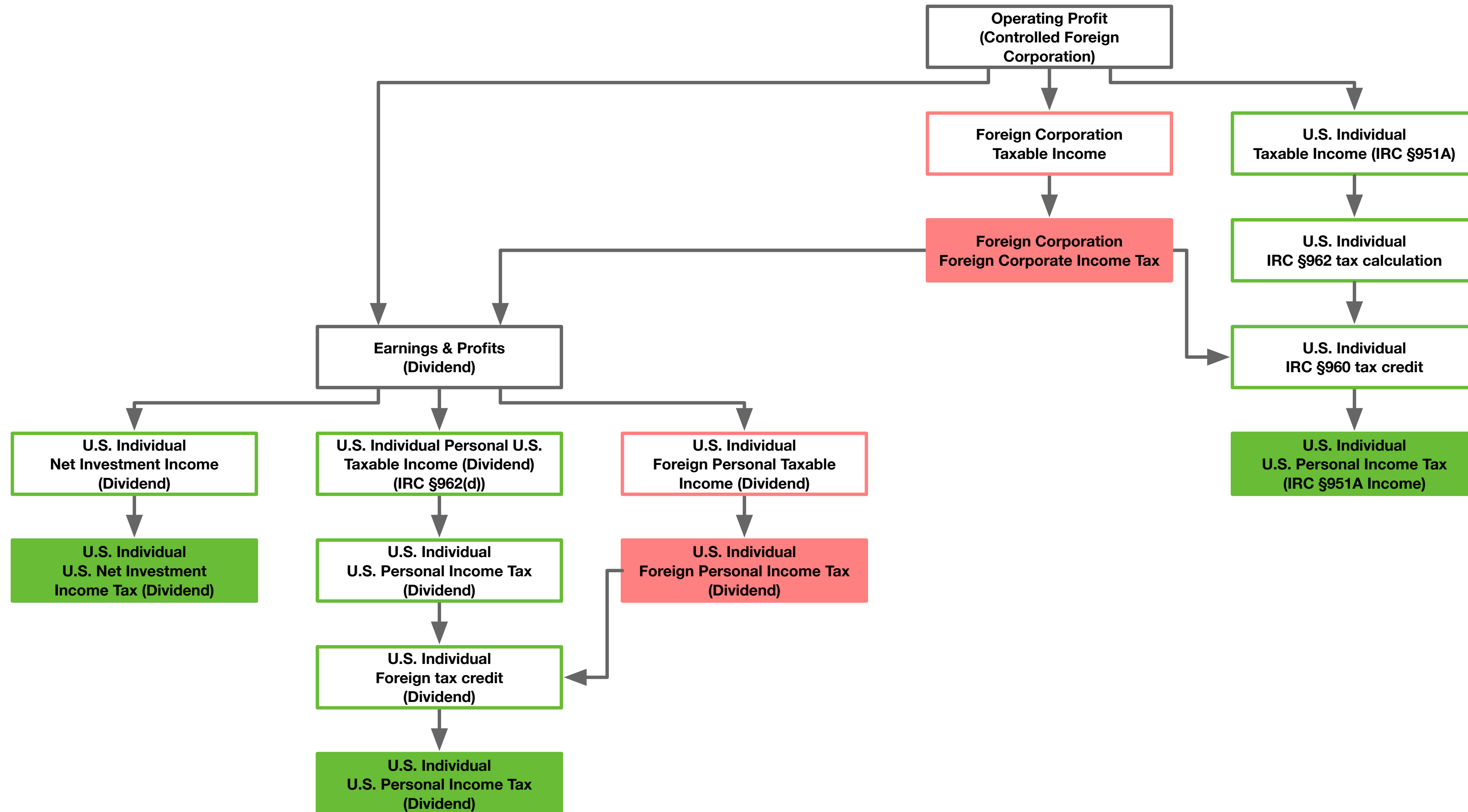
# The tax results on Form 1040 depend on what you choose



