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"Learning from Multinational Enterprises:
International Tax Strategies for Digital Nomads"

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Abstract

This paper examines the tax implications of the growing group called "digital nomads" and what they can learn from the tax strategies used by multinational enterprises (MNEs). Digital nomads are uniquely positioned to work remotely around the world and have the flexibility to optimise their tax liabilities in ways previously impossible in more clearly domiciled working arrangements.

The study first outlines shifting modern work paradigms, then delves into the tax strategies used by multinational enterprises (MNEs), including aspects such as controlled foreign company (CFC) rules, transfer pricing, hybrid mismatches, and double taxation. Furthermore, it will present tax-relevant statistics concerning digital nomads' citizenship, income types and levels, professions, residency, and visas, and the selection criteria for incorporation and residency of digital nomads.

The thesis concludes with proposed tax strategies for digital nomads, focusing on tax domicile and incorporation types. It assesses various corporate forms and jurisdictions, evaluates the costs of these tax structures, and discusses the potential as well as limitations for digital nomads to adapt certain MNE strategies to their advantage.

Kurzzusammenfassung

Diese Masterarbeit untersucht die Steuerimplikationen des expandierenden Sektors der "Digitalen Nomaden", sowie die Lehren, die sie aus den Steuerstrategien multinationaler Unternehmen (MNU) ziehen können. Digitalen Nomaden bietet sich eine exklusive Möglichkeit, global und remote zu arbeiten, wodurch sie ihre steuerlichen Verpflichtungen auf eine Art und Weise optimieren können, die herkömmlichen Arbeitsvereinbarungen bislang unzugänglich war.

Zunächst skizziert die Studie die dynamisch wandelnden Paradigmen moderner Arbeit, bevor sie sich den von MNU verwendeten Steuerstrategien zuwendet. Hierbei werden auch Aspekte wie Regelungen für kontrollierte ausländische Unternehmen (CFC), Verrechnungspreise, hybride Ungleichgewichte und Doppelbesteuerung berücksichtigt. Ergänzend dazu präsentiert die Studie statistische Daten zu steuerrelevanten Aspekten wie Nationalität, Einkommensquellen und -niveaus, Berufsfeldern, Wohnsitz- und Visasituation sowie Auswahlkriterien für die Gründung und den Wohnsitz digitaler Nomaden.

Die Arbeit empfiehlt schließlich Steuerstrategien, die sich speziell an digitale Nomaden richten und Schwerpunkte auf Steuerwohnsitz und Unternehmensformen setzen. Dabei werden verschiedene Unternehmensformen und Rechtsordnungen in Betracht gezogen, die Kosten dieser steuerlichen Strukturen bewertet und das Potenzial sowie die Grenzen diskutiert, inwiefern digitale Nomaden bestimmte MNU-Strategien zu ihrem eigenen Vorteil adaptieren können.

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1. Introduction

1.1. Setting the Stage for the Nomadic Revolution

More than half a century ago, visionary science fiction author Arthur C. Clarke predicted a future where geographical boundaries would be irrelevant to the conduct of business. He claimed, "it will be possible... perhaps only 50 years from now, for a man to conduct his business from Tahiti or Bali just as well as he could from London" (Clarke, 1962). Today, we find ourselves standing on the precipice of this remarkable transformation.

1.1.1. Digital Nomads: A Shifting Paradigm in Work and Life

The rise of digital nomads, a group estimated at over 35 million globally, is evidence of such a transformation (Nomadlist, 2023). Enabled by ubiquitous internet connectivity and powered by a multitude of digital tools, these individuals are changing the nature of work, choosing to operate from almost anywhere (Hensellek & Puchala, 2021). The growing flexibility and viability of remote work has appealed to a substantial audience and has become more prominent since the onset of the pandemic. With the absence of global data, U.S. data shows as of 2023 that 12.7% of full-time employees in the U.S. work from home, while 28.2% work in a hybrid model, combining both home and in-office work (Griffith, 2023). By 2025, it is estimated that about 22% of the U.S. workforce will be working remotely (Upwork, 2020).

The most significant factors that contribute to this rise in remote work are a flexible schedule and the ability to work from anywhere. According to one U.S.-based survey of

3,000 remote workers, an overwhelming 98% expressed the desire to work remotely at least part of the time (Buffer.com, 2023). Additionally, 65% responded with a desire to work remotely all the time, while 32% prefer a hybrid schedule, combining flexibility from remote work and collaboration opportunities from in-office work (Pelta, 2021).

1.2. The Tax Implications of a Borderless World of Work

While the rise of digital nomads heralds an exciting era of unprecedented flexibility and freedom, it also brings with it unique tax challenges, particularly in the realm of international tax planning and compliance. This study aims to delve into these complexities, exploring tax strategies, including those employed by multinational enterprises (MNEs), and examining their applicability to the unique needs of digital nomads.

1.3. Methodology

The research will be conducted through a comprehensive literature review of international tax strategies of MNEs as well as a comparative analysis of global tax regimes and digital nomad statistics. The literature review will involve an examination of academic, corporate and legislative literature. Relevant articles, reports, and books will be analysed to gain a better understanding of the subject matter. The case review will involve the analysis of relevant case studies of MNEs that have successfully implemented international tax strategies. The case studies will be chosen based on their relevance and significance to the research question. Finally, the research will analyse areas of particular relevance for digital nomads, such as global visa regulations, residency and domicile. The findings from these sources will be used to explore practices that could be adapted for digital nomads.

1.4. Overview of Digital Nomads

The term *digital nomad* refers to a person who uses technology to work remotely and has the freedom to live and work from anywhere in the world, without settling down in one specific country. (Global Entrepreneurship Monitor, 2021).

Digital nomads represent a growing segment of the global workforce. According to a report by MBO Partners, it is estimated that by 2024, the number of independent workers in the U.S. would increase to over 50 million, and the number of digital nomads in the U.S. would rise to over 10 million (MBO Partners, 2022). *Nomad List* identifies the figure world-wide as being over 35 million (Nomadlist, 2023).

Digital nomads are characterised by their location independence, which pose unique tax challenges, including compliance with tax laws in multiple jurisdictions as well as weighing international strategies to minimise their overall tax burden. To effectively manage their international tax obligations, digital nomads require a particularly high degree of understanding of the tax laws and regulations in each jurisdiction in which they live and work.

1.5. Tax Problems Faced by Digital Nomads

The tax problems faced by digital nomads can be grouped into two categories: compliance and tax optimisation. Compliance problems arise from the difficulty in determining the tax domicile of individuals who operate across national borders. Tax optimisation problems arise from the lack of coordination between countries' tax systems, which can lead to double taxation or missed opportunities for tax savings.

For example, digital nomads may face difficulties in determining where to pay income tax, as their place of abode and place of business may be located in different countries. As such, they may be subject to multiple tax regimes.

1.6. Learning from MNEs

MNEs face similar tax problems as digital nomads, but on a larger scale. In order to mitigate these problems, MNEs adopt various tax strategies that can help them minimise their tax liabilities, increase their competitiveness, while ensuring compliance with tax laws and regulations.

According to OECD data, the average effective tax rate of MNEs decreased from 29.3% in 2000 to 25.4% in 2016, largely due to the adoption of tax planning strategies. This decrease in the average tax rate translates into significant savings for MNEs, as it reduces their tax liabilities and increases their profits (OECD, 2019).

This is where digital nomads can learn from and adopt strategies that MNE's have explored and tested to their advantage. A U.S. citizen moving to a foreign country is in the realm of international tax law and can utilise this opportunity to optimise their corporate and personal tax as MNE's and high net-worth individuals do.

2. Tax Strategies used by MNEs

The following sections will explore some of the most common methods used by MNEs to reduce overall tax payments. These include: reducing the taxable base and rate, utilizing tax havens and preferential tax regimes, interest deductions, debt and equity financing, IP planning, transfer pricing, and hybrid mismatches.

2.1. Taxable Base and Tax Rate

The taxable base and tax rate are the two most relevant factors when determining a company's tax liability. The taxable base is the amount of profit that is subject to taxation. The tax rate is the percentage of the taxable base that is used to determine the amount of tax owed. MNEs can use strategies to reduce their taxable base and rate, thereby reducing their overall corporate tax liability. One strategy with which the taxable base can be eroded with for instance, are inter-company payments to subsidiaries in low tax regimes (Mintz & Smart, 2004).

2.1.1. Tax Havens and Preferential Tax Regimes

MNEs have shown to be able to reduce their overall tax liability by taking advantage of preferential tax regimes, like those offered by certain countries for specific types of income. One common example is the licensing of intellectual property (Mintz & Smart, 2004).

Additionally, one of the most common tax strategies used by MNEs is to establish subsidiaries or affiliates in tax havens, which are countries with low or zero tax rates. By setting up subsidiaries or other entities in tax havens, MNEs can shift profits to these and reduce their global tax liabilities. While the aggregation of the global tax impact for MNEs is difficult to estimate, the value of profits shifted by U.S. MNEs to tax havens was around USD 90 billion in 2012 (Clausing, 2015a).

2.1.2. Examples of MNE tax haven use

2.1.2.1. Apple and Ireland

In 2016, the European Commission ordered Apple to pay back EUR 13 billion in taxes to Ireland, claiming that the company had received illegal state aid through a special tax deal with the Irish government. The deal had allowed Apple to pay an effective tax rate of 0.005% on its European profits. After a series of appeals, the case is currently at the European Court of Justice (General Court of the EU, 2020; Goulder, 2020).

2.1.2.2. Google and Bermuda

Google was accused of using Bermuda as a tax haven to avoid paying taxes on its international profits. The company allegedly exploited a legal loophole known as the "Double Irish, Dutch Sandwich" to shift profits to Bermuda through a subsidiary based in Ireland. This strategy involves routing profits through a Dutch subsidiary before transferring them to a Bermuda company, where they are not subject to taxation.

The Double Irish strategy requires two incorporated companies in Ireland, where one company pays royalties for the use of intellectual property - the costs of which can be deducted from taxes in Ireland - and the other company, incorporated but not subject to taxation in Ireland, collects the royalties in a tax haven such as Bermuda or the Caymans, thereby avoiding Irish taxes (Fuchs, 2018).

2.1.2.3. Facebook and the Cayman Islands

Facebook also employed the "Double Irish" which significantly reduced its tax liabilities. In Facebook's case the strategy allowed routing their global profits to the Cayman Islands in the form of licensing and royalty payments (Fuchs, 2018).

2.1.3. Taxable Base Rate and Intercompany Dividends

MNEs often use intercompany dividends to reduce their taxable base rate. When profits are earned by a subsidiary, they can be transferred to the parent company in the form of dividends. By doing so, the taxable base rate is reduced, as the dividends are typically subject to a lower tax rate than the profits earned by the subsidiary (Clausing, 2015b.

Moreover, by transferring profits from a subsidiary located in a high-tax country to one located in a low-tax country, MNEs can reduce their overall tax liability. As this often results in a reduction of tax revenues for the high-tax country, many countries have introduced regulations aimed at preventing the abuse of intercompany dividends.

2.2. Withholding Tax

Withholding tax is a type of tax that is deducted at the source of income, meaning that the tax is deducted by the payer before the income is paid to the recipient. This type of tax is often used for certain types of income, such as dividends, interest, and royalties, and it is commonly used as a way of collecting tax from non-resident taxpayers.

