

DIACRON



United States of America

Tax highlights

New York | London | Lugano | Milan | Sofia | Plovdiv | Dubai | Hong Kong | Shanghai

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Introduction

The United States of America is a federal republic composed of 50 states and the federal district of the city of Washington (District of Columbia).

The United States of America has sovereign jurisdiction over other territories and states, including Puerto Rico, the US Virgin Islands, Guam, Samoa and the Commonwealth of the Northern Mariana Islands.

These territories are not subject to US tax legislation and they do not apply to the tax treaties signed by the latter.

1. The tax system: general aspects

Since the United States is a federal union of states that are co-ordinated by federal laws but also have their own laws and regulations in civil, criminal and administrative matters, their tax scheme reflects this stratification and sees taxation at federal, state and municipal level. State taxes and, if applicable, municipal taxes must therefore be added to federal taxes.

The general system of taxation in the United States is one of the most progressive compared to all other industrialized countries. In fact, taxes payable by the taxable person tend to increase or decrease depending on changes in annual income.

Legal persons are subject to federal income tax. In most cases they are also subject to state level. The United States does not have a VAT system, but almost all the United States provides for the so-called *Sales Tax*.

The tax authority in the United States is the *Internal Revenue Service* (IRS), which is responsible for managing and collecting federal taxes. The IRS is a division of the United States Treasury Department.

2. Direct taxes

2.1. Taxation of legal persons

Corporate income tax

Legal persons are constituted according to the law of the constitution state that it conserves the register of the enterprises constituted in that state.

A company is considered resident in the United States in relation to the place of incorporation and also determines its method of state and local taxation.

Thus, a company is resident in the United States if it is governed by the corporate law of one of the States of the United States or Washington DC.

The tax base is income generated worldwide. The same tax rates apply to all types of income received by a company (including capital gains) and are as follows:

Taxable income in USD	Rate
Up to 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

Taxable income in USD	Rate
335,001 – 10,000,000	34%
10,000,001 – 15,000,000	35%
15,000,001 – 18,333,333	38%
From 18,333,333	35%

At the state level, corporate taxation varies considerably from state to state. Generally the taxable income tax base on the profits generated by the enterprise business, however it can also be the value of the property or other forms of income generated by the company.

To be kept in mind is the fact that, a legal person established under the law of one of the states, may request to be admitted to exercise their business in several states, other than the one of establishment. When this occurs substantially, the business conducted in said different state will be, under certain conditions governed by the legislation in force in the various states, subject to different local taxation.

The rates provided at the state level are as follows:

Jurisdiction	Rate	Jurisdiction	Rate
Alabama	6.50%	Connecticut	7.50%
Alaska	9.40%	Delaware	8.70%
Arizona	6.00%	District of Columbia	9.40%
Arkansas	6.50%	Florida	5.50%
California	8.84%	Georgia	6.00%
Colorado	4.63%	Hawaii	6.40%

Jurisdiction	Rate	Jurisdiction	Rate
Idaho	7.40%	New York	7.10%
Illinois	7.75%	North Carolina	5.00%
Indiana	6.50%	North Dakota	4.31%
Iowa	12.00%	Ohio	2.6 mill per dollar
Kansas	7.00%	Oklahoma	6.00%
Kentucky	6.00%	Oregon	7.60%
Louisiana	8.00%	Pennsylvania	9.99%
Maine	8.93%	Rhode Island	7.00%
Maryland	8.25%	South Carolina	5.00%
Massachusetts	8.00%	South Dakota	n.i.
Michigan	6.00%	Tennessee	6.50%
Minnesota	9.80%	Texas	0.98%
Mississippi	5.00%	Utah	5.00%
Missouri	6.25%	Vermont	8.50%
Montana	6.75%	Virginia	6.00%
Nebraska	7.81%	Washington	n.i.
Nevada	n.i.	West Virginia	6.50%
New Hampshire	8.50%	Wisconsin	7.90%
New Jersey	9.00%	Wyoming	n.i.
New Mexico	6.90%		

Withholdings at the source

Dividends that are distributed to residents are subject to a withholding tax of **30%**, while those that are distributed to non-residents may be subject to a reduced withholding if there is a conventional scheme that provides for its application.

The interest and royalties taxation scheme is the same, and provides for a rate of **30%**, if there is not a more advantageous conventional scheme.

Tax declarations

With regards to the income of legal persons, the relative declaration must be submitted by March 15th and extensions may be possible in the presence of the requisites required by the tax authority.

2.2. Taxation of natural persons

Employee income tax

A legal person is considered a tax resident in the United States if they meet one of the following conditions:

- ▶ If they have American citizenship;
- ▶ If they have obtained residence in the (the so-called *Green Card*);
- ▶ If physically present on the national territory for at least 183 days during a calendar year;
- ▶ If it exceeds the so called *Cumulative Presence Test* which consists of the sum of the total days that the person is present in the United States in the reference year, plus one third of the days in which they were present during the previous year, and one sixth of the days of the previous year. If the total obtained is equal to or greater than 183 days, the foreign person is considered to be a tax resident in the United States.