# Inside the CFC black box: how a U.S. shareholder is taxed



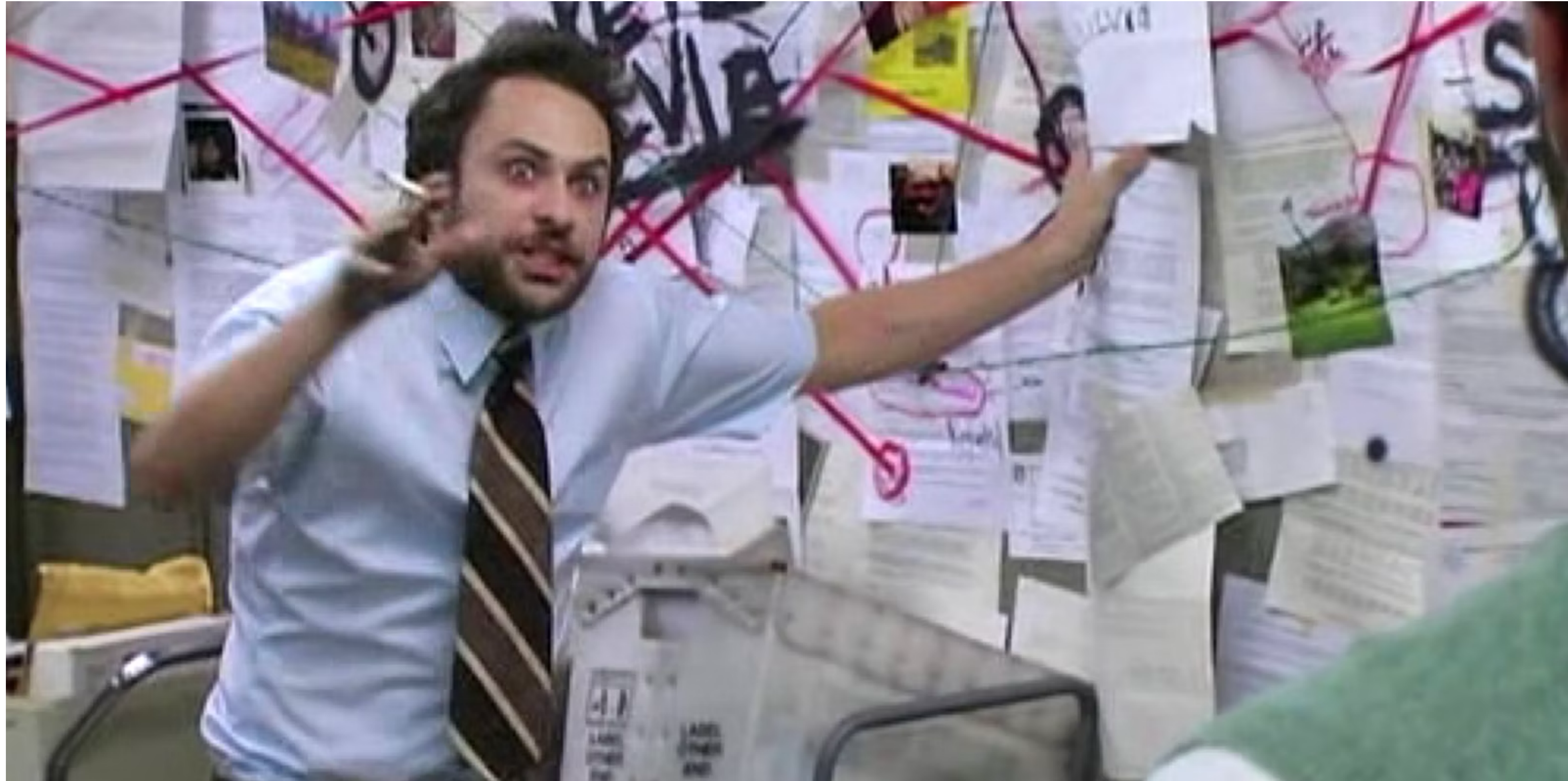
# Inside the CFC black box: how IRC §962 affects the tax calculation



# Tax comparison: CFC with and without the Section 962

	CFC	CFC + §962
Foreign corporate income tax	150,000	150,000
CFC passthrough income (IRC §§78, 951A)	130,620	63,000
CFC passthrough income foreign tax credit (IRC §960)	-	(63,000)
<i>Tax load on corporate profits (foreign country, USA)</i>	<i>280,620</i>	<i>150,000</i>
Shareholder's foreign tax paid on dividend income received	157,500	157,500
Shareholder's U.S. income tax on dividend income received	-	135,000
Shareholder's foreign tax credit on dividend income received	-	(135,000)
Shareholder's net investment income tax	17,100	17,100
<i>Tax load on dividend income (foreign country, USA)</i>	<i>174,600</i>	<i>174,600</i>
Total worldwide tax	455,220	324,600
Total worldwide tax as a percentage of \$600,000 operating income	75.87%	54.1%