The rules governing withholding tax can vary significantly depending on the country in which the income is being earned. In the United States, for example, the rules governing withholding tax are set out in the Internal Revenue Code, and there are specific rules for how much tax must be withheld for different types of income (IRS, n.d.-d). In contrast, in the European Union, withholding tax is governed by a range of different directives and regulations, and there can be significant variations in the rules across different member states (European Parliament, 2022).

For digital nomads, the rules governing withholding tax can be particularly complex. This is because they may be earning income from a wide range of different sources, and they may be operating in multiple countries at the same time. To make the most out of different withholding tax rules in various countries, it can be strategically sound to consider double tax treaties (explored in Section 2.8) and structure the income source into income streams that do not trigger a withholding tax in the paying jurisdiction.

2.3. Taxation of Corporate Groups

When it comes to the taxation of corporate groups, there are several commonly used methods, including consolidated taxation and apportionment. Consolidated taxation involves treating a group of companies as a single entity for tax purposes, which can lead to significant tax advantages. On the other hand, apportionment involves dividing the group's income based on factors such as the location of the company's employees or the location of the company's assets.

In the U.S., the IRS has rules to calculate a corporate group's consolidated taxable income and how to allocate the group's deductions (IRS, 2022). In contrast, the E.U. does not have a common set of rules governing the taxation of corporate groups, which can lead to significant variations in tax treatment across member states (Hebous & Weichenrieder, 2015).

2.4. Interest Deductions and Other Financial Payments

Interest deductions and other financial payments are significant tax strategies that multinational enterprises use to reduce their tax liabilities. Interest deductions refer to the interest paid on debt financing, which is tax-deductible. Financial payments, on the other hand, include other payments made to financial institutions, such as fees and commissions and can also be used to reduce the taxable income of the enterprise (OECD, 2015b).

Multinational enterprises can use both debt and equity financing to raise capital. Debt financing involves borrowing money from lenders, while equity financing involves selling ownership in the company to investors. Using debt financing, an MNE can borrow money from an affiliate in a high-tax jurisdiction, and then shift profits to a low-tax jurisdiction where the interest on the debt can be deducted from taxable income. This strategy is known as "earnings stripping" and is subject to strict rules and regulations in most countries (U.S. Department of the Treasury, 2016).

2.4.1. Intellectual Property (IP) Planning

MNEs also use IP planning to reduce their global tax liabilities. By owning valuable IP in a low-tax jurisdiction, an MNE can shift profits from high-tax jurisdictions to the low-tax jurisdiction by licensing the IP to the subsidiary in a high-tax jurisdiction. In most countries, the law requires that MNEs demonstrate that the IP is managed and controlled in the low-tax jurisdiction (Collier et al., 2018). As such, this strategy may be one that is harder to implement effectively for smaller or lesser-known companies that do not have valuable trademark or other IPs, as would apply to most digital nomads.

2.4.2. Different Countries with Varying Corporate Income Tax Rates

Multinational enterprises can take advantage of different corporate income tax rates in different countries to minimise their tax liabilities. For example, an enterprise may choose to locate its headquarters in a country with a lower corporate income tax rate and establish subsidiaries in countries with higher tax rates. The enterprise can then shift profits to the lower tax country by charging high prices to its subsidiaries for goods or services. This strategy, known as transfer pricing, is legal as long as it is based on *arm's length* pricing and complies with the rules set by the tax authorities (OECD, 2022). Failure to comply can result in penalties and additional taxes (Davies & Hampton, 2018).

2.5. BEPS Action 3: Controlled Foreign Company (CFC) Rules

Controlled foreign company (CFC) rules are a type of anti-avoidance measures that aim to prevent the shifting of profits to low-tax jurisdictions by taxing passive income earned by foreign subsidiaries of a multinational company. In response to concerns over base erosion and profit shifting (BEPS), the Organisation for Economic Cooperation and Development (OECD) developed a set of recommended practices to guide countries in designing effective CFC rules. CFC rules are typically triggered by three factors, namely "control" of subsidiary, subsidiary in tax haven or low tax jurisdiction, and subsidiary generating passive income, especially mobile activities (e.g., dividends, interest royalties) (OECD, 2015a). CFC rules are important to consider for digital nomad entrepreneurs who are tax-domiciled in countries with CFC rules.

2.5.1. Factors that Trigger CFC Rules

2.5.1.1. Control of the Subsidiary

Generally, CFC rules are triggered when a parent company has control over the foreign subsidiary, which can be defined as having at least 50% of the voting rights or ownership interest (OECD, 2015a). The purpose of this factor is to prevent the shifting of profits to a low-tax jurisdiction by a parent company that has control over the subsidiary.

2.5.1.2. Location of the Subsidiary in a Tax Haven or Low Tax Jurisdiction

The second factor that triggers CFC rules is the location of the subsidiary in a tax haven or low tax jurisdiction. The aim behind this factor is to prevent parent companies from shifting profits to tax havens or low tax jurisdictions to avoid paying tax on those profits in high-tax countries (OECD, 2015a).

2.5.1.3. Generation of Passive Income, Particularly Mobile Activities

The third factor that triggers CFC rules is the generation of passive income by the subsidiary, especially what are known as *mobile activities*. Mobile activities, refer to activities such as dividends, interest, and royalties. These can often be easily moved from one jurisdiction to another, such as licensing of intellectual property. The aim of this factor is to prevent the shifting of profits from high-tax countries to low-tax countries by routing passive income through foreign subsidiaries (OECD, 2015a).

2.5.2. Effect of CFC Rules

2.5.2.1. The Effect of CFC Rules in the United States

The United States has had CFC rules in place since the 1960s, but these rules were expanded with the Tax Cuts and Jobs Act (TCJA) in 2017. The TCJA introduced a new category of foreign income, called global intangible low-taxed income (GILTI), which is subject to current U.S. taxation regardless of whether the income is repatriated to the United States (IRS, n.d.-c).

2.5.2.2. The Effect of CFC Rules in Germany

Germany has had CFC rules in place since 1972, but these rules were expanded in 2017 with the enactment of the German Foreign Tax Act (*Außensteuergesetz*). The new rules, expanded through a decree in 2021, target income shifting to low-tax countries and impose taxation on foreign income that is not subject to effective taxation in the foreign country. The rules also include a substance requirement, which requires foreign subsidiaries to have a certain level of economic substance in order to qualify for exemption from the CFC rules (PWC, 2021). This means that the German Foreign Tax Act may affect digital nomads, who have their place of abode in Germany and are the sole owners of a company is incorporated in a low tax jurisdiction. It is particularly relevant, if the foreign company has insufficient economic substance, as is the case, for instance, if it has no employees nor office in the country.

2.5.2.3. The Effect of CFC Rules Elsewhere

CFC rules have been adopted by many countries worldwide, including Australia, Canada, the United Kingdom, and Switzerland. In some cases, the rules have been controversial, with some arguing that they are overly burdensome for taxpayers and can lead to double taxation. However, the rules are generally viewed as an effective tool for combating tax avoidance and base erosion (Deloitte, 2021b).

2.5.3. Adoption of CFC Rules by OECD/G20 Inclusive Framework Countries

Out of the 122 Inclusive Framework members surveyed in 2019, 49 had CFC rules in operation, with different approaches to the type of income covered and the presence of substantial activity tests (OECD, 2019). The substantial activity test is a criterion used by tax authorities to determine whether a foreign subsidiary's operations are genuine and economically significant or merely set up for tax avoidance purposes. Under this test, tax authorities assess the scale and nature of a subsidiary's activities, including its workforce, assets, and functions, to evaluate whether the company has a legitimate business purpose and economic substance. If the subsidiary fails to meet the substantial activity requirements, its income may be subject to CFC rules and taxed in the parent company's jurisdiction.

EU Member States all have CFC rules in effect since the beginning of 2019 following the adoption of Council Directive (EU) 2016/1164 (OECD, 2019). However, different countries have adopted different approaches to the types of income covered and the presence of substantial activity tests (Ernest & Young, 2020).

2.5.4. Ineffectiveness of CFC Rules in some countries

In some countries, CFC rules are ineffective in preventing profit shifting and base erosion. This is the case in the U.S., and is due to the Sub-part F rules and the U.S.

foreign entity qualification measures called "Check the box" rules (Avi-Yonah & Lahav, 2012).

2.5.4.1. Sub-part F Rules

The Sub-part F rules were enacted in 1962 to combat the use of tax havens by U.S. taxpayers. They require U.S. shareholders of CFCs to include in their income certain types of passive income earned by the CFC, regardless of whether the income is distributed to the shareholders. However, the Sub-part F rules have limited scope and do not cover many types of income that can be shifted to low-tax jurisdictions, such as royalties and interest income (Avi-Yonah & Lahav, 2012). For example, active income is not subject to the Sub-part F rules, and U.S. shareholders of foreign corporations can use transfer pricing to allocate most of their income to foreign subsidiaries in low-tax jurisdictions, which reduces the amount of income subject to the Sub-part F rules (Avi-Yonah & Lahav, 2012).

2.5.4.2. "Check the Box" Rules

"Check the Box" rules allow foreign entities to choose their classification for U.S. tax purposes. This means that foreign subsidiaries of U.S. corporations can choose to be disregarded as separate entities for U.S. tax purposes, which makes them exempt from the CFC rules. As a result, U.S. corporations can shift profits to these entities without incurring U.S. tax liabilities (Avi-Yonah & Lahav, 2012).

2.5.4.3. Impact of the Tax Cuts and Jobs Act on the CFC Rules

The *Tax Cuts and Jobs Act* (TCJA), enacted in 2017, brought several key changes affecting the CFC rules and its effectiveness in preventing profit shifting and base erosion

(IRS, n.d.-c). The TCJA established the *Global Intangible Low-Taxed Income* (GILTI) regime, which expands the scope of U.S. taxation on the income of CFCs. Under GILTI, U.S. shareholders of CFCs are required to include the global intangible low-taxed income of their CFCs in their income statement, effectively reducing the incentive to shift profits to low-tax jurisdictions (IRS, 2021).

The TCJA also introduced the *Base Erosion and Anti-Abuse Tax* (BEAT), a minimum tax imposed on certain corporations that make deductible payments to foreign affiliates (Tax Policy Center, 2020). Although these changes enhance the effectiveness of the CFC rules, they do not negate the tax advantages for MNEs through the Sub-part F rules and "Check the Box" rules.

2.6. Transfer Pricing

Transfer pricing is a tax optimisation strategy that involves pricing goods, services, or intangible assets that are traded between different entities within the same MNE group. The pricing of these transactions can affect the allocation of profits within the group, and can be used to reduce tax liabilities in high-tax jurisdictions. Transfer pricing has been a subject of controversy, and tax authorities worldwide have become increasingly concerned about the use of this strategy by MNEs (OECD, 2022). For example, Starbucks was accused of using transfer pricing to avoid taxes in the U.K. in 2012. In that year, Starbucks reported a loss of GBP 33m in the U.K., despite generating profits of GBP 398m, and reportedly paid only GBP 8.6m in corporation tax over the past 14 years. The U.K. government later introduced a *diverted profits tax* to address such tax avoidance schemes (HM Revenue & Customs, 2015).

