

# EXPAT TAX ...A TO Z

US tax law is difficult enough to understand without the added burden of trying to understand the “overseas” side of things. Here is an explanation of expat key words and phrases that will help you understand the tax “lingo” that applies to your life offshore.



**ASSETS** ...Anything you own that has value is considered an asset. Bank accounts, investment accounts, real estate, artwork and vehicles are all assets, just to mention a few. Income received from any assets like interest, dividends or proceeds from a sale must be reported as part of the worldwide income that you must report on your tax return. In addition, if you have significant assets you may be required to file additional forms like the “8938” or FBAR which are further explained later on.



**BONA-FIDE RESIDENT**....All US citizens and permanent residents are required to file an income tax return with the IRS no matter where they live. To qualify as a bona fide resident of a country you must live in one country long term and from January 1 thru December 31 for the current year, and have no intention of returning to the US.

As a bona fide resident of another country, you do not have to worry about passing the physical presence test every year and you may return to the States as often as you like, as long as you are not home for more than 180 days.

As a bona-fide resident, you will qualify for the foreign income exclusion which will enable you to reduce your US taxable income in excess of \$90,000. In addition, if you pay foreign taxes, a foreign tax credit will also be available for your use.

**CREDITS** ....Credit for foreign taxes paid in your country of residence can be helpful to you in reducing your US income tax on foreign earnings. The foreign tax credit applies to compensation and investment income that were reported to the foreign government and for which you have already paid tax. To report foreign earnings and the applicable tax you paid you must use a Form 1116 and attach it to your yearend individual tax return.



**DEDUCTIONS**...As a US citizen you are entitled to take numerous deductions that reduce your tax liability. Examples of these are dependency deductions for family members who have a US id#, mortgage interest, property taxes, medical insurance and expenses, US charitable contributions and miscellaneous employee business expenses ...just to mention a few.

**EXTENSION** ...As a US citizen living outside of the States, you have until June 15 to timely **file** your tax return. If you owe money, however, **all payments are required by April 15** the original due date of the return without extensions. If payments are made after the April 15 due date, there will be penalties and interest assessed to the balance.



If you are a US expat and need to request a Tax Extension beyond the automatic due date, you must file a Form 2350 –Application for Extension of Time to File US Individual Income Tax Return and mail to the IRS Philadelphia Service Center.

**FBAR** –This is the acronym for the FOREIGN BANK ACCOUNT REPORT, which is filed annually by June 30 if you have foreign bank accounts with a balance greater than \$10,000. This report is required for all US citizens living overseas or here at home if they hold funds in bank, investment, retirement or life insurance accounts that exceed a \$10,000 floor. The form is a TD 90-22.1—Report of Foreign Bank and Financial Accounts.

The information reported includes: the financial institution, address, account number, ownership status and highest balance held within the year.

In year 2011, the IRS also instituted a Form 8938 which is also an asset statement that reports all foreign assets that exceed a \$200,000 threshold. The Form 8938 reports all the information of the FBAR in addition to real estate holdings and it is filed right along with your individual tax return.



**GREAT and GUARANTEED**—Filing your US income tax return as an expatriate can be more complicated than filing one while living home. The return is the same, an individual 1040, but the calculations can be much more complicated because of exchange rate conversions, tax code changes, special credits, unusual deductions, and special rules/filing requirements.

The **great** news is that you found us...trained and experienced professionals that can get the job done efficiently, effectively and right on time! Our flat fee pricing and hassle free process is **guaranteed**. Try us, you'll like us!

**Housing** is handled very differently for expatriates. If you are living abroad, make sure you track your housing costs: rent (housing payments), property taxes and utilities, since you may be able to increase your foreign income deduction to include those costs. In order to qualify, your income must exceed the standard foreign income exclusion, as the housing exclusion only applies to the excess.



Depending upon your compensation package, your employer may include housing costs ...be sure these dollars are considered in the calculation of the foreign income exclusion on Form 2555.



**IRA's (Individual Retirement Account)** Distributions from a US IRA are taxable on your Individual Form 1040 and are not reduced by the Foreign Income Exclusion. So, if you are living abroad and collecting pension dollars you will pay same tax living offshore, as if you were living in the States.

For most expats, IRA/pension contributions are not deductible because the income earned abroad is not taxable in the US. If you are not using a foreign income exclusion to reduce your taxable income, an US IRA or self employed contribution can be deducted from your earnings before tax. In this situation, if you paid tax offshore, Foreign Tax Credits can be used to reduce your tax liability here in the States.

**JUNE 15** is a special day to remember for all expats ...it's the extended due date of your US tax return.



Here are other important dates to remember:

- January 15 ... 4<sup>th</sup> quarter extension payment due
- April 15 ... last day to pay outstanding taxes for prior December 31 year end and 1st quarter payment due for current year
- June 15... 2<sup>nd</sup> quarter estimate due
- June 30 ... FBAR due, no extensions apply!
- September 15 ...3<sup>rd</sup> quarter estimate due
- October 15 ... Last day for extended returns to be filed
- November 15 ... Last for Form 2350 extension returns to be filed to qualify for physical presence test

**KEEP** all of your tax documents and returns after you file for at least 7 years and because of your time overseas you should keep your documents and payments related to social security and Medicare forever! Audits usually rear their ugly heads within 4 years of filing, but if you file late it can sometimes take longer. Having all of your documents provide positive proof for any questions that may come up!



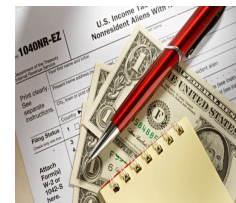
**LIVING** abroad is quite an adventure, but you do not want to ignore your US citizenship requirements just in case your move turns out to be temporary. Renewing passports, applying for visas, collecting from benefits are a whole lot easier when you have followed the rules and filed your required expat tax returns every single year.