# Inside the CFC black box: how a parent/subsidiary structure works



# Tax calculation: parent/subsidiary structure

	Domestic Parent / CFC Subsidiary
CFC subsidiary: foreign corporate income tax	150,000
Parent corp: CFC passthrough income (IRC §§78, 951A)	63,000
Parent corp: CFC foreign tax credit (IRC §960)	(63,000)
<i>Parent corp: U.S. tax on CFC passthrough income</i>	<i>0</i>
Parent corp: foreign tax paid on dividend income received	45,000
Parent corp: U.S. income tax on dividend income (IRC §245A)	0
<i>Parent corp: worldwide tax on dividend income received</i>	<i>45,000</i>
Individual shareholder: foreign income tax on dividend received from U.S. parent	141,750
Individual shareholder: foreign tax credit for U.S. tax paid on dividend	(98,100)
Individual shareholder: U.S. income, NIIT on dividend received	98,100
<i>Individual: worldwide tax on dividend income received</i>	<i>141,750</i>
<b>Total worldwide tax</b>	<b>336,750</b>
<b>Total worldwide tax as a percentage of \$600,000 operating income</b>	<b>56.125%</b>

# Small change, big difference (don't blindly trust my models)

	Dividend withholding 0%	Dividend withholding 10%
CFC subsidiary: foreign corporate income tax	150,000	150,000
Parent corp: CFC passthrough income (IRC §§78, 951A)	63,000	63,000
Parent corp: CFC foreign tax credit (IRC §960)	(63,000)	(63,000)
<i>Parent corp: U.S. tax on CFC passthrough income</i>	0	0
Parent corp: foreign tax paid on dividend income received	0	45,000
Parent corp: U.S. income tax on dividend income (IRC §245A)	0	0
<i>Parent corp: worldwide tax on dividend income received</i>	0	45,000
Individual shareholder: foreign income tax on dividend received from	141,750	141,750
Individual shareholder: foreign tax credit for U.S. tax paid on dividend	(98,100)	(98,100)
Individual shareholder: U.S. income, NIIT on dividend received	98,100	98,100
<i>Individual: worldwide tax on dividend income received</i>	141,750	141,750
Total worldwide tax	291,750	336,750
Total worldwide tax as a percentage of \$600,000 operating income	48.625%	56.125%

# Parent/subsidiary - CFC's foreign tax

Domestic Parent/Foreign Subsidiary	Foreign Corporation Subsidiary Calculations	Dividend Amount Calculation	U.S. Parent Corporation (IRC §951A Inclusion)	U.S. Parent Corporation (Foreign Tax Credit) IRC §960	U.S. Parent Corporation (IRC §78 Dividend)	U.S. Parent Corporation (Tax Credit on IRC §78 Dividend)	U.S. Parent Corporation (Dividend)	U.S. Parent Corporation (Foreign Tax Credit on Dividend Received)	Foreign Personal Income Tax (Dividend)	Foreign Personal Tax Credit for U.S. Tax on Dividend)	U.S. Personal Income Tax (Dividend from U.S. Parent Corporation)	U.S. Net Investment Income Tax (Dividend from U.S. Parent Corporation)	All Entities, All Countries Tax Liability or (Tax Credit) Totals
<b>Foreign Corporation (Subsidiary)</b>													
<b>Foreign subsidiary income tax liability</b>													
Gross revenue	600,000												
Foreign subsidiary taxable income	600,000												
Foreign subsidiary income tax rate	25%												
<b>Foreign subsidiary income tax liability</b>	<b>150,000</b>												150,000
<b>Foreign subsidiary dividend paid to U.S. parent</b>													
Gross revenue		600,000											
Less: subsidiary income tax paid		(150,000)											
Cash available for distribution as dividend		450,000											
<b>Dividend paid to U.S. parent corporation</b>		<b>450,000</b>											
Foreign tax withholding at source on dividend paid (10%)													45,000