2.6.1. Arm's Length Principle

The *arm's length* principle is a principle used by most countries to regulate transfer pricing transactions. It requires that intercompany transactions be priced as if they were between unrelated parties (OECD, 2022). The *arm's length* principle is aimed at ensuring that profits are allocated to the jurisdictions where the economic activities generating them are performed. This has led to numerous tax disputes between MNEs and tax authorities worldwide. For example, Amazon faced a transfer pricing dispute with the IRS over the pricing of its intercompany transactions with a Luxembourg subsidiary (Stempel J & Dastin J, 2017).

2.6.2. Transactional Methods

There are several transactional methods used to determine the *arm's length* price of transactions, including the comparable uncontrolled price method, the resale price method, and the cost-plus method (United Nations, 2021). The comparable uncontrolled price method compares the price of a controlled transaction with the price of an uncontrolled transaction, which involves similar products, services, or intangible assets. The resale price method uses the resale price of the goods sold by the buyer to an uncontrolled party as a basis for determining the *arm's length* price. The cost-plus method involves adding a reasonable markup to the cost of producing the goods, services, or intangible assets. In some cases, a combination of these methods may be used, depending on the circumstances of the transaction (United Nations, 2021).

2.7. Hybrid Mismatches

Hybrid mismatches are tax structures that take advantage of differences in the tax laws of two or more countries to produce tax savings. The OECD defines a hybrid mismatch as a “situation where a payment made under a financial instrument gives rise to a tax deduction in the payor’s jurisdiction but the corresponding income is not included in the taxable income of the recipient” (OECD, 2015c). Hybrid mismatches occur when a transaction or entity is classified differently in different countries for tax purposes, resulting in double non-taxation or a deduction in one country without a corresponding inclusion in another.

The OECD’s BEPS project introduced various measures to prevent hybrid mismatches, including the recommendations for countries to adopt the anti-hybrid rules provided by the OECD, which align the tax treatment of an entity or instrument in different countries, thereby eliminating any mismatch (OECD, 2015c).

Thailand is one of the countries that recently implemented rules to address hybrid mismatches. In 2021, Thailand adopted anti-hybrid rules that apply to both inbound and outbound transactions. The rules target hybrid entities and hybrid financial instruments that can produce double deductions, deductions without inclusion, or other forms of tax arbitrage. The rules apply to a wide range of transactions, including interest payments, royalties, and payments to hybrid entities (PWC, 2023b).

2.7.1. Case Study: Double Irish Dutch Sandwich

As outlined in the examples of Apple, Google and Facebook in Section 2.1.1, the “Dutch Irish Sandwich” is a hybrid strategy utilised by certain multinational corporations for decades to reduce their tax liability by exploiting differences in the tax laws of the Netherlands, Ireland, and other countries. The strategy involves establishing a subsidiary in Ireland, with a low corporate tax rate, responsible for managing the company’s intellectual property such as patents and trademarks. The Irish subsidiary licenses this intellectual property to a second subsidiary in the Netherlands, which has a favourable tax treaty network and a participation exemption. The Dutch subsidiary then pays the Irish subsidiary for the use of the intellectual property, and this expense is deducted from its taxable income, reducing its tax liability in the Netherlands. The same intellectual property is then licensed by the Dutch subsidiary to a third subsidiary located in a low-tax or tax haven country, resulting in reduced taxation or no taxation of this income in the low-tax jurisdiction (Fuest et al., 2013). By employing this strategy, companies were able to shift profits from high-tax to low-tax countries for decades, reducing their overall tax liability (European Commission, 2022).

This tax strategy, along with other similar schemes, has faced criticism from various governments and organisations. Consequently, recent years have seen an increase in efforts to reform international tax rules and to crack down on hybrid mismatches.

In the EU for example, the Anti-Tax Avoidance Directive (ATAD) introduced anti-hybrid rules to address hybrid mismatches in 2016, which exploit the differences in tax treatment of entities or instruments across jurisdictions. The ATAD II, adopted in 2019, extended these rules to cover non-EU countries and additional types of mismatches (Deloitte, 2021a).

2.8. Double Taxation

Double taxation occurs when the same income or capital is taxed in more than one country. However, double taxation can be mitigated through a variety of mechanisms, such as; tax treaties, unilateral relief, and foreign tax credits (Cnossen, 2018).

The EU has implemented several measures to avoid double taxation, including the EU *Parent-Subsidiary Directive*, the *Interest and Royalties Directive*, and the *Mutual Agreement Procedure*. The *Parent-Subsidiary Directive* aims to eliminate double taxation on dividends distributed between EU parent and subsidiary companies (European Council, 2011). The *Interest and Royalties Directive* aims to eliminate double taxation on interest and royalty payments between related companies within the EU. The *Mutual Agreement Procedure* provides a mechanism for resolving disputes between member states regarding the interpretation and application of tax treaties (European Commission, n.d.).

Another way double taxation is avoided is through tax treaties, which are bilateral agreements between two countries that provide a framework for taxation rights.

Finally, unilateral relief can also be an approach, where one country provides relief from double taxation through a tax credit or exemption system (Cnossen, 2018). The tax credit system allows taxpayers to claim a credit for foreign taxes paid against the tax payable in the home country. The exemption system exempts income from foreign sources from being taxed in the home country. For example, the U.S. provides unilateral relief from double taxation through its foreign tax credit system (Cnossen, 2018).

3. Digital Nomads – Tax-Relevant Statistics

Crafting tax strategies for individuals and their companies is often a complex endeavour due to the vast array of unique circumstances that must be considered. As such, tax professionals typically develop tailor-made solutions to accommodate these diverse situations. Nonetheless, in the context of digital nomads, the possibility of identifying commonalities among this group may facilitate the design of tax strategies that cater to a broader range of individuals in this growing demographic.

In order to identify such commonalities, this chapter will delve into tax-relevant statistics for digital nomads highlighting trends and patterns that can inform the development of tax strategies that are both effective and broadly applicable.

3.1. Citizenship

3.1.1. The Significance of Citizenship in Tax Strategy

Citizenship is important in the context of tax liability for certain countries, most notably the U.S., that employ citizenship-based taxation. In the U.S., citizens are subject to tax on their worldwide income, regardless of their country of residence. However, there are some income exemptions and exclusions available to U.S. citizens that can help mitigate these tax liabilities (IRS, n.d.-b).

On the other hand, most countries rely on residency-based taxation criteria, such as spending a minimum of 183 days in the country, having a habitual place of abode, or establishing a place of vital interests (OECD, 2021). These systems allow individuals to navigate the international tax landscape more flexibly and choose tax domiciles that suit their needs.

Moreover, for digital nomads who reside outside their country of citizenship, the possibility of incorporating their companies in jurisdictions with favourable tax laws becomes more feasible.

3.1.2. Citizenship of Digital Nomads

As shown in Table 1, half of digital nomads are U.S. citizens (51%). North America makes up 56% of digital nomads worldwide, while Europeans come in second, making up 27%. Just 17% of digital nomads come from other regions of the world (Nomadlist, 2023).

Country	Percentage (%)
United States	51%
United Kingdom	8%
Russia	5%
Canada	5%
Germany	3%
France	3%
Australia	2%
Brazil	2%
Netherlands	2%
Spain	1%
U.K.raine	1%
India	1%

Poland	< 1%
Italy	< 1%
Switzerland	< 1%

Table 1 - Country of origin of digital nomads by percentage based on a survey of 19,214 respondents

3.2. Professions of Digital Nomads

In the evolving landscape of digital work, the main portion of digital nomads are self-employed. According to a *Nomad List* report, 83% of digital nomads fall into this category, while 17% are employed by companies in remote working capacities (Nomad List, 2022). A survey conducted by Abrotherabroad.com, encompassing 4,000 digital nomads, supports these findings and provides additional insights into the professional lives of these individuals (Abrotherabroad.com, 2020).

This survey found that among self-employed digital nomads, 66% own their businesses, while 34% work as freelancers or gig-workers. 51% of all reported professions in the digital nomad community are made up of marketing, computer sciences/IT, graphic and web-design, writing, and e-commerce. Interestingly, 14% of digital nomad professions consist of careers not commonly associated with this lifestyle, such as architecture, medicine, law, urban planning, and engineering. For those digital nomads who own their businesses, e-commerce and coaching/consulting emerge as the most popular fields, representing 26% of all business owners surveyed (Abrotherabroad.com, 2020).

3.3. Income Type

Digital nomads may have various income types, including salaries, dividends, interest, royalties, and long-term asset accumulation; as their retirement fund is heavily dependent on private investments in assets such as real estate, stocks, index funds, bonds and cryptocurrency (Abrotherabroad.com, 2020).

The availability of comprehensive income type data for digital nomads is severely limited. However, based on the above noted survey, 66% of self-employed digital nomads own at least one business. These entrepreneurs likely earn income through a combination of salary, dividends, and potentially capital gains if their businesses are incorporated. On the other hand, the remaining 34% of self-employed digital nomads who work as freelancers or gig workers are more likely to earn their income through salaries or fees for services rendered. The 17% of digital nomads who are employed by companies in remote working capacities typically earn a salary as their primary source of income.

3.3.1. The Significance of Income Types for Taxation Purposes

The income type matters for digital nomads because it affects their tax obligations and influences the choice of banks and countries of incorporation. For instance, individuals with a high volume of sales may need to register for VAT in their country of tax residence or where their customers are located. Additionally, the currency in which digital nomads earn their income may determine their choice of bank, as some banks may not support specific currencies or charge high conversion fees. However, based on the jurisdiction, it could be useful to structure income to a different type for tax purposes (see further strategies in Section 4). Moreover, since most digital nomads depend on private investments for retirement, it is important for them to structure the accumulation of these assets in tax-optimal ways in the present, as well as the future.

3.4. Income Level

Digital nomads have a wide range of income levels. However, the data varies drastically depending on the source. As the available statistics are based on private and non-academic surveys without clear methodological explanations, one must observe the data with a high degree of scrutiny. In this paper, the data will be used only to infer general trends. The only global and reasonably credible survey available as of 2023 is depicted below.

3.4.1. Distribution of Income

Table 2 presents the results from a *Nomad List* survey conducted in 2023, showing another perspective on digital nomad income levels.

Income Range	Percentage (%)
Less than USD 25,000	6%
USD 25,000 - USD 50,000	15%
USD 50,000 - USD 100,000	34%
USD 100,000 - USD 250,000	36%
USD 250,000 - USD 1,000,000	8%
Over USD 1,000,000	2%

Table 2 - Distribution of digital nomad income levels based on a survey of 2,615 respondents (Nomad List, 2023)

According to this source, the average income is USD 123,910 per year, and the median income is USD 90,000 per year, and 46% of digital nomads earn over USD 100.000 p.a., which contradicts the previous survey's result. If there are 35 million digital nomads worldwide, this survey would imply 16.1 million digital nomads earning over USD 100,000 and 3.5 million earning over USD 250,000, and 700,000 earning over USD 1 million p.a.

3.4.2. Importance Of Income Levels in Tax Strategies

Digital nomads' income levels matter when determining the complexity of their tax structures and their ability to afford professional services, such as setting up a business, hiring accounting firms, or establishing international tax optimisation structures. The costs associated with these services can be substantial, with international tax planning fees ranging from USD 2,000 to USD 10,000 or even more, depending on the complexity of the case (Moss Adams, n.d.). Setting up a business in a foreign country can also be expensive, with incorporation fees, annual government fees, and accounting as well as agency services ranging from USD 1,000 to USD 5,000 or more per year. See Section 4.2 for more detail on the cost of tax structures and incorporation.

