

International Tax Workshop

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Quiz Before we start

- 4 Questions
- Please write down your answers and keep to yourself
- We will revisit them at the end of the workshop

Who Must File

- U.S. citizens file Form 1040
- U.S. resident aliens file Form 1040
 - Green Card Holders
 - Substantial Presence Test
- Nonresident aliens file Form 1040NR



Exemption and Deduction Table

YEAR	PERSONAL EXEMPTION	S/D SINGLE	S/D M-JOINT	S/D M-SEPAR	S/D HH
• 2003	\$3,050	\$4,750	\$9,500	\$4,750	\$7,000
• 2004	\$3,100	\$4,850	\$9,700	\$4,850	\$7,150
• 2005	\$3,200	\$5,000	\$10,000	\$5,000	\$7,300
• 2006	\$3,300	\$5,150	\$10,300	\$5,150	\$7,550
• 2007	\$3,400	\$5,350	\$10,700	\$5,350	\$7,850
• 2008	\$3,500	\$5,450	\$10,900	\$5,450	\$8,000
• 2009	\$3,650	\$5,700	\$11,400	\$5,700	\$8,350
• 2010	\$3,650	\$5,700	\$11,400	\$5,700	\$8,400
• 2011	\$3,700	\$5,800	\$11,600	\$5,800	\$8,500
• 2012	\$3,800	\$5,950	\$11,900	\$5,950	\$8,700

Foreign Earned Income Exclusion

- U.S. Citizen or U.S. Resident Alien
- Foreign Earned Income
- Tax Home in Foreign Country
- Must Meet Either:
 - A. Bona fide Residence Test, or
 - B. Physical Presence Test

Maximum Exclusion Amount

- Husband and wife could exclude up to \$92,900 each (if both qualify) for total exclusion of \$185,800 for 2011
- Exclusion/Deduction for qualifying foreign housing expenses
- Income above excluded amount taxed at higher rate
- Use Form 2555 or 2555-EZ

Foreign Tax Credit

- Must be:
 - Income tax
 - Legally owed and paid
- No credit for foreign taxes on Excluded income
- Limitation applies
- Use Form 1116



Foreign Tax Credit

- Formula for Amount Not Allowed:

$$(\text{FEIE} / \text{FEI}) \times \text{Foreign Inc Tax} = \text{Not Allowed}$$

$$(\$ 91,500 / \$122,000) \times \$ 30,500 = \$ 22,875$$

- Allowable Foreign Income Tax on FEI:

$$\$ 30,500 - \$ 22,875 = \underline{\$ 7,625}$$



Foreign Bank Account Report (FBAR)

- **Form TD F 90-22.1**
 - Foreign accounts, in aggregate
 - Over \$10,000 on any day of the year
 - Filed with Treasury Dept by June 30
(no extensions)



Reporting Foreign Financial Assets

- **Form 1040, Schedule B, Part III**
- **Form 8938**
 - Report Foreign Accounts & Assets
 - Threshold varies - Over \$200,000 if living abroad
 - Filed with Form 1040
- **Offshore Voluntary Disclosure Program**

Required Forms – is this you?

- **3520** – Annual Return to Report Transactions With Foreign Trusts/ Receipt of Certain Foreign Gifts
- **3520-A** – Annual Return of Foreign Trust with a U.S. Owner

Required Forms – is this you?

- **5471** – Information Return of U.S. Persons With Respect to Certain Foreign Corporations
- **5472** – Information Return of a Foreign Owned Corporation
- **8898** – Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession

Misc Topics

- Filing return with a Foreign Spouse
- Applying for an ITIN
- Gift Tax
- IRA Contributions (Traditional or ROTH)



Foreign Spouse

- You may choose to file a return with a Foreign Spouse (MFJ)
- You may choose to file by yourself (MFS)
- Cannot switch from year to year once election is made – unless marital status has changed.
- Your foreign spouse must have ITIN.

How to apply for an ITIN

- Use Form W-7
- Must demonstrate the need for an ITIN
- Attach certified copy of foreign passport
- ITIN is only used for tax purpose, and nothing else.

2011 Gift Tax Limits

- Annual Exclusion: \$13,000 for single filer (\$26,000 for married)
- Form 709, Gift Tax Return may be required
- Recipient need not report the gift but must report income earned by gift (interest, dividends, etc.)
- A NRA donor must pay gift tax on transfer of real and tangible property situated in U.S.

2011 Gift Tax Limits

- U.S. Citizen spouses can give each other unlimited gifts and need not file gift tax return.
- A U.S. Citizen can only gift \$136,000 to their non-U.S. spouse without paying gift tax.
- Gifts are NOT tax deductible!



Have a college student on payroll?

- **American Opportunity Credit**
 - Replaced the Hope Credit, Max credit \$2,500 per student, Phased out based on MAGI
- **Lifetime Learning Credit**
 - Up to \$2,000 , phased out based on AGI
- **Student Loan Interest Deduction**
 - Max deduction \$2,500

Individual Retirement Accounts

- Must Have “earned” income included in taxable income. So if all income excluded as FEI, no contribution is allowed.
- Contribution: smaller of \$5,000 or earned income (\$1,000 catch up)

Individual Retirement Accounts

- Traditional:
 - Contributions may be deductible depending on income level (phased out with MAGI between \$169,000 to \$179,000 MFJ)
 - Anyone can make non-deductible contributions without income ceiling, as long as under 70 ½ and have taxable wages.
 - Penalty if withdraw before 59 ½.

Individual Retirement Accounts

- ROTH
 - Contribution never deductible
 - Subject to income eligibility
 - ✓ MFJ - \$169,000 (phased out between \$169,000 & \$179,000)
 - ✓ Single or HH - \$107,000 (phased out between \$107,000 & \$122,000)
 - No age limit
- - **Not taxable when withdraw**

For more information

- **Call International Customer Service at
(267) 941-1000 (not toll free)
Mon - Fri. 6:00 a.m.–11:00 p.m. EST**
- **Check www.irs.gov
Keyword: International**
- **Helpful publications:
54, 514, 901, 4732**
- **email irs.beijing@irs.gov**

Questions?

- Let's review the 4 Quiz Questions