

International Tax Workshop

Linh Vu, Tax Attaché, Beijing, China

Yuen Chan, Deputy Tax Attaché, Beijing, China

February 12, 2014



**Large Business
& International**

Ground Rules

- ❖ Federal Tax only – No State Tax questions
- ❖ No complex and particular situations – we can deal with YOUR issue off line
- ❖ Questions of general applicability OK
- ❖ Language Issue

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

Basic Information



**Large Business
& International**

Who Must File and Which Form

- ❖ U.S. citizens file Form 1040
- ❖ U.S. resident aliens file Form 1040
 - Green Card Holders
 - Substantial Presence Test
 - Foreign spouse exception
- ❖ NRA files Form 1040-NR

2013 Filing Requirements

If the filing status is...	And at the end of 2013 the taxpayer was...	They file a return if their gross income was at least...
Single (S)	Under 65	\$10,000
	65 or older	\$11,500
Married Filing Jointly (MFJ)	Under 65 (both spouses)	\$20,000
	65 or older (one spouse)	\$21,200
	65 or older (both spouses)	\$22,400
Married Filing Separately (MFS)	Any Age	\$ 3,900
Head of Household (HOH)	Under 65	\$12,850
	65 or older	\$14,350
Qualifying Widow(er) (QW)	Under 65	\$16,100
	65 or older	\$17,300

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
2013	\$3,900	\$6,100	\$12,200	\$6,100	\$8,950



New Items to 2013



**Large Business
& International**

Affordable Care Act (ACA) Tax Provisions for Individuals and Families

❖ Individual Shared Responsibility Payment

- health care coverage,
- have an exemption from coverage, or
- make a payment when you file your 2014 tax return in 2015

❖ Additional Medicare Tax – Form 8959

- 0.9 percent applies to wages, compensation, and self-employment income above a threshold amount received in taxable years beginning after Dec. 31, 2012

❖ Net Investment Income Tax – Form 8960

- 3.8% to certain net investment income of individuals, estates and trusts that have income above the statutory threshold amounts effective Jan. 1, 2013

Where to Get More Info. On ACA Tax Provisions

❖ Individual Shared Responsibility Payment

- <http://www.irs.gov/uac/Questions-and-Answers-on-the-Individual-Shared-Responsibility-Provision>

❖ Additional Medicare Tax

- <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>

❖ Net Investment Income Tax

- <http://www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs>

Topics important to U.S. Citizens and Residents Living Abroad



**Large Business
& International**

Topics important to U.S. Citizens and Residents Living Abroad

- ❖ Foreign Earned Income Exclusion (FEIE) – [Form 2555](#)
- ❖ Foreign Tax Credit (FTC) – [Form 1116](#)
- ❖ Foreign Bank Account Reporting (FBAR) requirement – [FinCEN Form 114](#)
- ❖ Foreign Financial Asset Reporting requirement (a.k.a. FATCA) – [Form 8938](#)

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 \$97,600 each (if both qualify) for total exclusion of \$195,200 for 2013
- ❖ Use Form 2555 or 2555-EZ
- ❖ Income above excluded amount taxed at higher rate
- ❖ Exclusion/Deduction for qualifying foreign housing expenses

Maximum Exclusion Amount

$$\begin{array}{r} \text{Housing Expense} \\ - \text{Base Housing Amount} \\ \hline \text{Qualify Housing Exclusion} \end{array}$$

Determine your excludable housing expense:

Your housing expense:	\$100,000	Beijing
Limited by $\$97,600 \times 30\% =$	\$29,280	\$71,200

Base housing amount:

$\$97,6000 \times 16\% =$	<u>\$15,616</u>	<u>\$15,616</u>
Qualify housing exclusion =	\$13,664	\$55,584

Foreign Tax Credit

- ❖ Must be:
 - Income tax
 - Legally owed and paid
- ❖ No credit for foreign taxes on Excluded income

- ❖ Limitations apply

$$\$100 \times 30\%$$

$$= \$30$$

$$\text{US } \$50 \times 30\% = \$15$$

$$\text{Foreign } \$50 \times 30\% = \$15$$

$$\text{Foreign tax paid} = \$25$$

- ❖ Use [Form 1116](#)



Foreign Tax Credit (cont.)