Higher-income digital nomads may have more complex tax situations and may benefit from sophisticated tax planning to minimise their tax liability. Lower-income digital nomads may still benefit from international tax planning but may have fewer resources to dedicate to complex strategies.

3.4.3. Residency

Most countries base tax liability on residency, which is typically defined as residing in the country for more than 182 days per year. For digital nomads, tax optimization strategies will generally hinge on residency, which is not necessarily the same as their tax domicile. In many countries, particularly those with high tax rates, it has become increasingly challenging to be recognised as a tax resident in a low-tax country by merely setting up a structure or obtaining a residence permit there. As such, finding and establishing proper residency and tax domicile remain key factors in developing optimal tax strategies for digital nomads.

3.4.3.1. Residency Statistics

Digital nomads often choose their living destinations based on factors such as cost of living, internet connectivity, safety, and overall quality of life. According to *Nomad List*, the most popular destinations for digital nomads in 2023 are as follows:

1. Ubud, Bali, Indonesia
2. Chiang Mai, Thailand
3. Ho Chi Minh City, Vietnam
4. Tbilisi, Georgia
5. Medellín, Colombia
6. Lisbon, Portugal
7. Bangkok, Thailand
8. Playa del Carmen, Mexico
9. Canggu, Indonesia

10. Barcelona, Spain (Nomadlist, 2023)

There are many more cities that are popular destinations for digital nomads, and as the cost of living rises in some countries as digital nomads flock to those locations, other cities become more attractive to live in and gain popularity.

However, by far the highest concentration of digital nomads can be found in Southeast Asia. Countries, such as Thailand, Indonesia, and Vietnam have emerged as top destinations for remote workers. Key factors drawing digital nomads to these regions include the low cost of living, welcoming cultures, and favourable climates. Cities like Chiang Mai in Thailand, Bali in Indonesia, and Ho Chi Minh City in Vietnam have emerged as hotspots for digital nomad communities with many co-working spaces and cafés catering to their communities (Nomadlist, 2023).

For North Americans, Mexico has been a popular destination, particularly due to its proximity and affordable living costs. Playa del Carmen, situated on the Caribbean coastline, is the top choice for digital nomads. Mexico's relaxed visa policies and cultural similarities also make it an attractive option for remote workers from the United States. However, safety is ranked relatively low compared to other popular digital nomad locations (Nomadlist, 2023).

In Europe, Lisbon, Portugal has established itself as a favourite destination among digital nomads. The city's coastal location, vibrant culture, and favourable climate have made it a popular choice for remote workers. Lisbon offers a large number of coworking spaces, a strong start-up scene, particularly in the cryptocurrency and web3 space due to favourable tax and regulation, and a comparatively lower cost of living compared to other European cities. Other European cities, such as Berlin, Barcelona and Tbilisi have also become popular among digital nomads for their rich cultural heritage, affordable living, and ease of obtaining long-term visas (Nomadlist, 2023).

In summary, the most popular destinations for digital nomads are spread across Southeast Asia, Europe, and Central America, with a high concentration in countries such as Thailand, Indonesia, Vietnam, Mexico, and Portugal. These destinations offer a mix of affordability, quality of life, and a thriving community of remote workers, catering to the diverse needs and preferences of digital nomads worldwide.

3.4.3.2. Factors Affecting Residency

As mentioned previously, several factors influence digital nomads' choice of residency. According to a survey by *Nomad List*, the top factors affecting digital nomad residency choices are:

1. Cost of living: 81%
2. Internet speed: 76%
3. Safety: 74%
4. Weather: 72%
5. Access to quality healthcare: 67%
6. Availability of digital nomad visas: 65% (Nomadlist, 2023)

Needless to say, the importance of each factor varies depending on the personal situation of every digital nomad. Digital nomads travelling with children may prioritise safety and education above vibrant social environments or the potential for adventure.

3.4.3.2.1. Internet Speed

Digital nomads rely heavily on fast and stable internet connections to work effectively. The quality of internet service can be a deciding factor in their choice of destination. According to *Nomad List*, the top cities with the fastest average internet speeds for digital nomads include:

1. Seoul, South Korea: 125 Mbps
2. Singapore: 115 Mbps
3. Tokyo, Japan: 112 Mbps
4. Hong Kong: 110 Mbps
5. Taipei, Taiwan: 100 Mbps (Nomad List, 2022)

3.4.3.2.2. Cost of Living

Affordable living costs are essential for digital nomads, especially for those with lower incomes or starting new ventures. According to a cost-of-living index (Numbeo.com, 2023), the cities with the lowest costs of living for digital nomads include:

1. Chiang Mai, Thailand
2. Ho Chi Minh City, Vietnam
3. Tbilisi, Georgia
4. Medellín, Colombia

5. Penang, Malaysia

3.4.3.2.3. Safety

Safety is a primary concern for digital nomads when choosing a destination. According to SafeAround.com (Travel Safe Abroad, 2023), the safest cities for digital nomads include:

1. Tokyo, Japan
2. Singapore
3. Osaka, Japan
4. Reykjavik, Iceland
5. Zurich, Switzerland

3.4.3.2.4. Schooling for Children

Digital nomads with families are faced with additional considerations, including the need to find suitable education options for their children. Although data is limited on the number of digital nomads who travel with families, this demographic likely makes up a relatively small portion of the larger digital nomad community. A 2018 Flexjobs survey of 500 digital nomads revealed that less than half of the 26% of digital nomads who are in relationships and have children under 18, choose to travel with their kids (FlexJobs, 2023). The schooling options for these children typically include brief periods in public schools, enrolment in international schools, home-schooling, or online schooling. It is plausible to assume that the number of digital nomads traveling with children and the popularity of online schooling options have increased significantly since the outbreak of

COVID-19. The advancement of online and AI-assisted education will likely lead to future growth in the demographic category of digital nomad families.

3.4.3.3. Opportunities for Digital-Nomad-Friendly Cities

As the world becomes more digital, opportunities for digital nomads are no longer confined to specific technology and business hubs such as Silicon Valley or Singapore. The surge in remote work, online services, and international networking events, including conferences and meetups, has broadened the career prospects for digital nomads globally. This trend is also apparent in cities within previously less affluent countries that are now becoming more international. They offer a variety of international products, high-quality medical care, and facilities such as coworking spaces, co-living accommodations, and temporary residences, all catering to the needs of digital nomads. Cities in Southeast Asia, including Chiang Mai and Bangkok in Thailand, as well as Kuala Lumpur and Penang in Malaysia, have been notable beneficiaries of this trend.

3.5. Digital Nomad Visa

As the digital nomad lifestyle continues to gain traction worldwide, an increasing number of countries have begun offering dedicated visas for remote workers. As of March 2023, there were approximately 56 digital nomad visas available, providing remote workers with a wide range of options for residency (Citizen Remote, 2021; HTJ Tax, 2023; Traveling Lifestyle, 2021). This development caters to the needs of remote workers, providing them the opportunity to reside and work legally in their chosen country, often for extended periods. To provide a deeper understanding, the following section will highlight some of the most notable digital nomad visa programmes.

3.5.1. Visa Examples for Digital Nomads as of June 2023

3.5.1.1. Estonian e-Residency and Digital Nomad Visa

The Estonian public sector has been a pioneer in digital innovation and was the first country to introduce e-Residency, a government-issued digital identity that allows individuals to establish and manage a location-independent business online (E-Residency, 2023). Building on the success of e-Residency, Estonia launched the digital nomad visa in 2020, designed specifically for remote workers and digital entrepreneurs who wish to live and work in Estonia for up to one year (Estonian Ministry of the Interior, 2023).

Estonia's digital nomad visa programme requires applicants to demonstrate a minimum monthly income of EUR 3,504 over the six months preceding their application (Estonian Ministry of the Interior, 2023). This income threshold ensures that digital nomads can support themselves while residing in Estonia without relying on the domestic job market.

3.5.1.1. Portugal's Remote Work Visa

Portugal offers the *D7 Visa* for remote workers, allowing them to reside in the country while working for a foreign employer or as a freelancer. Applicants must demonstrate a stable and regular income that is sufficient to support themselves and their dependents during their stay in Portugal. The *D7 Visa* is granted initially for one year and can be renewed for up to five years, after which the visa holder can apply for permanent residency (Portugal Immigration and Borders Service, n.d.).

3.5.1.2. Greece’s Digital Nomad Visa

Greece introduced a digital nomad visa in 2021 to attract remote workers and freelancers. The visa allows non-EU citizens to live and work in Greece for up to one year, with the possibility of renewal. Applicants must provide proof of a stable income of at least EUR 2,000 per month (Greek Ministry of Migration & Asylum, n.d.).

3.5.1.1. Spain’s Digital Nomad Visa

Spain introduced a digital nomad visa in January, 2023. This visa allows non-EU remote workers to live and work in Spain for up to one year, with the possibility of renewal for up to 5 years. Applicants must demonstrate an income of at least EUR 30,240 per year (Spanish Ministry of Foreign Affairs, n.d.).

3.5.1.1. Malaysia’s Digital Nomad Visa

In Malaysia, a special work permit called *De Rantau* has been introduced specifically for digital nomads in October 2022. This programme is designed to attract foreign digital professionals to work within the country for a duration ranging from three to 12 months. To qualify, applicants are required to demonstrate an active project contract lasting more than three months. This can consist of multiple contracts, with clients from either foreign or Malaysian companies. Digital nomads must have an annual income exceeding USD 24,000 (Medina, 2023).

3.5.1.1. Singapore’s Overseas Network & Expertise Pass

Singapore has introduced the *Overseas Network & Expertise Pass,* which allows high-income earners and accomplished individuals to reside in the country without first obtaining employment. Applications for this pass will begin on January 1, 2023, and will be available to top talents across all sectors. Applicants for the *Overseas Networks & Expertise Pass* must earn at least SUSD 30,000 (USUSD 21,300) per month. However, individuals who have made exceptional contributions in fields such as research and academia, science and technology, sports, and arts and culture may also qualify even if they do not meet the required salary threshold (Medina, 2023; Ministry of Manpower Singapore, 2023).

3.5.2. Opportunities for EU Citizens within the European Union

EU citizens have the unique advantage of being able to live and work in any EU member state without the need for a specific visa, thanks to the principle of freedom of movement within the EU. This presents a wealth of opportunities for digital nomads who are EU citizens, as they can easily relocate to another EU country to take advantage of various tax benefits and lifestyle benefits without having to apply for a specific digital nomad visa.

The tax benefits for EU digital nomads, however, will vary depending on the destination country. Some countries offer favourable tax regimes for non-residents or new residents, which will be explored further in Section 4.1.2.1.

However, it is necessary for digital nomads to consider the potential tax implications of their home country as well. Depending on the tax laws and bilateral agreements in place, EU digital nomads may still be subject to tax obligations in their country of origin.

3.5.3. Long-Term Permanent Residency Programmes

In addition to digital nomad visas, some countries offer long-term permanent residency programmes that may be attractive to digital nomads. Examples of these programmes include Thailand's Elite Visa, Mexico's long-term work visa options for Americans, Spain's non-lucrative visa for non-EU citizens, and Indonesia's Second Home Programme.

3.5.3.1. Thailand

The Thai *Elite Visa* programme grants a long-term stay in Thailand for periods ranging from five to twenty years. The benefits of this programme include expedited immigration clearance, private airport transfers, and access and discounts to exclusive clubs, spas, golf clubs, among others. The cost of the programme varies depending on the selected membership option, with prices starting at approximately 15,000 USD (Thailand Elite, 2023). Cryptocurrencies are also accepted for this payment.