# Parent/subsidiary: parent's IRC §§78, 951A tax liability

Domestic Parent/Foreign Subsidiary	Foreign Corporation Subsidiary Calculations	Dividend Amount Calculation	U.S. Parent Corporation (IRC §951A Inclusion)	U.S. Parent Corporation (Foreign Tax Credit) IRC §960	U.S. Parent Corporation (IRC §78 Dividend)	U.S. Parent Corporation (Tax Credit on IRC §78 Dividend)	U.S. Parent Corporation (Dividend)	U.S. Parent Corporation (Foreign Tax Credit on Dividend Received)	Foreign Personal Income Tax (Dividend)	Foreign Personal Tax Credit for U.S. Tax on Dividend	U.S. Personal Income Tax (Dividend from U.S. Parent Corporation)	U.S. Net Investment Income Tax (Dividend from U.S. Parent Corporation)	All Entities, All Countries Tax Liability or (Tax Credit) Totals
<b>U.S. Parent Corporation</b>													
<b>Tax liability before tax credit (IRC §951A)</b>													
			600,000										
			-										
			(150,000)										
			<b>450,000</b>										
			(225,000)										
			<b>225,000</b>										
						21%							
			<b>47,250</b>										47,250
<b>Foreign tax credit allowable on IRC §951A income</b>													
				150,000									
				120,000									
				47,250									
				47,250									
				<b>47,250</b>									(47,250)
<b>Tax liability before tax credit (IRC §78)</b>													
					150,000								
					(75,000)								
					75,000								
					21%								
					<b>15,750</b>								15,750
<b>Foreign tax credit allowable on IRC §78 dividend</b>													
						150,000							
						120,000							
						(47,250)							
						72,750							
						15,750							
						15,750							
						<b>15,750</b>							(15,750)

# Parent/subsidiary: parent's tax on dividend income received

Domestic Parent/Foreign Subsidiary	Foreign Corporation Subsidiary Calculations	Dividend Amount Calculation	U.S. Parent Corporation (IRC §951A Inclusion)	U.S. Parent Corporation (Foreign Tax Credit) IRC §960	U.S. Parent Corporation (IRC §78 Dividend)	U.S. Parent Corporation (Tax Credit on IRC §78 Dividend)	U.S. Parent Corporation (Dividend)	U.S. Parent Corporation (Foreign Tax Credit on Dividend Received)	Foreign Personal Income Tax (Dividend)	Foreign Personal Tax Credit for U.S. Tax on Dividend	U.S. Personal Income Tax (Dividend from U.S. Parent Corporation)	U.S. Net Investment Income Tax (Dividend from U.S. Parent Corporation)	All Entities, All Countries Tax Liability or (Tax Credit) Totals
<b>Parent corporation's Federal income tax liability on dividend received</b>													
							450,000						
							(450,000)						
							-						
							21%						
<b>Parent corporation's Federal income tax liability on dividend received</b>													
							-						-
<b>Foreign tax credit on cash dividend received</b>													
								45,000					
								-					
								-					
								-					-