The income tax rates vary according to the category of taxable person. There are four different categories, namely:

(1) married individuals who issue a joint tax return, combining the income and deductions of both spouses;

(2) landlords, i.e. persons who maintain a property that is the main place of residence of a dependent child or other dependent person for at least half of the tax period;

(3) unmarried persons, i.e. single contributors;

(4) married individuals presenting separate tax returns, in which each spouse reports their income and deductions.

Take the first and third category rates for example.

(1)

Taxable income in USD	Rate
Up to 18,450	10%
18,451 – 74,900	15%
74,901 – 151,200	25%
151,201 – 230,450	28%
230,451 – 411,500	33%
411,501 – 464,850	35%
From 464,850	39.6%

(3)

Taxable income in USD	Rate
Up to 9,225	10%
9,226 – 37,450	15%
37,451 – 90,750	25%
90,751 – 189,300	28%
189,301 – 411,500	33%
411,501 – 413,200	35%
From 413,200	39.6%

Tax on capital gains

The rate is equal to **39.60%**. There is a facilitated rate of **20%**, if the *capital gain* derives from a long-term asset.

Social security contributions

Social security contributions to individuals are governed by the *Federal Insurance Contributions Act*.

They consist of two different taxes, IASDI and the *Medicare*.

The first provides a rate of **6.2%** and applies to the annual salary (up to a maximum of USD 118,500), while the second provides a rate of **1.45%** on the annual salary.

Tax declarations

With regards to the income of natural persons, the relative declaration must be submitted by April 15 and extensions may be possible in the presence of the requisites required by the tax authority.

For the income of non-resident natural persons, the declaration must be submitted by June 15th.

3. Indirect taxes

Sales Tax

Sales Tax is a tax on the sale of products and services applied in the United States and is paid by the final consumer at the time of purchase. *Sales Tax* is administered locally by the individual states.

Sales Tax is calculated by multiplying the price of the purchased goods by the rate set by the state in which the transaction takes place. *Sales Tax*, when it exists, is generally between **1%** and **11%**. *Sales Tax* is not always applicable and is required by law only in some cases. More precisely, in order for *Sales Tax* to be applicable to a sale, two requirements must be met, a requirement of territoriality and one of use or purpose.

3.1. Other indirect taxes

Customs duties

Customs duties are applied at federal level on imported goods and products.

4. International bilateral agreements

The United States has entered into double taxation treaties with various countries, in order to prevent a tax payer from being taxed in two countries for the same income over the same period. Below is a list of countries subject to this type of agreement with the United States:

Armenia	India	Poland
Australia	Indonesia	Portugal
Austria	Ireland	Romania
Azerbaijan	Israel	Russia
Bangladesh	Italy	Slovakia
Barbados	Jamaica	Slovenia
Belgium	Japan	South Africa
Bulgaria	Kazakhstan	Spain
Canada	Kirghizstan	Sri Lanka
China	Korea	Sweden
Cyprus	Latvia	Switzerland
Czech Republic	Lithuania	Tajikistan
Denmark	Luxembourg	Thailand
Egypt	Malta	Trinidad and Tobago
Estonia	Mexico	Tunisia
Finland	Moldova	Turkey
France	Morocco	Turkmenistan
Georgia	Netherlands	United Kingdom
Germany	New Zealand	Uzbekistan
Greece	Norway	Venezuela
Hungary	Pakistan	
Iceland	Philippines	

5. Our services

Accounting services

Using an approach based on business processes, the environment in which the enterprise operates and the main risk areas and through periodic visits to the company, Diacron verifies the correctness of the work of the accounting department of the company from a civil law, tax, currency and administration point of view. In addition, Diacron offers its customers the management of accounting, administrative and corporate tax areas.

Tax Services

Diacron offers consultancy services in the field of national and international taxation, assisting its customers who have to deal with different jurisdictions, guiding them in identifying the most appropriate routes and choices.

Corporate services

Diacron assists its customers right from the initial stages of the internalization and corporate reorganization projects. Through the use of well-established law firms, it assists the customer in the process of setting up the company and with regard to the related obligations required.

6. Strengths

Global presence, local focus

7	Partner
8	Countries
9	Offices
40+	Books published
45	Conferences (since 2011)
90	Employees
200+	Press quotes
800+	Worldwide clients

Why Diacron?

- ▶ Team of professionals with in-depth knowledge of tax systems and international corporate regulations
- ▶ International tax systems integration
- ▶ Staff who speak English and local language in all locations
- ▶ Consolidated collaboration with local partners
- ▶ Strategic and global presence

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