**MARRIED?** One of the tax decisions you will need to consider is your filing status and what works best for you and your spouse. If your spouse is a US citizen ...no question, file jointly. If your spouse is born and bred offshore, you need to decide whether it makes sense to file separately so that you only have to report your income. We are happy to work up the numbers and help you to make a tax-wise decision...free for the asking.

**Non Resident Aliens** are non-US citizens who do not have a green card and do not pass the substantial presence test. Even though you are a non-resident alien, you will have to file a US income tax return if you have income from an US source. This includes but is not limited to business or investment income, whether or not taxes are withheld at the source. If the you live outside of the United States, as an individual, you would file a Form 1040NR, reporting all of your US income and withholding.

Your residency status is important in determining your reporting requirements. You are considered a resident of the United States if you hold a green card, or you pass the substantial presence test which means that you are physically present in the US for more than 30 days in the current year or 183 days in the current a previous 2 years. If you qualify as a resident, you must report your worldwide income on Form 1040.



**OVDI** is short of the “offshore voluntary disclosure program” initiative. Over the years the kinder, friendlier IRS has offered penalty relief to expats who have inadvertently overlooked their filing responsibilities.

The voluntary disclosure programs apply to not only filing Form 1040, but also FBARS, which are required if you have over \$10,000 in foreign bank accounts. If you are a “low risk” taxpayer, you may qualify for this program ...let’s discuss it when we see your documents.



**PHYSICAL PRESENCE TEST** means just that and relates to how many days you are offshore prior to filing your income tax return. Since our returns are filed on a calendar year basis, if you move during the year, you may have to report foreign income for only a portion of the year. To give you the opportunity to take advantage of the foreign income exclusion, you are allowed to allocate the exclusion based upon the days offshore for the year as long as you have foreign residency for at least 330 days between the time you moved and the time your tax return is due with extensions.

**QUARTERLY TAXES** are due April 15, June 15, September 15 and January 15 covering the last year’s tax plus 10%. If you owe tax, 110% of the prior year’s tax is due in the current year...if underpaid, the shortfall is subject to penalties and interest.



**RESIDENCY** is a huge expat issue between the physical presence test, the bona fide residence requirements, your tax home, etc., etc., etc. Then there is the 31 day, the 330 day and the 183 day rules...we could go on and on.

If you are confused, give us a call and we can help you straighten it out so that you are filing the right return, on the right date, in the right country! We're just a phone call away ...1-877-etax-123.

**SELF-EMPLOYED?** By definition, if you work for yourself, own your own business, operate as a consultant without being on the payroll of a company where you are collecting wages and/or a salary.

A self-employed person is one who earns their income through conducting profitable operations from a trade or business that they operate directly.



If you are a self-employed expat you must report all of your earnings on a Schedule C, partnership or corporate return depending upon the type of entity you have created. There are very specific rules and regulations regarding the reporting and tax requirements of non-resident citizens who are involved with a business that operates offshore. In all cases the issue of Social Security and Medicare must be addressed.

If you are self-employed, we can help you through your paperwork requirements...call us today!



**TREATIES** are bilateral agreements made between 2 countries to resolve issues involving double taxation of active and passive income. Tax treaties generally determine the amount of tax that a country can apply to a taxpayer's income and wealth.

At present the US has tax treaties with over 60 countries and the list is constantly changing. To determine whether your home country has a treaty you can check the IRS website. If there is no treaty, you will still be able to take advantage of the foreign income exclusion and foreign tax credit, however special country-to-country arrangements will not be available to you.



**UNITED STATES CITIZENS** are individuals born in the United States, Puerto Rico, Guam, Northern Mariana Islands, Virgin Islands, American Samoa, or Swain's Island. Children and spouses of US citizens must be granted citizenship status by the Immigration and Naturalization Services (INS).

All spouses and dependents must apply and be assigned an identification number from the Social Security Administration or the Internal Revenue Service to be reported as a dependent on a tax return. To receive a number you will be required to provide several pieces of notarized identification along with the appropriate completed application.



**VOLUNTARY** tax equalization packages may be offered by employers who wish to encourage employees to work offshore. A tax equalization program is a voluntary benefit that ensures an employee's out of pocket tax expense is no more or less than living stateside. It may include tax, housing, utility, education and travel reimbursements that are associated with their foreign assignment.

Considering this type of program can be beneficial to an US citizen negotiating a foreign assignment contract.

**WHERE** to file your return as an expat? This international IRS office has been designated at:  
Internal Revenue Service Center  
Austin, Texas 73301-0215

The street address for a private delivery service is:  
3651 South Interregional Highway 35  
Austin, TX 78741

**XPAT** is short of expatriate and is defined as a person who is temporarily or permanently living in a country or culture other than that of the individual's upbringing. The word comes from the Latin "ex" meaning "out of" and "patria" meaning "country" or "fatherland".



Actually there are about 6 million expats and the number growing more each year...we sure are going global.

**YEARS** that the IRS can collect past taxes? Ten to be exact! And you can actually lose the foreign income exclusion and other deductions if you do not file on time. Our suggestion: make sure you file on time, especially with all the foreign exemptions, you will probably owe no or very little tax.



Offers in compromise and payment arrangements are available for the asking!



**ZERO** stress service is our motto ...give us a call or email us directly and you will see what we mean!

[www.expatriatetaxreturns.com](http://www.expatriatetaxreturns.com)  
1-877-etax-123