# Parent/subsidiary: individual shareholder's foreign, U.S. tax liability

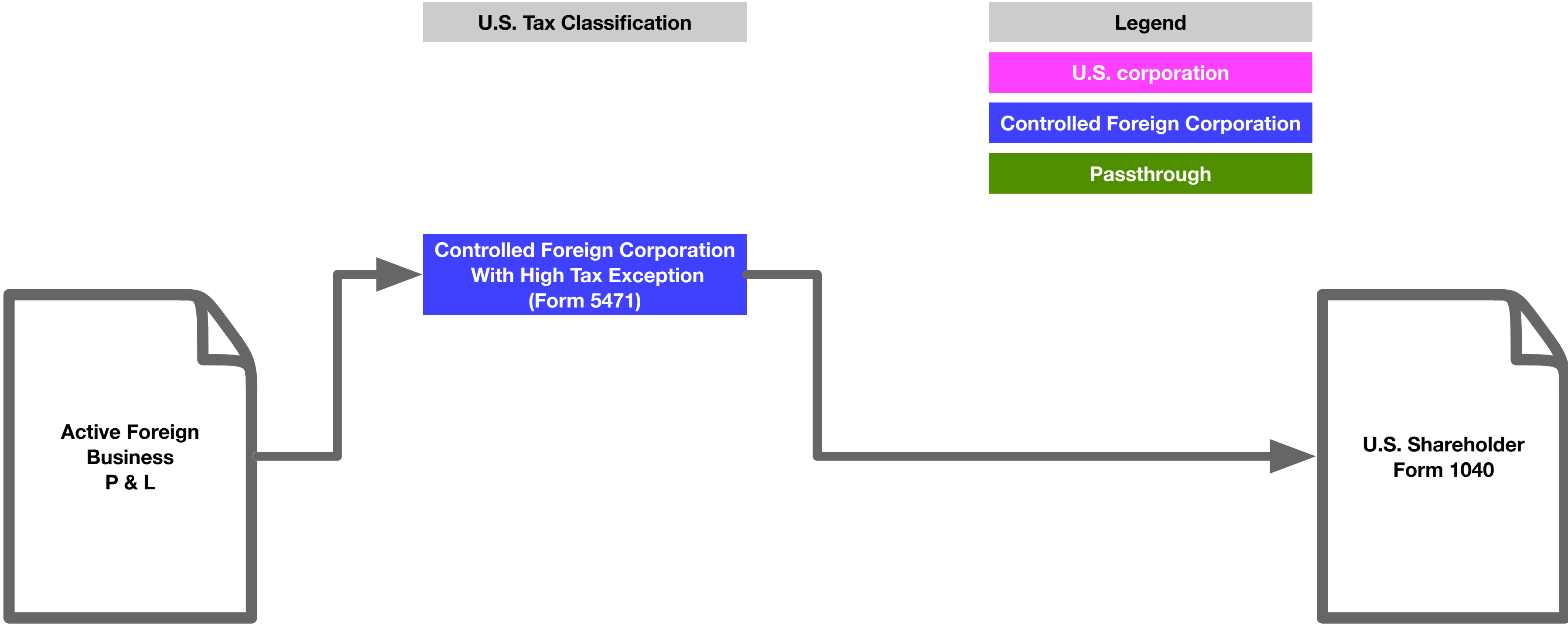
Domestic Parent/Foreign Subsidiary	Foreign Corporation Subsidiary Calculations	Dividend Amount Calculation	U.S. Parent Corporation (IRC §951A Inclusion)	U.S. Parent Corporation (Foreign Tax Credit) IRC §960	U.S. Parent Corporation (IRC §78 Dividend)	U.S. Parent Corporation (Tax Credit on IRC §78 Dividend)	U.S. Parent Corporation (Dividend)	U.S. Parent Corporation (Foreign Tax Credit on Dividend Received)	Foreign Personal Income Tax (Dividend)	Foreign Personal Tax Credit for U.S. Tax on Dividend)	U.S. Personal Income Tax (Dividend from U.S. Parent Corporation)	U.S. Net Investment Income Tax (Dividend from U.S. Parent Corporation)	All Entities, All Countries Tax Liability or (Tax Credit) Totals
<b>Foreign Individual-Level Income Tax Liability</b>													
<b>Foreign personal income tax liability (dividend)</b>													
Dividend income received by U.S. shareholder									405,000				
Foreign personal income tax rate									35%				
<b>Foreign personal income tax liability (dividend)</b>									<b>141,750</b>				141,750
<b>Foreign country tax credit granted for U.S. tax paid on dividend</b>										<b>98,100</b>			(98,100)
<b>U.S. Personal Tax Liability (All Taxes)</b>													
<b>Parent corp activity to determine cash dividend to shareholder</b>													
Dividend income received from U.S. parent corporation											405,000		
Federal income tax rate (qualified dividend)											20%		
<b>U.S. personal income tax liability (dividend)</b>											<b>81,000</b>		81,000
<b>Net investment income tax</b>													
Dividend income received											450,000		
Net investment income tax rate											3.80%		
<b>Net investment income tax</b>											<b>17,100</b>		17,100
<b>Total taxes paid, entity and shareholder</b>													<b>336,750</b>
<b>Tax rate (all taxes as a percentage of gross revenue)</b>													<b>56.13%</b>

