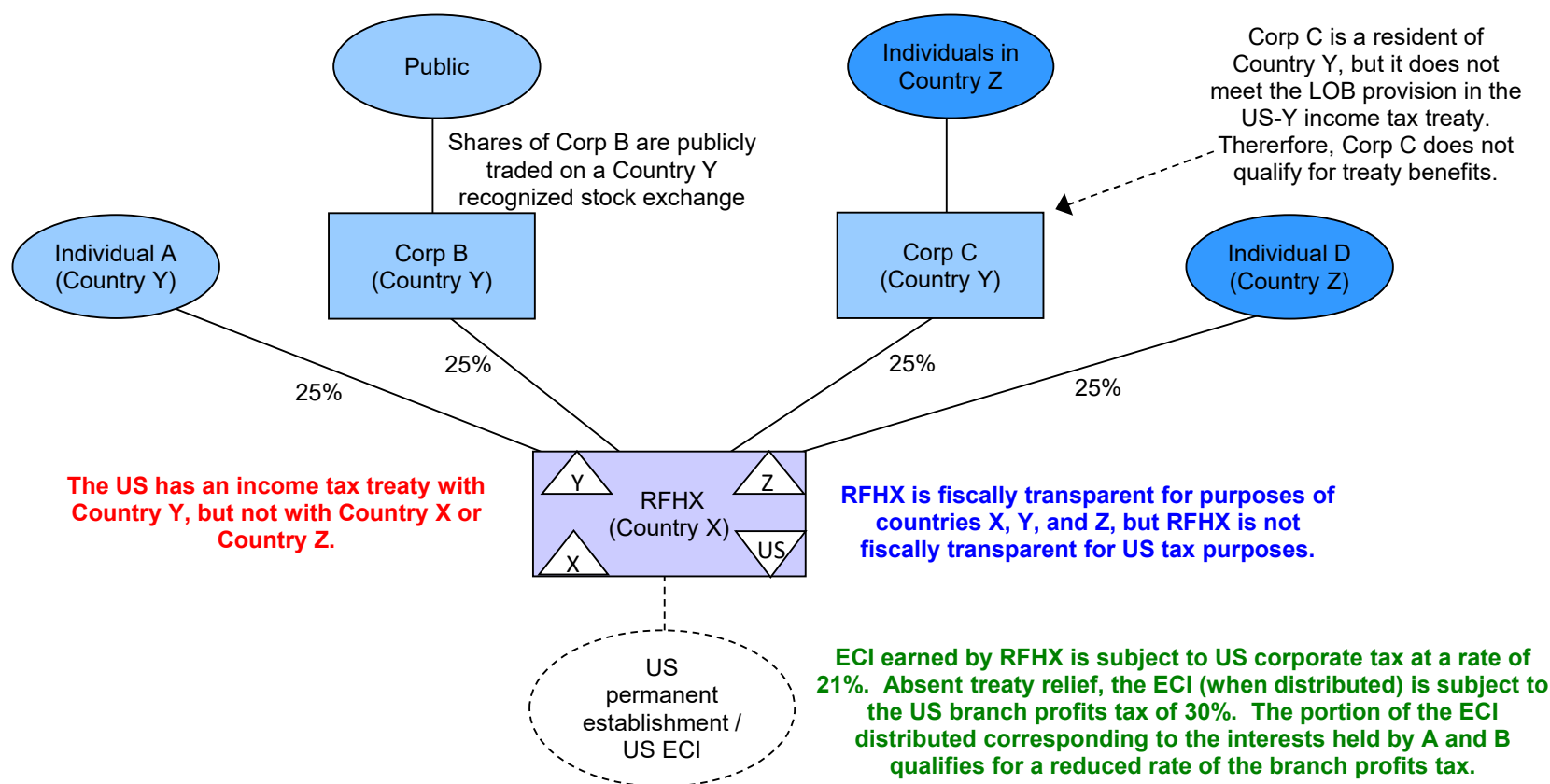


Reverse Hybrid Entity With US Permanent Establishment: Partial Treaty Relief From Branch Profits Tax

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RFHX, an entity formed under the laws of Country X, is taxable as a corporation under U.S. law and is treated as fiscally transparent under the laws of Countries X, Y, and Z. RFHX has a single class of equity interests, with four equal owners as of the close of its taxable year at issue: A, an individual resident in Country Y; B, a corporation organized under the laws of, and tax resident in, Country Y, the principal class of shares of which is regularly and primarily traded on a Country Y recognized stock exchange; C, a privately held corporation organized under the laws of, and tax resident in, Country Y, all the shares of which are owned by individuals resident in Country Z; and D, an individual resident in Country Z.

RFHX's income is effectively connected with a U.S. trade or business. All of that income is subject to corporate tax of 21% under sections 11 and 882. Additionally, absent any treaty relief, RFHX is also subject to the branch profits tax of 30% under section 884. RFHX distributes all of its income to its owners as earned and does not reinvest any of it in its U.S. business. Thus, the "dividend equivalent amount" to which the branch profits tax applies generally is the same as its net income. The United States has a bilateral income tax treaty in force with Country Y but not with Country X or Country Z. RFHX's income is business profits attributable to a U.S. permanent establishment under the U.S.-Country Y treaty.

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