

# [Client letter-acc568](https://assignbuster.com/client-letter-acc568/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Client Letter-acc568 al Affiliation) Dear Sir/Madam,                                     RE: U. S TAX LAW FOR MULTINATIONALS
Globalizing your business operations means that the taxation of your company’s income and revenue is going to be subject to not only U. S state laws, but also the laws of the foreign country. The U. S government handles these matters by applying the rules of international taxation which relate to the transactions that your business is going to undertake.
Yonah asserts that due to the complications arising from international transactions, there are many factors to consider such as the type of taxes and tax rates. In addition, the differences in the tax systems between countries results in the treatment of deductions on a varying scale. Therefore, the amount of total tax paid for international transactions of corporations depends on the manner by which deductions and incomes are sourced in the countries where the transactions are taking place. However, I will try to break down the U. S source rules for incomes and deductions. As you know, the U. S government takes these matters seriously and I have every intention of addressing all your issues expertly (Yonah, 2007).
According to Dykes, with regards to taxation of source income and deductions, the U. S government adopts a taxation methodology known as the worldwide approach. As indicated by the name, the approach involves taxing the income of the globalized corporation regardless of the source of income, whether the source of the income is foreign based or locally based in the U. S. Under this methodology, your company will face the tax burden that locally based companies are subject to (Dykes, 2011).
Therefore, your company will have to allocate its global capital on economic factors rather than tax considerations. In retrospect, your company will promote global efficiency in connection to capital allocation. Unfortunately, the advice your friend gave you is misinformed, but do not despair because there are ways to reduce the amount of tax that your company is going to be liable to the IRS.
As per your request, there are a few ways that your company can mitigate tax impact form the U. S with regards to income sourced from foreign nations One such method is keeping active income from foreign sources in offshore locations up to the time when your company wants to repatriate the income back to the U. S. Income arising from your foreign based branch/operations is only going to be taxed until it is repatriated via dividend distributions in your U. S based head offices. This is known as deferral tax. In addition, the U. S allows companies such as yours, a tax credit for foreign taxes paid in the foreign country. Therefore, your company will be subject to both foreign tax and deferral deductions.
According to Carlisle, the deferral tax credit is especially beneficial to multinational companies because the foreign tax rate is usually lesser than the corporate tax rate that locally based firms are subject to. However, your branches/ subsidiaries should not be in countries with negligible or no corporation tax, otherwise, the deferral tax is not applicable (Carlisle, 2013).
According to Harris et al., another way that can be used is by shifting the foreign sourced income to jurisdictions that levy low taxes. Many companies usually shift their profits from the U. S to tax havens by using transfer pricing. Under this method, your company will transfer the pricing of intangible assets (including intellectual property rights) from your head office to an affiliate branch in an offshore location. These are just some of the ways that you use to mitigate foreign sourced income (Harris, P., & Oliver, D., 2010).
I hope that I have been helpful, but for a more comprehensive analysis I would recommend a face to face meeting. I hope to hear from you soon.
Sincerely,
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Reference List
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Dykes, C. (2011). International tax law: A legal research guide. Buffalo, N. Y.: William S. Hein.
Harris, P., & Oliver, D. (2010). International commercial tax. Cambridge: Cambridge University Press.
Yonah, R. (2007). International tax as international law: An analysis of the international tax regime. New York: Cambridge University Press.