# Controlled Foreign Corporation without the Subpart F Tax Treatment

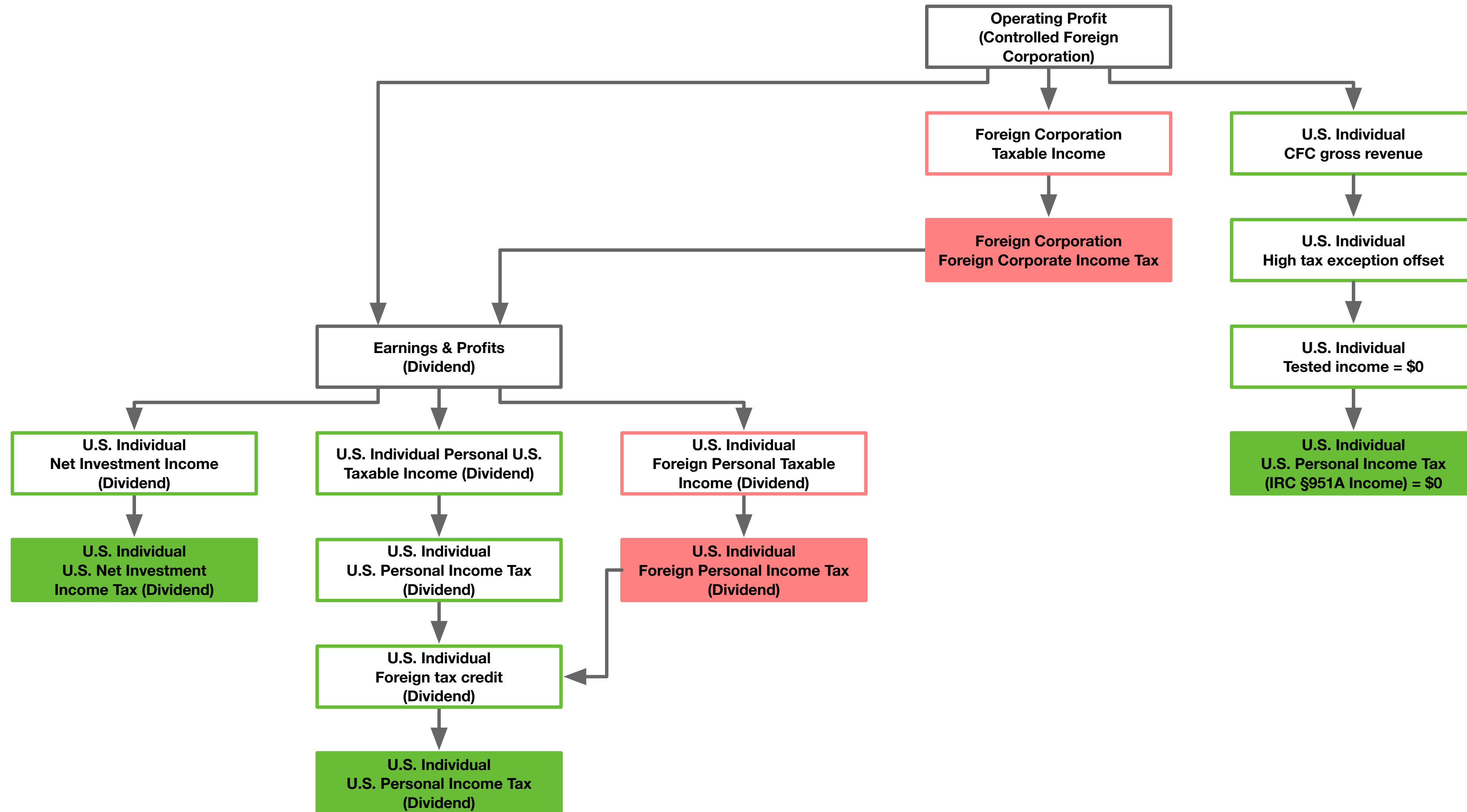
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The high-tax exception.