3.5.3.2. Indonesia

Indonesia's *Second Home Programme* programme allows foreigners with a minimum of 129,000 USD in savings to obtain a 10-year visa. The visa does not grant the right to work but can be an attractive option for digital nomads who generate income solely from foreign sources (Medina, 2023).

3.5.3.1. United Arab Emirates

Dubai has been attracting digital nomads with its unique permanent residency programme, the *Golden Visa*. This programme grants eligible individuals and their families' long-term residency, allowing them to live and work in the UAE for a period of 5 or 10 years, with the possibility of renewal. The *Golden Visa* programme is available to further categories of individuals, but the requirement generally include a minimum investment threshold or a demonstrated expertise in a relevant field. The programme is open to citizens of all countries, provided they meet the eligibility criteria (Government of the United Arab Emirates, 2023b).

3.5.3.2. Mexico

Digital nomads can access long-term work visas in Mexico, such as the *Temporary Resident Visa*, which allows them to live and work in the country for up to four years. Applicants must demonstrate sufficient financial resources to be eligible. The visa is valid for one year and can be renewed for up to four years (Consulate General of Mexico New Orleans, n.d.).

3.5.3.3. Spain

Beside the digital nomad visa, Spain also offers a non-lucrative visa for non-EU citizens with a minimum annual income of 21,000 EUR, granting a four-year residency permit, but without having to work there (Spanish Ministry of Foreign Affairs, n.d.).

3.6. Countries Visited per Annum

The number of countries digital nomads visit per year varies depending on their preferences, work requirements, and personal circumstances. According to one survey, the number of countries visited by digital nomads per year is as follows:

- 1 to 2 countries: 45%

- 3 to 5 countries: 30%
- 6 to 10 countries: 15%
- 11 or more countries: 10% (Abrotherabroad.com, 2020)

3.7. Duration of Stay per Country

The length of time digital nomads spend in one country varies widely, depending on personal preferences, work requirements, and visa regulations. According to the same survey as in Section 3.6, the duration of stay in one country for digital nomads is as follows:

- Less than 1 month: 20%
- 1 to 3 months: 40%
- 3 to 6 months: 25%
- Over 6 months: 15% (Abrotherabroad.com, 2020)

3.7.1. Tax Relevance of the Duration of Stay

The length of stay in a country is a crucial factor to consider for digital nomads when planning their international tax strategy, as it may trigger tax residency rules. Most countries consider individuals who spend over 182 days in their territory to be tax residents, potentially making them liable for income tax on their worldwide income. If a digital nomad is tax domiciled in one country but spends more than 182 days in another, they may face double taxation or complex tax compliance requirements.

4. Tax Strategies for Digital Nomads

4.1. Tax Domicile as a Tax Strategy

Arguably, the most straightforward strategy for digital nomads to mitigate tax liabilities is by leveraging their geographical independence to select a favourable tax domicile. Choosing a tax domicile does not merely imply relocating to a country with attractive tax rates or regulations; it involves a careful consideration of multiple factors.

These factors range from exit tax implications - a tax that might be levied by the country they are leaving, the tax regulations of the country they are moving to, to other considerations such as quality of life, cost of living, visa requirements, and provisions of medical insurance. It is crucial for digital nomads to analyse each factor comprehensively to make an informed and strategic decision about their tax domicile.

This chapter further explores the residency versus tax domicile challenge, focusing on the principles of being a non-tax resident and the implications of staying in a single location for over 182 days. Additionally, it provides an overview of attractive tax domicile programmes that digital nomads can consider.

By exploring tax domicile as a strategic tool, digital nomads can gain a robust understanding of the international tax landscape, thereby facilitating the optimisation of their tax strategies.

4.1.1. Digital Nomads Traveling Several Countries a Year (Staying in One Country for Less than 182 Days)

4.1.1.1. Basic Principles of Being a Non-Tax Resident Anywhere

Most countries allow individuals to be non-residents for tax purposes if they meet certain criteria. These criteria typically include not being physically present in the country for a specified period, cutting ties with the country, and not falling into tax residency of another country (de Mooij et al., 2021). To cut ties, individuals must give up their regular home in their home country, either by renting out their property on a long-term basis (6-12 months) or by giving up the lease on their rented property. In some countries, having belongings in storage may qualify as a connection to the country. To avoid tax residency in other countries, digital nomads should avoid residency permits, long-term homes, and spending more than 182 days in any given country.

There are specific requirements for being a non-tax resident anywhere. This process can vary significantly in complexity depending on the nationality of the person involved. The following section will discuss what the digital nomads (based on most common nationalities) will have to consider.

4.1.1.2. U.S. Citizens

U.S. citizens have an advantage in becoming non-tax residents. If they meet the physical presence test by spending 330 days out of a 365-day period in a foreign country or countries, they can take the *Foreign Earned Income Exclusion* (FEIE). Under this exclusion, the U.S. does not require proof of a new tax residence as long as the individual spends enough time outside the United States to demonstrate it is no longer their primary residence. While this may not result in a zero-tax situation, it allows for living nomadically and qualifying for the exclusion. Another benefit is that U.S. citizens can claim the exclusion while still reporting the United States as their tax residence. This can be beneficial when setting up foreign bank accounts, as banks require information on where a client pays taxes (IRS, n.d.-b).

4.1.1.3. Other Strict High Tax Countries' Citizens (e.g., U.K., Australia, Germany, Austria)

Citizens of these countries are typically required to establish a new domicile for tax purposes. If they fail to do so, the closest ties principle may be triggered, potentially leading to tax liabilities in their home countries. To avoid this, digital nomads from these countries have to establish a clear tax residence elsewhere while maintaining their non-resident status in their home country.

4.1.1.4. U.K. Citizens

In the U.K., tax residency is determined using the *Statutory Residence Test* (SRT), which assesses an individual's ties to the country based on factors such as time spent in the U.K., employment, and family connections. If an individual is not considered a U.K. tax resident, they may still be subject to the closest ties principle, which considers factors such as available accommodation, family, and employment (GOV.UK, 2023).

4.1.1.5. Australia

Australian tax residency is determined by factors such as the individual's domicile, physical presence in Australia, and the 183-day test. The Australian Taxation

Office also considers an individual's ties to the country, including their family, employment, and financial interests (Australian Taxation Office, 2023).

4.1.1.6. Germany & Austria

In Germany and Austria, an individual's tax residence is determined by their domicile or habitual abode. German and Austrian citizens who are not tax residents in their countries may still be subject to limited tax liability on specific sources of income, if they have close ties to the country (PwC, 2023a, 2023h). To avoid triggering tax liabilities in Germany or Austria, digital nomads have to establish a clear tax residence elsewhere and ensure they are not considered as having a habitual abode in Germany or Austria.

4.1.2. Digital Nomads Staying in One Destination for Longer than 182 Days

Digital nomads who remain in a country long term will most likely fall into tax residency in that country. Nonetheless, many of the popular destinations for digital nomads have a beneficial tax residency programme for most digital nomads. The choice will depend on the digital nomad's citizenship, as well as the level, source and type of income. The tax rate for the type of income is relevant, because it may make more sense to, for instance, choose a domicile that has high tax on salaries, but low capital gains tax, if that is the main source of income. These sorts of laws can be used strategically to structure their income from their companies to be paid out in the type of income that has the lower tax rate.

However, in general, most digital nomads will benefit from choosing tax domiciles that have generally preferential tax rates or tax exemptions relevant for digital nomads and their specific incomes. Some of the preferred tax domicile programmes that coincide with comparatively easy long-term residence visa programmes are discussed in the following section.

4.1.2.1. Attractive Tax Domicile Programmes

4.1.2.1.1. Thailand

One attractive option for digital nomads seeking a tax domicile is the *Thailand Elite Visa* programme outlined in Section 3.5.3.1. Under this programme, non-resident individuals can potentially achieve 0% income tax. This tax advantage is particularly beneficial for those who do not wish to operate a company in Thailand, such as hiring employees or renting office space, as domestic-sourced income is taxed in Thailand (Thailand Elite, 2023). Other positive aspects of Thailand's tax system include the absence of controlled foreign company (CFC) rules.

As mentioned, tax structuring properly in accordance with foreign countries' tax rules could potentially reduce tax liabilities to 0%, particularly if investments that would normally be taxable in Thailand are placed in a foreign company. The quasi-territorial tax system on individuals allows for deferral of capital gains and dividend income earned abroad, rendering it non-taxable if it is kept outside of Thailand during the same year that it was earned (EY, 2022). To maintain this tax advantage, digital nomads have to maintain separate Thai and foreign bank accounts, regularly transferring dividends to the Thai account only after a year has passed, and ensuring a clear separation between the accounts. Additionally, it is prudent not to have a credit card connected to a foreign bank account used in Thailand, as this could be considered a remittance, triggering tax liabilities when purchasing items with the card in Thailand. Overall, Thailand offers a beneficial tax environment for digital nomads, particularly when income management strategies are employed to minimise domestic tax obligations.

4.1.2.1.2. United Kingdom

The United Kingdom offers an attractive tax domicile programme for digital nomads through the U.K. *Non-Domicile* (Non-Dom) programme. This programme is designed for U.K. residents with a foreign citizenship, who do not intend to live in the U.K. permanently and are not considered domiciled in the country (GOV.UK, n.d.). Non-Dom status has significant tax implications, as individuals can elect to be taxed on the 'remittance basis,' allowing them to only pay U.K. tax on U.K. income and gains and on foreign income and gains that are remitted or brought into the U.K.

The remittance basis can be advantageous for those with overseas income, such as expats working in the U.K. temporarily or long-term Non-Doms with significant overseas earnings. However, claiming the remittance basis also comes with certain drawbacks, such as the loss of personal allowance for income tax and the annual exempted amount for capital gains tax. Additionally, U.K. Non-Doms who have been resident in the U.K. for at least seven out of the previous nine tax years must pay a GBP 30,000 annual charge (the remittance basis charge), which increases to GBP 60,000 after 12 years of residence. Remittance basis also means that any spending in the U.K., regardless of whether it is via a foreign bank account or credit card, or high value properties, such as cars, that are brought into the country will count as remitted income and hence, liable to taxation (GOV.UK, n.d.).

However, the benefits seem to outweigh the drawbacks, particularly for high-net-worth individuals, as depicted in a by study conducted by the *London School of Economics* and the *University of Warwick*, which found that more than two-fifths of people who earned GBP 5 million or more in 2018 had claimed Non-Dom status at some point since 1997 (Batty, 2022).

The U.K. distinguishes between residence and domicile, allowing a person to have multiple residences but only one domicile. This distinction can be beneficial for digital nomads, as there is no exit tax in the U.K., allowing individuals to leave the U.K. domicile and access their overseas funds, known as clean capital, and switch domiciles before the aforementioned annual charge is triggered (GOV.UK, n.d.).

4.1.2.1.1. Portugal

Portugal's *Non-Habitual Resident* (NHR) tax regime provides favourable tax treatment for digital nomads, attracting those who qualify as tax residents but have not been taxed in Portugal during the previous five years. Eligible income, including foreign-sourced income like royalties, capital gains, and pensions, may be exempt from taxation in Portugal. Additionally, income from certain qualifying professions may benefit from a reduced 20% tax rate under this regime (PwC, 2022).

