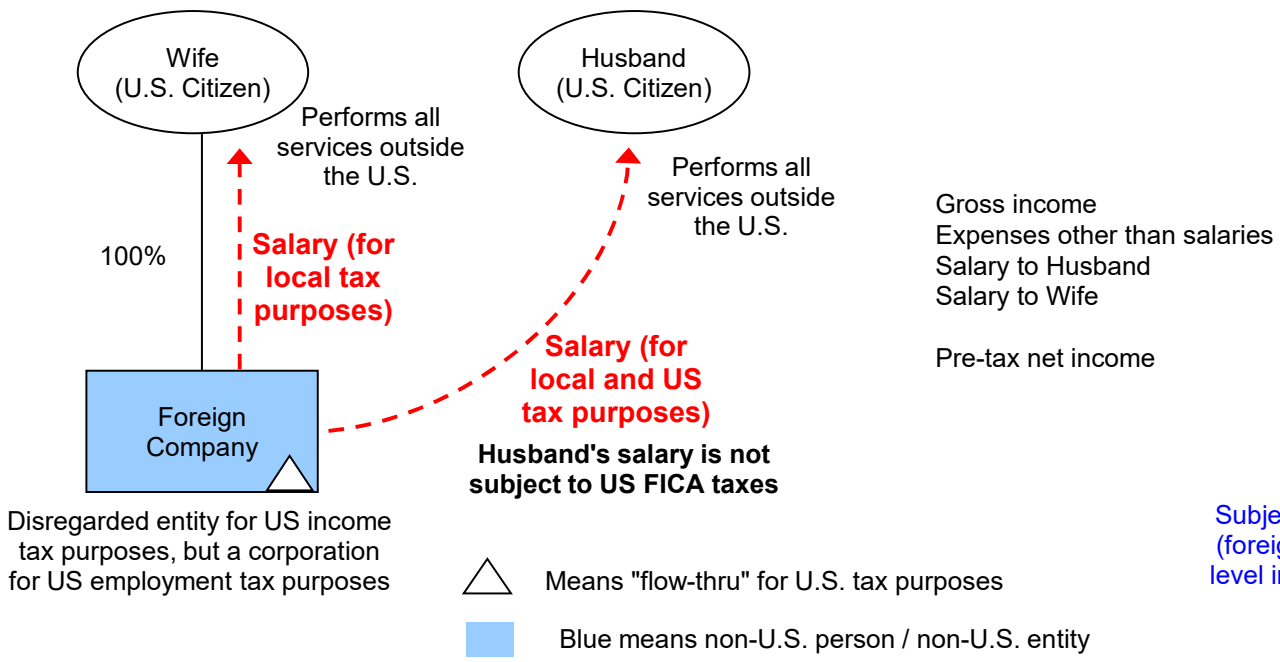


FICA and Self-Employment Taxes For Foreign DRE

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Gross income
 Expenses other than salaries
 Salary to Husband
 Salary to Wife

 Pre-tax net income

Income of Foreign DRE (Attributable to Wife)		
Local (Foreign) Tax	US Income Tax	US Self- Employment Tax
200,000	200,000	200,000
(30,000)	(30,000)	(30,000)
(70,000)	(70,000)	(70,000)
(70,000)		
Pre-tax net income		
30,000	100,000	100,000

Subject to local (foreign) entity-level income tax (points to 30,000)
Subject to US income tax (points to 100,000)
Subject to US self-employment tax, unless a totalization agreement provides otherwise (points to 100,000)

For Wife

Reg. 301.7701-2(c)(2)(i) ("Except as otherwise provided in this paragraph (c), a business entity that has a single owner and is not a corporation under paragraph (b) of this section is disregarded as an entity separate from its owner.")

Reg. 301.7701-2(c)(2)(iv)(B) ("* * * [A]n entity that is disregarded as an entity separate from its owner for any purpose under this section is treated as a corporation with respect to [employment] taxes * * *").

Reg. 301.7701-2(c)(2)(iv)(C)(2) ("* * * [A]n entity that is treated in the same manner as a sole proprietorship * * * is not treated as a corporation for purposes of employing its owner * * *. The owner will be subject to self-employment tax on self-employment income with respect to the entity's activities.")

For Husband

Sec. 3121(a) ("For purposes of this chapter, the term 'wages' means all remuneration for employment * * *").

Sec. 3121(b) ("* * * [T]he term 'employment' means any service * * * performed (A) by an employee * * * within the [U.S.] * * *, or (B) outside the [U.S.] by a citizen or resident of the [U.S.] as an employee for an American employer (as defined in subsection (h)) * * *").

Sec. 3121(h) ("* * * [T]he term 'American employer' means an employer which is (1) the [U.S.] or any instrumentality thereof, (2) an individual who is a resident of the [U.S.], (3) a partnership, if two-thirds or more of the partners are residents of the [U.S.], (4) a trust, if all of the trustees are residents of the [U.S.], or (5) a corporation organized under the laws of the [U.S.] or of any State.")

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