

# USA

## Tax Structure for Digital Nomads

### 1. Taxation Based on Citizenship

- Eligibility: All US citizens and green card holders regardless of residence.
- Duration: Continuous obligation regardless of physical presence outside the US.
- Income Tax Rate: Progressive federal rates from 10% to 37% on worldwide income.
- Foreign Income Treatment: • Foreign Earned Income Exclusion (FEIE): Up to \$126,500 (2024) of foreign earned income can be excluded. • Foreign Tax Credit: Credit for taxes paid to foreign countries. • Foreign Housing Exclusion: Additional exclusion for qualifying housing expenses.

### 2. Federal Tax Regime

- Progressive Income Tax Rates (2024): • 10% on income up to \$11,600 (single) or \$23,200 (married filing jointly) • 12% on income over \$11,600 up to \$47,150 (single) or \$94,300 (married) • 22% on income over \$47,150 up to \$100,525 (single) or \$201,050 (married) • 24% on income over \$100,525 up to \$191,950 (single) or \$383,900 (married) • 32% on income over \$191,950 up to \$243,725 (single) or \$487,450 (married) • 35% on income over \$243,725 up to \$609,350 (single) or \$731,200 (married) • 37% on income over \$609,350 (single) or \$731,200 (married)
- Self-Employment Tax: • 15.3% (12.4% Social Security on first \$168,600 and 2.9% Medicare with no cap) • Additional 0.9% Medicare tax on income over \$200,000 (single) or \$250,000 (married)

### 3. Business Structures

- Sole Proprietorship: Personal income tax rates apply plus self-employment tax.
- Single-Member LLC: By default, taxed as sole proprietorship.
- LLC taxed as S-Corporation: Potential self-employment tax savings by taking reasonable salary.
- C-Corporation: 21% flat corporate tax rate, plus taxation on dividends (double taxation).

### 4. State Income Taxes

- Varying Rates: From 0% (no income tax states like Florida, Texas, Nevada) to 13.3% (California).
- State Residency Rules: Each state has different rules for determining tax residency.
- Digital Nomad Implications: Possibility to establish residency in no-income-tax states.

## Digital Nomad-Friendly Provisions

### 1. Foreign Earned Income Exclusion

- Purpose: Allows qualifying US citizens abroad to exclude foreign earned income from US taxation.
- Requirements: Must pass either Bona Fide Residence Test (full year abroad) or Physical Presence Test (330 days outside US in 12-month period).
- Tax Advantage: Excludes up to \$126,500 (2024) of foreign earned income.
- Housing Deduction: Additional exclusion for housing expenses above base amount.

## **2. State Residency Planning**

- No-Tax States: • Wyoming, Nevada, Florida, Texas, South Dakota, Washington, Alaska, Tennessee, New Hampshire offer no income tax. • Establishing residency can eliminate state income tax liability.
- Domicile Requirements: • Typically requires physical presence, permanent home, driver's license, voter registration. • Rules vary significantly by state.

## **3. Deductions & Credits**

- Home Office Expenses: • Available for exclusive and regular business use of home portion. • Simplified option of \$5 per square foot (up to 300 sq ft).
- Professional Development: • Business-related education expenses deductible. • Professional subscriptions and memberships deductible.

## **4. Startup/Tech Incentives**

- Qualified Small Business Stock: • Potential for 100% exclusion of capital gains on qualified small business stock. • Must be held for 5+ years.
- Research & Development Credits: • Tax credits for qualified research activities. • Can offset regular income tax or payroll taxes for qualifying startups.

## **5. Social Security Considerations**

- Totalization Agreements: Treaties with 30 countries to avoid double social security taxation.
- Foreign Credits: Work credits earned in agreement countries may count toward US benefits.
- Self-Employment Tax: May be avoided when residing in countries with totalization agreements.
- Optional SE Tax: Some nomads may opt to pay SE tax to maintain Social Security credits.

## **6. Banking & Foreign Income**

- FBAR Requirements: Must report foreign financial accounts exceeding \$10,000 aggregate.
- FATCA Reporting: Additional reporting for foreign financial assets above thresholds.
- Foreign Tax Credits: Dollar-for-dollar credit for foreign income taxes paid.
- Currency Conversion: Income must be converted to USD using annual average or daily rates.