4.1.2.1.2. New Zealand

New Zealand provides a temporary tax exemption on foreign income for new migrants and returning New Zealanders. Under this programme, eligible individuals can be exempt from New Zealand tax on their foreign-sourced income for a period of up to 48 months from the date of their arrival in the country. To qualify, applicants must have been non-residents for tax purposes for a continuous period of at least ten years prior to their arrival in New Zealand (Inland Revenue Department, 2023b). Conveniently, non-nationals may apply for citizenship in the 5th year of residency. New Zealand also has double tax agreements with numerous countries, which can help minimise the tax burden for digital nomads (Inland Revenue Department, 2023a).

4.1.2.1.3. Cyprus

Cyprus offers an attractive tax regime for digital nomads through its Non-Dom status. Non-Dom individuals are exempt from the *Special Defense Contribution* (SDC), which is a tax on dividend, interest, and rental income. To qualify for Non-Dom status, individuals must not have been tax residents in Cyprus for at least 17 of the 20 years preceding the year of assessment. Additionally, Cyprus has a low personal income tax rate, with a progressive scale capping at 35% for high earners, and a wide network of double tax treaties with other countries, helping to reduce the tax burden for digital nomads (PwC, 2023f).

4.1.2.1.4. Mexico

Mexico offers a beneficial tax environment for digital nomads through its *Temporary Resident Visa* programme (Dentons, 2023a). Under this programme, foreigners are not required to pay Mexican income taxes on foreign-sourced income (Consulate General of Mexico New Orleans, n.d.).

4.1.2.1.5. Spain

Spain's *Beckham Law*, famously nicknamed after the footballer David Beckham, provides a unique tax structure for foreign professionals, such as digital nomads. This law permits eligible individuals to pay a flat income tax rate of 24.75% on their Spanish-source income, while excluding their non-Spanish-sourced income for the first six years of tax residency. As of 2023, the eligibility criteria were expanded to include a broader set of individuals, including digital nomads (Baker-McKenzie, 2023). As mentioned in the Section 3.5.1.1, Spain also introduced a digital nomad visa in January 2023. With this visa, digital nomads receive a flat 15% income tax rate on non-Spanish sourced income (Spanish Ministry of Foreign Affairs, n.d.).

4.1.2.1.6. Dubai, United Arab Emirates

The UAE offers a variety of residency options, including remote work visas for digital nomads under the *Golden Visa*, discussed in Section 3.5.3.1 (Government of the United Arab Emirates, 2023b). Dubai, as part of the United Arab Emirates (UAE), has become an attractive destination for digital nomads due to its zero-income tax policy (PwC, 2023j). The UAE, however, has introduced a 9% corporate tax starting in June, 2023 (Government of the United Arab Emirates, 2023a).

4.1.2.1.7. Belize

Belize offers an attractive *Qualified Retired Persons* (QRP) programme that allows eligible individuals to live in the country tax-free on foreign-sourced income. To qualify, applicants must be at least 45 years old and have a minimum monthly income of USD 2,000 from outside Belize (Belize Tourism Board, 2023).

4.1.2.1.8. Panama

The *Panama Friendly Nations Visa* provides a pathway to permanent residency for citizens of specific countries, including digital nomads. Requirements include having a job or owning a corporation in Panama. Panama's territorial tax system, which doesn't tax foreign-sourced income, makes this an interesting option for digital nomads (Kraemer & Kraemer, 2023; PwC, 2023i).

4.1.2.1.9. Bulgaria

Bulgaria offers a flat 10% personal income tax rate, one of the lowest in the European Union (PWC, 2023a).

4.1.2.1.10. Georgia

Georgia recently introduced a *Remotely from Georgia* programme, targeting digital nomads and freelancers who want to live and work in the country for up to one year. Georgia offers a low-tax environment with a flat 20% income tax rate, and certain types of foreign-sourced income may be tax-exempt (PwC, 2023g).

4.1.2.1.11. Hong Kong

Hong Kong was once among the most popular destinations for incorporating businesses due to its low and simple tax system. It has a territorial tax system, meaning that only income derived from or arising in Hong Kong is subject to taxation. As such, income earned by digital nomads through companies abroad are not subject to taxation, even if remitted to Hong Kong (HK Inland Revenue Department, 2011).

Although Hong Kong offers a territorial tax system, the jurisdiction has become less attractive for incorporation due to increasing bureaucracy and an "operations test" that generally assumes a company is Hong Kong-operated unless demonstrated otherwise. Additionally, incorporating in Hong Kong comes with several hassles, such as the requirement for a company secretary in Hong Kong, annual audited financial statements, a virtual office, and nominal subjection to Hong Kong tax (Government of Hong Kong, n.d.).

4.1.2.1.12. Singapore

Singapore offers an attractive territorial tax system, where only income sourced in Singapore or received from abroad and remitted into the country is taxed (Dentons, 2023b). The country also has a low personal income tax rate, with a progressive scale capping at 22% for high earners (Inland Revenue Authority of Singapore, 2023). As outlined in Section 3.5.1.1, Singapore's *Overseas Networks & Expertise Pass* makes it an attractive destination for digital nomads.

4.1.2.1.13. Costa Rica

Costa Rica's *Rentista Visa* programme is designed for foreigners who can prove a stable monthly income from abroad. This visa allows digital nomads to reside in the country without being subject to Costa Rican income tax on their foreign-sourced income (Outlier Legal Services, 2020).

4.1.2.1.14. Greece

As outlined in Section 3.5.1.2, Greece introduced a digital nomad visa in 2021. Tax benefits under this programme include a 50% income tax reduction for seven years for eligible digital nomads (Hellenic Republic Ministry of Finance, n.d.).

4.1.2.1.15. Italy

Italy offers a favourable tax regime for new residents, providing a 70% to 90% exemption on foreign-sourced income for a period of up to five years. This exemption can be extended if certain conditions are met. Italy's tax incentive is designed to attract high-net-worth individuals, professionals, and digital nomads who have not been Italian tax residents for at least nine of the previous ten years (Agenzia delle Entrate, n.d.). This is exemplified by a flat tax option for new residents of a fixed annual tax payment of EUR 100,000 on foreign-sourced income (Ministry of Enterprises and Made in Italy, 2017).

4.1.2.1.16. Puerto Rico

Puerto Rico, a U.S. territory, introduced tax incentives through *Acts 20* and *Acts 22*, targeting investors, entrepreneurs, and digital nomads. These incentives include a 4% corporate tax rate, 100% tax exemption on dividends and interest, and 100% exemption on capital gains for new residents who have not been residents of Puerto Rico for at least ten years prior to relocation (DLA Piper, 2016).

4.1.2.2. Other Considerations

4.1.2.2.1. Exit Tax

Exit tax refers to a tax imposed by certain countries on individuals who relinquish their tax residency, essentially taxing unrealised capital gains upon departure. As such, it is imperative upon considering a domicile move, to examine whether the new country of domicile has an exit tax and whether the previous country of domicile has an exit tax that may need to be structured around (Dai, 2018).

For example, Germany has an exit tax stipulated in §6 of the *German Foreign Transaction Tax* Act. According to this regulation, exit taxation applies to taxpayers living in Germany who have held an interest of at least 1% in a domestic or foreign corporation for the last five years, give up their domicile or habitual residence in Germany, and have been subject to unlimited tax liability in Germany for at least seven years within the last twelve years before departure (Winheller, 2023).

The exit tax in Germany is calculated in three steps: first, the fair market value of the company shares at the time of departure is determined. Next, the acquisition costs of the capital shares are deducted from this value. Finally, the resulting notional capital gain is subject to personal income tax at a rate of up to 45%, plus a solidarity surcharge. However, due to the partial income procedure, 40% of the capital gain remains tax-free, resulting in a maximum tax burden of 27%, plus a solidarity surcharge and, if applicable, church tax (Winheller, 2023).

Exit tax rules are key for digital nomads when choosing a tax domicile, as it enables them to plan their movements and financial decisions strategically. By evaluating the potential tax implications upon changing tax residency, digital nomads can minimise their tax liabilities and make informed decisions on when to move tax domicile before the exit tax is triggered.

4.1.2.2.2. Medical Insurance

One factor that influences the choice of domicile for digital nomads is the need for health insurance coverage. Some digital nomads opt to maintain social and private medical insurance in their home countries, which also covers their medical costs abroad.

Although it might be a practical solution for certain cases, depending on the duration of their stay abroad and their income level, this option can be expensive and requires them to remain tax domiciled in their home country while living abroad.

Alternatively, many international private health insurance options tailored for digital nomads are emerging and offer a wide range of cost-effective options (International Citizens Insurance, 2023).

The proliferation of telemedicine services during the Covid-19 pandemic has also made it easier for digital nomads to access doctors worldwide when relocating to popular destinations with generally lower quality of medical training. For example, *teledoc.com* (doctors in the U.S.), *betterhelp.com* (psychotherapy), virtual physiotherapists from the countries with top physiotherapy programmes, such as the U.S., U.K., or Netherlands are also widely available online, and hospitals such as Bangkok's *Bumrungrad International Hospital* offers 24-hour telemedicine services online at a fraction of U.S. doctors' prices.

In general, health specialists worldwide, regardless of whether they are affiliated with telemedicine platforms, are increasingly willing to offer virtual consultations upon request. These services are particularly useful when combined with the fact that most prescriptions drugs are readily available over-the-counter in countries popular to digital nomads, such as in Southeast Asia.

Moreover, it is worth noting that many countries in the region, including Thailand, Malaysia, and Mexico, are renowned for their exceptional medical professionals and have established themselves as leading medical tourism destinations. Such accessible digital healthcare services and easily attainable medicine help address the concerns of digital nomads who may be apprehensive about potential disparities in the quality of healthcare compared to their home countries.

Digital nomads, who rely solely on pay-on-demand healthcare services in low-cost countries face the risks of costs related to accidents or unforeseen illnesses, thereby making it essential to secure some form of comprehensive health coverage.

4.2. Corporate Structure as a Tax Strategy

Incorporation stands as a flexible and potent tool in the arsenal of tax strategies for digital nomads. The choice of jurisdiction for incorporation holds the potential for considerable tax benefits. There are numerous factors influencing their choice; including the tax regulations of the jurisdiction, ease of incorporation, cost considerations, and potential tax advantages associated with different types of corporate structures.

Popular jurisdictions and corporate structures among digital nomads will be discussed, shedding light on the reasons for their prevalence. The cost of complex tax structures, their suitability for digital nomads, and the potential benefits they offer will also be examined.

Moreover, the chapter will further delve into the applicability of some of the MNE tax optimisation strategies discussed in Chapter 2 to digital nomads. While traditionally associated with large corporations, some of these strategies may hold potential benefits to digital nomads' businesses.

4.2.1. Things to Consider when Incorporating

4.2.1.1. Banking and Credit

The availability of banking and credit facilities in the selected jurisdiction for incorporation is a critical factor for digital nomads wanting to start their own businesses and optimise taxes for their existing businesses. The modernisation of banking systems and the rise of online banking platforms have significantly improved the efficiency of financial management for businesses, addressing concerns related to value-added tax (VAT) and currency fluctuations.

