Reinhart

Tax Efficient Repatriation Methods for U.S. Subsidiaries

As the end of the year nears, a U.S. subsidiary may try to repatriate cash to its foreign parent. Repatriation may occur in several different methods with each having advantages and disadvantages. Most methods to repatriate will incur a 30 percent withholding tax, unless reduced by an applicable treaty.

Dividends are the simplest way to repatriate, but are usually tax inefficient. A U.S. subsidiary cannot deduct a dividend from taxable income. Moreover, a dividend will typically incur the highest withholding taxes under tax treaties.

Repatriating via interest payments is tax efficient – the U.S. subsidiary can deduct the interest, which often incurs the lowest withholding rate under treaties. However, a U.S. subsidiary may not deduct interest to the extent that the interest expense exceeds interest income plus 50 percent of the adjusted taxable income.

A U.S. subsidiary can deduct royalty payments to its foreign parent. Royalty payments incur low treaty withholding rates, but the payments may not be greater than an arm's length amount for the use of the intangibles.

A U.S. subsidiary's payment of a service fee to a foreign parent is also deductible. The service fee must be at an arm's length amount and will not incur withholding tax as long as the foreign parent performs the service *outside* the United States.

A U.S. subsidiary that distributes its foreign parent’s products may take advantage of the transfer pricing rules to repatriate. Specifically, by paying a higher price within an arm's length range, the U.S. subsidiary can avoid withholding taxes.

If you have any questions regarding repatriation, please contact Robert Misey or your Reinhart attorney.

POSTED:

Dec 15, 2020

RELATED PRACTICES:

[Corporate Law](https://www.reinhartlaw.com/practices/corporate-law)

https://www.reinhartlaw.com/practices/corporate-law

RELATED SERVICES:

[International Tax](https://www.reinhartlaw.com/services/international-tax)

https://www.reinhartlaw.com/services/international-tax

RELATED PEOPLE:

[Robert J. Misey, Jr.](https://www.reinhartlaw.com/people/robert-misey-jr)

https://www.reinhartlaw.com/people/robert-misey-jr