# Controlled Foreign Corporation/High Tax Exception



# Inside the CFC black box: how the high-tax exception changes things



# Schedule I-1: why there is zero passthrough IRC §951A income

**SCHEDULE I-1  
(Form 5471)**

(Rev. December 2021)

Department of the Treasury  
Internal Revenue Service

**Information for Global Intangible Low-Taxed Income**

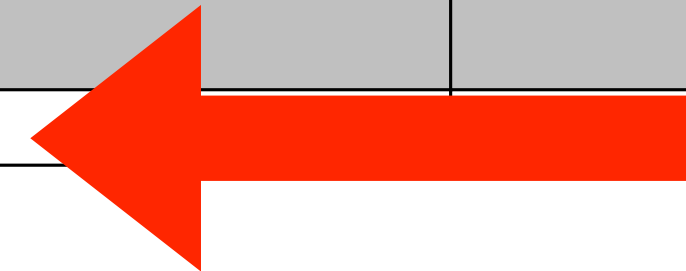
OMB No. 1545-0123

▶ Attach to Form 5471.

▶ Go to [www.irs.gov/Form5471](http://www.irs.gov/Form5471) for instructions and the latest information.

Name of person filing Form 5471		Identifying number
Name of foreign corporation	EIN (if any)	Reference ID number (see instructions)
Separate Category (Enter code—see instructions.) ▶		

		Functional Currency	Conversion Rate	U.S. Dollars
<b>1</b> Gross income (see instructions if cost of goods sold exceed gross receipts) . . . . .	<b>1</b>	600,000		
<b>2</b> Exclusions (see instructions if cost of goods sold exceed gross receipts)				
<b>a</b> Effectively connected income . . . . .	<b>2a</b>			
<b>b</b> Subpart F income . . . . .	<b>2b</b>			
<b>c</b> High-tax exception income per section 954(b)(4) . . . . .	<b>2c</b>	600,000		
<b>d</b> Related party dividends . . . . .	<b>2d</b>			
<b>e</b> Foreign oil and gas extraction income . . . . .	<b>2e</b>			
<b>3</b> Total exclusions (combine lines 2a through 2e) . . . . .	<b>3</b>	600,000		
<b>4</b> Gross income less total exclusions (line 1 minus line 3) (see instructions) . . . . .	<b>4</b>	0		
<b>5</b> Deductions properly allocable to amount on line 4 . . . . .	<b>5</b>			
<b>6</b> Tested income (loss) (line 4 minus line 5) (see instructions) . . . . .	<b>6</b>			



# Bypass the tax implications of Subpart F with the high-tax exception

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- The high-tax exception eliminates flow-through income from the CFC to the U.S. shareholder.
- It's still a CFC, but no income flows through to a U.S. shareholder.
- For income tax purposes, the U.S. shareholder is treated as owning foreign C corporation stock. Normal Subchapter C rules apply: the shareholder recognizes income only when the foreign corporation makes a distribution to the shareholder.



# High tax exception, distribute all after-tax profits as a dividend

	Income	Tax
<b>Foreign corporation taxable income</b>	600,000	
Foreign corporation: corporate income tax		150,000
<b>U.S. shareholder: IRC §951A inclusion</b>	0	
U.S. shareholder: tax on IRC §951A inclusion		0
<b>U.S. shareholder: dividend received</b>	450,000	
U.S. shareholder: foreign income tax on dividend received		157,500
U.S. shareholder: U.S. income tax on dividend received		90,000
U.S. shareholder: U.S. foreign tax credit on dividend income		(90,000)
U.S. shareholder: U.S. net investment income tax		17,100
<b>Total tax</b>		<b>324,600</b>

# High-tax exception: foreign corporation tax calculation

	High tax exception, individual shareholder
<b>Foreign corporation</b>	
<b>Foreign corporation's taxable income</b>	
<b>Foreign corporation taxable income</b>	
Foreign corporation gross income	600,000
Foreign corporation deductible expenses	-
<b>Foreign corporation taxable income</b>	<b>600,000</b>
<b>Foreign corporation's corporate income tax liability</b>	
<b>Foreign corporation corporate income tax paid</b>	
Foreign corporation taxable income	600,000
Foreign country corporate tax rate	25%
<b>Foreign corporation corporate income tax paid</b>	<b>150,000</b>