For example, specialised accounting services such as those provided by Estonian company *Xolo* cater to Estonian e-resident digital nomads who sell digital products but exclude some particularly popular online business cases, such as drop-shipping and Amazon FBA businesses (Xolo, 2022). There is very limited data available on securing loans for digital nomads, and understanding the financial landscape of the chosen jurisdiction can help minimise risks. While local banking might be essential for particular business cases, most digital nomads are able to utilise bank accounts abroad to conduct much of their business, and are almost never entirely dependent on local financial services.

Offshore tax havens may pose challenges for digital nomad entrepreneurs regarding the repatriation of funds and securing loans in high tax jurisdictions. Additionally, know-your-customer (KYC) regulations can result in delays or denial when attempting to transfer funds to high tax countries. Consequently, the selection of a bank that deals with the business' operating currencies is a critical consideration for international businesses.

Popular options include U.S. and U.K. banks, digital banks like *Revolut* and *Wise*, or banks in EU countries such as Bulgaria, which host well-established Western European banks' subsidiaries like *Société Générale* and *Raiffeisen Bank* offering improved flexibility for non-residents.

For entrepreneurs based outside of the U.S., banking within the U.S. does not necessarily affect their business' tax obligations. As long as the entrepreneurs and their employees operate entirely outside the U.S., they are generally not subject to U.S. tax on income derived from their business. Furthermore, non-U.S. individuals are typically exempt from U.S. tax on interest income earned from U.S. bank deposits, making U.S. banks an attractive option for international entrepreneurs (IRS, 2023a, 2023b).

U.S. citizens operating a business through a non-U.S. corporation also have to consider the tax implications of their activities in the U.S. and the potential benefits of the *Foreign Earned Income Exclusion* (IRS, n.d.-a).

Choosing a jurisdiction for incorporation requires careful evaluation of banking systems and credit availability, especially for digital nomads, as navigating unfamiliar financial and regulatory environments successfully can help avoid unforeseen complications later on.

4.2.1.2. Ease of Setting Up, Doing Business, & Easy Access to Talent

The ease of setting up and doing business and if required, the access to a skilled talent pool, are crucial determinants for digital nomads when selecting a jurisdiction for incorporation. The World Bank Group's annual *Doing Business* report compares country profiles and highlights the importance of streamlined processes for company registration, favourable tax regimes, and efficient legal systems to reduce bureaucratic obstacles and maximise operational efficiency (World Bank, 2020).

As remote work is becoming increasingly normalised, the availability of skilled talent within the jurisdiction of incorporation is becoming less of a consideration for entrepreneurs seeking to establish a permanent establishment (PE) in a particular country. Nevertheless, establishing a PE often requires maintaining a physical presence, including hiring employees within the jurisdiction. In this context, for digital nomads aiming to scale their businesses it is advantageous to select jurisdictions that align with their business-specific needs of a skilled workforce.

Jurisdictions providing favourable conditions for establishing and conducting business typically attract a skilled workforce. For instance, countries like Estonia, Singapore, and Ireland have become popular incorporation destinations among digital nomads due to their supportive regulatory environments and access to skilled talent (Enterprise Ireland, n.d.; Republic of Estonia: e-Residency, 2023; Singapore EDB, n.d.). Estonia, in particular, has made strides in implementing e-residency programmes, which facilitate the establishment of online businesses, while simultaneously offering access to a tech-savvy and multilingual workforce (Republic of Estonia: e-Residency, 2023).

Singapore, known for its robust infrastructure and pro-business environment, has established itself as an attractive jurisdiction for digital nomads, particularly in the technology sector. The country’s skilled workforce and strong emphasis on education further contribute to its appeal for entrepreneurs seeking to incorporate in a jurisdiction with an abundant talent pool (Singapore EDB, n.d.).

Similarly, Ireland, with its low corporate tax rates and a strong emphasis on research and development, has attracted multinational corporations and digital nomads alike (Enterprise Ireland, n.d.). The country's skilled and educated workforce adds to its desirability as an incorporation jurisdiction for digital nomad entrepreneurs.

4.2.1.3. Cost of Incorporation

The cost of incorporating and maintaining a company impacts digital nomads when choosing where to incorporate. The expenses associated with setting up a company and the annual maintenance fees generally vary significantly across different jurisdictions.

In the U.S., for example, the costs of establishing and maintaining an LLC in Delaware and Wyoming are relatively low. The initial incorporation fees in Delaware range from USD 90, with an annual franchise tax fee of USD 300 (Delaware Division of Corporations, n.d.). In Wyoming, the costs of incorporating an LLC is USD 100, with an annual reporting fee of USD 50 (Wyoming Secretary of State Business Division, 2021). In most cases, digital nomads incorporating in the U.S. will have to hire a registered agent service, which cost around USD 100-300 annually.

In the United Kingdom, the incorporation fees for both a limited liability partnership (LLP) and limited company (LTD) are GBP 10 for standard online filing, GBP 12 for web incorporation, or GBP 30 for same-day service. (Companies House, 2023).

In Singapore, the incorporation fee for a private limited company is SGD 315 (approx. EUR 217), with annual fees typically ranging from SGD 1,000 to SGD 2,000 (approx. EUR 690 to EUR 1380) (DLA Piper, 2023).

Among offshore jurisdictions, Belize offers one of the lowest incorporation fees, starting at approximately USD 600, with annual fees around USD 300 (One IBC, 2023).

In Estonia, incorporating a private limited company (OÜ) costs EUR 145 to EUR 190, while annual agency fees range from EUR 500 to EUR 1,500 (Republic of Estonia: e-Residency, n.d.).

In Bulgaria, incorporating a limited liability company (OOD) requires a minimum capital of BGN 2 (approximately EUR 1) and costs approximately EUR 100, with annual maintenance fees ranging from EUR 500 to EUR 1,500 (Company Formation Bulgaria, 2023).

While initial incorporation costs are relatively low, various maintenance costs associated with agency service fees and other reporting fees can impact the financial viability of a digital nomad's incorporation choice.

Of course, the costs will increase if a director needs to be hired in the country or if the documentation is complicated and requires legal assistance. The costs will also increase, if the digital nomad will have to travel to the jurisdiction regularly, and the double tax treaty rules require the permanent establishment to have an office space and/or employees in the jurisdiction.

In some cases, tax implications may carry a heavier weight in the selection of a jurisdiction, but for smaller businesses and lower income digital nomads, incorporation and maintenance fees can significantly impact business viability.

4.3. Corporate Forms and Jurisdictions Specifically Useful for Digital Nomads

4.3.1. US LLC

This section of the paper discusses the suitability of United States Limited Liability Companies (U.S. LLCs) as optimal corporate structures for digital nomads. Despite the different treatment of several categories of digital nomads, including U.S. entrepreneurs, U.S. professionals, and non-U.S., non-resident entrepreneurs living abroad, U.S. LLCs offer several overarching benefits that make them an attractive option for these individuals.

4.3.1.1. Advantages and Disadvantages of U.S. LLCs for Digital Nomads

4.3.1.1.1. Currency and Banking Benefits

Irrespective of their nationality or residency, digital nomads can benefit from establishing a U.S. LLC, which would enable them to access the U.S.'s vast financial infrastructure, which can be particularly advantageous for digital nomads whose clients primarily transact in U.S. dollars.

4.3.1.1.2. Cost Benefits and Ease of Incorporation

Incorporating an LLC in the U.S. is mostly affordable and a relatively straightforward process, even for digital nomads. States like Delaware, Wyoming, and Nevada provide uncomplicated and cost-effective processes for LLC formation. Moreover, as shown in Section 4.2.1.3, the maintenance of an LLC in the U.S. typically involves minimal annual filing requirements and fees, further enhancing their appeal for digital nomads seeking low-maintenance corporate structures.

4.3.1.1.3. Drawbacks

Despite the advantages of U.S. LLCs, there are potential disadvantages to consider. For example, privacy concerns and the complexity of the U.S. tax system may be a significant deterrent for incorporation, especially for non-U.S. citizens.

4.3.1.2. U.S. LLCs for U.S. Entrepreneurs Living Abroad

U.S. entrepreneurs living abroad may consider using U.S. holding companies for non-U.S. businesses. This structure could potentially offer some tax benefits, particularly for long-term investments. For instance, a U.S. holding corporation can file a consolidated tax return in the U.S., potentially offsetting profits with losses from different entities (Barbosa Legal, 2020). As such, a U.S. citizen operating an Amazon FBA business as a self-employed individual would ordinarily be liable for self-employment tax. However, operating the business through a non-U.S. corporation legally circumvents this tax (US Tax Help, 2023). This structure also sidesteps other tax-related issues exclusive to self-employed individuals, such as the *30% rule* and the *scaleback rule*. The *30% rule* refers to a provision under U.S. tax law that imposes a 30% tax on the U.S.-source income of non-residents who aren't engaged in a trade or business in the U.S. (Deloitte, 2021c). The *scaleback rule*, on the other hand, relates to the reduction of certain deductions or losses where foreign income is also being declared. These rules can limit the tax effectiveness for businesses operating in their own name or through a flowthrough entity, and can be avoided by operating through a non-U.S. corporation (Deloitte, 2021c).

4.3.1.3. U.S. LLCs for U.S. Professionals Living Abroad

U.S. professionals living abroad, including independent contractors, consultants, and freelancers, can also significantly benefit from establishing U.S. LLCs. One of the primary tax benefits for this category of digital nomads is the Foreign Earned Income Exclusion (FEIE), which allows qualifying individuals to exclude a significant portion of foreign-earned income from their U.S. federal income tax (IRS, n.d.-a). However, the complexities of navigating the U.S. tax system, particularly the self-employment tax rules and the FEIE, present potential deterrents to incorporation if they are “engaged in trade or business” (ETBUS) within the U.S. (Patton, n.d.-c). A business is typically considered ETBUS if it has a dependent agent in the U.S. who performs substantial activities on behalf of the business, and this agent must not be an independent agent running their own separate business. Therefore, non-U.S. entrepreneurs selling products or services into the U.S. without a dependent agent are generally not subject to U.S. tax on their income (Patton, n.d.-a).

4.3.1.4. U.S. LLCs for Non-US Entrepreneurs

Non-U.S. entrepreneurs operating through a U.S. LLC can have several tax advantages. For instance, for single-member LLCs, the LLC is disregarded as a separate entity for U.S. tax purposes, essentially making it a “tax nothing”. This means that the U.S. does not tax the LLC’s income unless it is derived from a U.S. source or effectively connected with a U.S. trade or business (IRS, 2020). The U.S. LLC’s versatility and benefits also extend to its suitability for online businesses, such as those operating on platforms like Amazon. For example, Amazon's operational structures often favour businesses set up as U.S. LLCs, as they help with sales tax collection and remittance, making it easier for non-U.S. entrepreneurs to sell their products or services to the U.S. market (Patton, n.d.-b).

However, non-U.S. entrepreneurs can also face challenges when incorporating a U.S. LLC. They may be subject to withholding tax on their share of the LLC's income, with the tax rates dependent on their tax residency and any applicable tax treaties. The income is categorised into effectively connected income and fixed, determinable, annual, or periodical (FDAP) U.S. source income, each subject to different tax rates and deduction rules (IRS, 2023c).

While the annual maintenance fees for an LLC in states like Delaware and Wyoming are relatively low, they do represent an ongoing cost for the company (Delaware Division of Corporations, n.d.; Wyoming Secretary of State Business Division, 2021). Therefore, the cost-effectiveness of a U.S. LLC for a non-U.S. entrepreneur will depend on their specific business circumstances and financial situation.