❖ Formula for Amount Not Allowed:

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

$(\$ 97,600 / \$130,000) \times \$ 29,500 = \$22,148$

❖ Allowable Foreign Income Tax on FEI:

$\$ 29,500 - \$ 22,148 = \underline{\$ 7,352}$

First Q&A

- ❖ Let's stop for a few minutes to take some questions on FEIE and FTC before we move to FBAR and FATCA.



Foreign Bank Account Report (FBAR)

- ❖ [FinCEN Form 114](#) - new form effective 10/1/2013 (old 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 each year (no extensions)
 - **Effective July 1, 2013 – Electronic filing of FBARs is mandatory.** Go to FinCEN website (Financial Crimes Enforcement Network)
www.FinCEN.gov
- ❖ FinCEN Resource Center – by phone: 1-800-767-2825 or (703) 905-3591 or by email to: FRC@fincen.gov

Reporting Foreign Financial Assets (a.k.a. FATCA)

❖ Form 1040, Schedule B, Part III

❖ Form 8938

- Report Foreign Accounts & Assets
 - Threshold varies - \$200,000 if living abroad
 - Filed with Form 1040
- ❖ This requirement is part of the Foreign Account Tax Compliant Act (FATCA) which also asks foreign financial institutions report U.S. account holders to IRS.

Other Required Forms – Is this applicable to you?

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

Other Required Forms (cont.) – Is this applicable to you?

- ❖ **Form 5471** – Information Return of U.S. Persons With Respect to Certain Foreign Corporations
- ❖ **Form 5472** – Information Return of a Foreign ownership of U.S. Corporation

Second Q&A

- ❖ Let's stop and answer some questions regarding FBAR, FATCA, and other commonly required “informational” returns.
- ❖ Information Reporting is the bed rock of the U.S. compliance system. Penalties for not filing a required informational return can be very severe, including criminal sanctions.

Other Useful Information for U.S. Citizens and Residents Living Abroad



**Large Business
& International**

How to ...

- ❖ Refund Status – <http://www.irs.gov/Refunds>
- ❖ Tax Transcripts or Copies of Tax Returns – <http://www.irs.gov/uac/Newsroom/How-You-Can-Get-Prior-Year-Tax-Information-from-the-IRS>
- ❖ IRS Notice – Call International Customer Service at (267) 941-1000 (not toll free), Mon-Fri 6am–11pm EST
- ❖ Phishing Scheme – Form W-8BEN e-mails
- ❖ Foreign Spouse and ITIN

How to ... (cont.) - Foreign Spouse

- ❖ You may choose to file a return with a Foreign Spouse (MFJ)
- ❖ You may choose to file by yourself (MFS)
- ❖ Once made, the choice to be treated as a resident applies to all later years unless ended
- ❖ Your foreign spouse must have a SSN or ITIN

How to ... (cont.) - apply for an ITIN


- ❖ Use [Form W-7](#)
- ❖ Must demonstrate the need for an ITIN for tax purposes
- ❖ Attach certified copy of foreign passport
- ❖ ITIN is only used for tax purpose, and nothing else
- ❖ ITIN issued after 1-1-2013 is only valid for 5 years

How to ... (cont.) – get more information

- ❖ Check www.irs.gov – Type keywords in search box
- ❖ Check <http://taxmap.ntis.gov/taxmap/internationalindex.htm> - Topics listed alphabetically or type keywords in search box
- ❖ Individual International Taxpayers FAQs – <http://www.irs.gov/Individuals/International-Taxpayers/Frequently-Asked-Questions-About-International-Individual-Tax-Matters>
- ❖ Submit Questions online – <http://www.irs.gov/uac/Help-With-Tax-Questions---International-Taxpayers>

How to ... (cont.) – get more information

- ❖ Call International Customer Service at
(267) 941-1000 (not toll free)
Mon - Fri. 6:00 a.m.–11:00 p.m. EST
- ❖ Helpful publications:
 - [54](#) - Tax Guide & FEIE
 - [514](#) - FTC
 - [901](#) - Tax Treaties
 - [4732](#) – General Information
- ❖ E-mail us at irs.beijing@irs.gov



Let's review the answer to the 4 Quiz Questions



Questions?