# High-tax exception: global intangible low-taxed income = \$0

	High tax exception, individual shareholder
<b>Foreign corporation's IRC §951A income calculations</b>	
<b>Foreign corporation current earnings and profits (no accumulated earnings and profits)</b>	
Foreign corporation taxable income	600,000
Less foreign country corporate income tax paid	(150,000)
Foreign corporation current earnings and profits (no accumulated earnings and profits)	450,000
<b>Foreign corporation's global intangible low-taxed income</b>	
Foreign corporation tested income (gross revenue less allocable expenses)	600,000
Less tested foreign income tax (income tax allocable to tested income)	(150,000)
Foreign corporation's global intangible low-taxed income	450,000
<b>U.S. shareholder's tax liability on CFC income inclusions</b>	
<b>U.S. shareholder's CFC income inclusions</b>	
<b>U.S. shareholder's tested income (Schedule I-1)</b>	
Foreign corporation gross income	600,000
Less: gross revenue eligible for the high-tax exception	(600,000)
U.S. shareholder's tested income (Schedule I-1)	-
<b>U.S. shareholder's IRC §951A inclusion</b>	
U.S. shareholder's tested income (Schedule I-1)	-
Global intangible low-taxed income can't be greater than its starting point, which is tested income	Self-evident
U.S. shareholder's IRC §951A inclusion	-

# High-tax exception: all taxes on dividend to shareholder

	High tax exception, individual shareholder
<b>U.S. shareholder's income tax liability: dividend income</b>	
Shareholder's U.S. dividend income from CFC distribution	450,000
U.S. qualified dividend tax rate	20%
<b>U.S. shareholder's income tax liability: dividend income</b>	<b>90,000</b>
<b>U.S. shareholder's foreign income tax paid on dividend income received</b>	
U.S. shareholder's foreign country dividend income	450,000
Foreign country income tax rate on dividend income paid by shareholder	35%
<b>U.S. shareholder's foreign income tax paid on dividend income received</b>	<b>157,500</b>
<b>U.S. shareholder's IRC §904(a) allowable foreign tax credit on dividend income received</b>	
U.S. shareholder's income tax liability: dividend income	90,000
U.S. shareholder's foreign income tax paid on dividend income received	157,500
IRC §904(a) limitation is the smaller of the two numbers above	90,000
<b>U.S. shareholder's IRC §904(a) allowable foreign tax credit on dividend income received</b>	<b>90,000</b>
<b>U.S. shareholder's net investment income tax liability on dividend income</b>	
U.S. shareholder's foreign country dividend income	450,000
Net investment income tax rate	3.80%
<b>U.S. shareholder's net investment income tax liability on dividend income</b>	<b>17,100</b>

# Conclusion

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# Comparison, using my (imperfect) models

Sole proprietorship	35%
Hybrid foreign entity (corporation for foreign purposes, disregarded for U.S. purposes)	35%
Controlled foreign corporation	75.87%
Controlled foreign corporation with Section 962 election	54.1%
Controlled foreign corporation with domestic parent corporation	56.13%

# Tax, of course, is not the only consideration

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- Foreign country “how to do business” regulations. If you want to play on their playground, you play by their rules.
- Banking and other practical questions matter.
- Liability protection is usually important (!) to a business owner.
- Etc.

# Mitigating the unpleasant second-order effects of Subpart F

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- If there's no subpart F income and there's no global intangible low-taxed income, there is no extra income to be taxed at the shareholder level.
- Salary and bonus to the shareholder, deductible as compensation, to zero out taxable income in the controlled foreign corporation.
- High-tax exception.
- The moral of this story is that unacceptable tax results can sometimes be bypassed by creative operational strategies. (Pull money out of a corporation as a dividend or a bonus, as an example, and you have very different tax results).



# My belief for entrepreneurs (let BigCorp America solve its own problems)

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- All business entities are a black box. They mangle accounting data into taxable income to a larger or lesser degree. For U.S. income tax purposes, at least, I see the choices like this:
- Choose the **efficient passthrough** structure: sole proprietorship, hybrid entity classified as a disregarded entity, or partnership.
- Or choose the **inefficient passthrough** structure: the controlled foreign corporation.
- Or choose **high-friction** (bad paperwork) **corporate** tax option: the high-tax exception.

# Thank you, and this concludes the 11-episode Form 5471 Series

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*This is not legal advice and I am not your lawyer. Do not rely on this presentation—do your own research to verify that the information is correct and that it applies to you. Or hire someone intelligent to help you.*