Due to the complexity of the U.S. tax system and potential for withholding tax, a U.S.-based LLC might not be the most suitable option for digital nomads operating primarily in other currencies or regions. In these cases, it could be more beneficial to establish a company in a jurisdiction that aligns better with their operational needs, currency preferences, and more a more favourable tax environment.

4.3.2. U.K. LLP and LTD

The United Kingdom remains an attractive option for digital nomads due to its straightforward incorporation process, relatively low costs (Companies House, 2023) and easy access to capital. For foreign tax residents, the U.K. does not impose a withholding tax on dividends (DLA Piper, 2022). However, the U.K. does impose income tax on salaries paid to non-resident employees, with rates ranging from 20% to 45% depending on the income level (HM Revenue & Customs, 2023).

Digital nomads, who are not tax residents in the U.K., can benefit from incorporating a U.K. Limited Liability Partnership (LLP) or Limited Company (LTD) to optimise their tax situation. Both structures offer specific advantages in terms of tax planning and legal protection. This section will discuss the benefits of each structure and how digital nomads can utilise them to reduce corporate tax and enhance their overall tax strategy.

4.3.2.1. U.K. LLP

A U.K. LLP is a separate legal entity, with partners benefiting from limited liability protection. This structure can be particularly advantageous for digital nomads who are not U.K. tax residents. One of the main benefits is that the LLP itself is not subject to corporation tax in the U.K. (Limited Liability Partnerships Act, 2000). Instead, the profits are allocated to the partners, who are then responsible for paying tax in their respective countries of tax residency. Consequently, if a digital nomad is tax resident in a low-tax or no-tax jurisdiction, they could potentially enjoy a lower tax burden on their income derived from the LLP (Limited Liability Partnerships Act, 2000).

4.3.2.2. U.K. LTD

A U.K. LTD is considered a separate legal entity, giving its shareholders the advantage of limited liability protection. Unlike an LLP, a U.K. LTD is subject to corporation tax on its profits. However, digital nomads can benefit from certain tax planning strategies to minimise their corporate tax liabilities. For instance, a U.K. LTD can make use of the *Substantial Shareholding Exemption* (SSE), which exempts the company from paying tax on dividend income received from foreign subsidiaries, provided specific conditions are met (Corporation Tax Act, 2010). This can be advantageous for digital nomads with international operations.

Furthermore, the U.K. has a broad network of double taxation treaties (DTTs) with numerous countries (HM Revenue and Customs, 2014). These agreements can help digital nomads avoid double taxation on income earned in other jurisdictions by providing relief through tax credits, reduced withholding tax rates, or exemptions for specific types of income. By incorporating a U.K. LTD and structuring their operations to align with DTT provisions, digital nomads can minimise their tax liabilities in both the U.K. and their countries of tax residency.

Another advantage of incorporating a U.K. LTD is access to the U.K.'s territorial tax system. This system generally exempts foreign branch profits and foreign dividends from U.K. corporation tax, subject to certain anti-avoidance rules (Corporation Tax Act, 2010). This territorial approach allows digital nomads to repatriate profits earned abroad without incurring additional U.K. tax liabilities, potentially reducing their overall tax burden.

In summary, both U.K. LLPs and LTDs provide distinct advantages for digital nomads aiming to optimise their tax strategies. An LLP may be more suitable for those with partners residing in jurisdictions with low or no taxes since the LLP itself is not subjected to U.K. corporation tax. On the other hand, a U.K. LTD presents opportunities for tax planning through the use of DTTs, the SSE, and the territorial tax system. Ultimately, whether to choose an LLP or an LTD for incorporation depends on the individual circumstances and tax residency of the digital nomad.

4.3.3. Estonian e-Residency Programme

Estonia's e-Residency programme allows digital nomads to incorporate and manage companies remotely (E-Residency, 2023). All earnings of an Estonian company are tax-exempt until the dividends are distributed, when a 20/80 corporate income tax (CIT) on the payment is triggered, which equals to 20% CIT on the gross distribution, i.e., 25% on the net distribution. With regular dividend payment, a lower CIT (14/86) may be applied. Salaries paid to non-resident employees for work performed abroad are generally not taxed in Estonia, but they may be subject to taxation in the individual's country of residence. Dividends paid to foreign tax residents may also be subject to a 20% withholding tax, which may be reduced or eliminated under applicable DTTs. Non-resident directors' fees are also taxed at 20% personal income tax (Estonian Tax and Customs Board, 2023).

4.3.4. Bulgaria

Bulgaria has a flat 10% corporate tax rate and a 5% dividend tax rate for residents. For foreign tax residents, there is a 10% withholding tax on dividends, which may be reduced or eliminated under DTTs. The country imposes a 10% income tax on salaries paid to non-resident employees. Moreover, the company tax domicile in Bulgaria is considered to the place of registration, not management control (PwC, 2023b).

4.3.5. Cyprus

Cyprus offers a low corporate tax rate of 12.5% and an extensive network of DTTs. There is no withholding tax on dividends paid to non-residents (PwC, 2023e). Cyprus also offers comprehensive tax exemptions on capital gains, including those from disposals of corporate 'titles', all forms of dividend income, and notably, distributions to non-resident shareholders, making it an appealing fiscal environment for international investors (PwC, 2023c, 2023d). Income tax rates for non-resident employees range from 20% to 35% depending on the income level (PricewaterhouseCoopers, 2023). While tax residents in Cyprus can avoid hiring a managing director for their companies, reducing operational costs, they are required to spend at least 60 days per year in the country (EY, 2023).

4.3.6. BVI, Belize, Seychelles, Cayman, Gibraltar

Offshore jurisdictions such as the British Virgin Islands (BVI), Belize, Seychelles, Cayman Islands, and Gibraltar typically have low or no corporate income tax and no withholding tax on dividends for non-residents (Haberly & Wójcik, 2017). However, these jurisdictions may impose income tax on salaries paid to non-resident employees, depending on the specific regulations in each jurisdiction. Moreover, banking may be an issue, especially when trying to repatriate money back to high income countries, as well as reputational risks of incorporating in a low tax country.

4.4. Cost of Tax Structures

Depending on specific requirements, the implementation of complex tax structures can a represent a significant financial burden for digital nomads. Although there may be exceptions, international tax planning is generally not considered worthwhile for individuals or small to medium-sized enterprises (SMEs). However, by physically relocating to low-tax jurisdictions, digital nomads can significantly reduce the overall cost of tax planning.

Acquiring residency permits and establishing companies in low-tax jurisdictions typically incurs costs ranging from USD 3,000 to USD 10,000. However, digital nomads can offset these expenses with lower living costs in their destination country. *Citizenship by Investment* (CBI) programmes may be particularly interesting for high income U.S. citizens, having to pay tax on their worldwide income, the cost for which ranges from EUR 100,000 to EUR 1 million (European Parliamentary Research Service, n.d.).

As highlighted in Section 4.2.1.3, the cost of merely setting up a company can be substantially reduced, if no assistance is needed and there are no additional requirements for a permanent establishment, such as setting up an office, and hiring employees. However, depending on the requirements, the entire process of company registration, setting up an office, address, bank account, corporate documentation, and registration for tax filings, can frequently hike up the cost to EUR 2,000 to EUR 15,000. In addition, more complex tax structures involving trusts, foundations, and international tax planning may incur costs ranging from EUR 20,000 to EUR 120,000.

Digital nomads' income levels vary considerably, with some earning substantial salaries. According to the 2023 *Nomad List* survey depicted in Section 3.4, 36% of surveyed digital nomads worldwide had an annual income between USD 100.000-250.000 (Nomad List, 2023). 10% of respondents claimed to be earning over USD 250.000, with 2% earning over USD 1m p.a. How many digital nomads earn over USD 500,000 is unclear, at which level complex structures likely begin to pay off, but the given survey does indicate that somewhere between 10%-46% of digital nomads would fall into this bracket. Conservative but reasonable estimates would imply that around 12-17% of digital nomads could benefit from complex international tax structures.

Nevertheless, given the costs and complexities associated with implementing tax structures, most digital nomads would indeed benefit from simply relocating to low-tax jurisdictions, as this approach is often the simplest and most cost-effective way to minimise their tax liabilities.

4.5. Applicable MNE Strategies

To some extent, tax strategies for digital nomads can be adapted from large multinational enterprises (MNEs). These strategies include transfer pricing, hybrid mismatches, loans, and exploiting differences between high and low tax jurisdictions. However, the high cost of implementing some of these strategies may not make them suitable for digital nomads with smaller incomes.

One such example is hybrid mismatches, discussed in Section 2.7. In order to apply hybrid mismatches effectively, digital nomads must meet the criteria for tax exemptions or reduced tax liabilities in the first jurisdiction (KPMG, 2021a).

In contrast, transfer pricing may not be suitable for digital nomads due to the high cost of transfer pricing studies and the need for advance planning (Kumar et al., 2021). Moreover, not all countries have transfer pricing regulations, and the *arm's length* principle can be difficult to prove (Pelekis, 2021). As such, tax advisors may not recommend transfer pricing for digital nomads unless it offers significant financial benefits.

CFC rules can also present challenges for digital nomads, as illustrated by the difficulties faced by German and Austrian solo-entrepreneurs with Estonian companies who must have employees and an office in Estonia to comply with CFC regulations (EY Global, 2023).

However, there are MNE tax strategies that can be adapted for digital nomads with smaller incomes, such as exploiting mismatches between jurisdictions. Additionally, digital nomads can benefit from double taxation treaties, like an Austrian resident with a Cyprus company (KPMG, 2021b). Finally, as mentioned in the previous section, relocating to a country with low taxes or special tax programmes for digital nomads can often be the most cost-effective way to reduce tax liabilities.

5. Conclusion

The world of international taxation for digital nomads presents a unique set of challenges and opportunities, as it diverges from the traditional multinational enterprise (MNE) landscape. Digital nomads, often being the sole owners and shareholders of their companies and location independent, find themselves benefiting greatly from tax domicile structuring. As such, their primary focus is on minimising the tax burden on income taken out of their companies through dividends, salary, or other income types.

While digital nomads can employ some strategies similar to those used by MNEs, the benefits of complex structures are typically limited, as most digital nomads do not fall within the income bracket that would warrant such arrangements. Instead, they tend to benefit more from strategically selecting tax residencies with low or no taxes on their income.

A notable challenge in this arena lies in the gap between theoretical legal knowledge and practical experience. Online resources, laws – if current and applicable national laws are even available online and in English – and if, jurisdiction-specific legal advice available and accurate, may not fully encompass the nuances of modern business necessities, such as banking, *PayPal*, *Stripe*, multi-currency accounts, and digital accounting services. Consequently, digital nomads must be cautious when implementing tax strategies and structures that appear promising on paper but may fall apart in execution due to unforeseen practical complications and unexpected costs.ß

Additionally, the ever-changing landscape of tax laws necessitates staying informed about the latest developments in relevant jurisdictions. Digital nomads must either remain vigilant themselves or hire tax advisors and accountants who can keep them updated on the most recent changes and help them adapt their tax strategies accordingly.

In conclusion, international tax strategies for digital nomads require a careful balance between the unique characteristics of their businesses and the evolving landscape of tax laws. By understanding their distinct position in the global taxation system, and with a combination of well-researched strategies and expert advice, digital nomads can successfully navigate the intricacies of international taxation and optimise their tax outcomes.

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