



Wegner CPAs

International Tax Compliance for Individuals

A Guide for U.S Citizens, Green Card
Holders, and Foreign Nationals

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Agenda

1. The US Tax Net: Who's Caught and Why
2. Escaping Double Taxation: Strategies
3. Hidden Traps: Foreign Accounts, Businesses and Gifts
4. The Ultimate Escape Hatch: Expatriation
5. Q&A Session



Who's Caught and Why: The Concept of Worldwide Income

- The U.S. taxes its citizens and Green Card holders on their worldwide income, regardless of where they live. This is a unique approach among developed nations. It's a “tax net” that follows U.S. persons wherever they go.
- On the other hand, there are countries that are based on the “territorial tax system” which only taxes income earned within the country's borders. Since US follows the global tax system, that's why international tax compliance is so complex and important.

Who's Caught and Why- Determining U.S. Tax Status — Resident or Nonresident? It is a matter of days!

- **Resident Alien:** two tests to determine residency for tax purposes -
 - **Green Card Test:** You are a resident alien if you are a lawful permanent resident (Green Card holder).
 - **Substantial Presence Test:** 31-day and 183-day rules.
- Taxed on worldwide income and need to report foreign financial bank accounts.
- **Nonresident Alien:** Taxed only on their U.S.-sourced income and must file a **Form 1040-NR**.
- No requirement to report foreign financial bank accounts.

Escaping Double Taxation - Income Abroad and Avoiding Double Taxation

Foreign Earned Income Exclusion – Form 2555

- “Golden ticket” for expats.
- Current exclusion limit (e.g., \$130,000 for 2025).
- It only applies to earned income (wages, self-employment), not passive income & retirement income.
- Qualification depends on:
 - Bona Fide Residence Test or
 - Physical Presence Test.

Escaping Double Taxation - Income Abroad and Avoiding Double Taxation

Foreign Tax Credit – Form 1116

- A credit for taxes already paid.
- This is a dollar-for-dollar credit for income taxes paid to a foreign country.
- It is generally more beneficial for high-income earners or those who pay a higher tax rate abroad than in the U.S.

Hidden Traps: Reporting Foreign Financial Accounts

FBAR - FinCEN Form 114

- “Watchdog” for foreign accounts.
- The key trigger is having an aggregate balance of over \$10,000 in foreign financial accounts at any point during the calendar year.
- This is a separate filing from your tax return and is filed with the Financial Crimes Enforcement Network (FinCEN).
- Penalties \$10,000+ per year

Hidden Traps: Reporting Foreign Financial Accounts

FATCA - Form 8938

- FATCA and Form 8938 is an additional layer of transparency.
- It reports specific foreign financial assets and has different thresholds and requirements than the FBAR.
- This form is filed with your tax return to the IRS and has the same filing deadlines as your 1040.
- Penalty \$10,000+

Hidden Trap and Escaping Double Taxation: Social Security & Medicare Taxes

- Navigating Cross-Border Social Taxes – this is important for US Citizens and Green Card holders who split their careers between two or more countries.
- FEIE does not exempt you from U.S. self-employment tax.
- **Solution:** Concept of a **Totalization Agreement** as a "tax truce." These are bilateral agreements between the U.S. and other countries that prevent double taxation of Social Security and Medicare taxes.
- Please check if the country you are working in has a Totalization Agreement with the U.S.

Hidden Trap - Business-Related Foreign Tax Concepts

- Classification of Foreign Entities:** A foreign entity can be classified for U.S. tax purposes as a corporation, partnership, foreign branch or disregarded entity. Stay tuned to your November WICPA magazine!!!
- Corporation tax return for foreign entities conducting business in the US (Form 1120-F):** Foreign corporations with income effectively connected to a U.S. trade or business must file this form.

Hidden Trap- Foreign Business Interests

U.S. persons with ownership in foreign businesses have specific reporting requirements.

- **Controlled Foreign Corporations (CFCs):** A foreign corporation is a CFC if U.S. shareholders own more than 50% of the voting power or value. U.S. shareholders must report their pro-rata share of certain income.
- **Form 5471:** Information Return of U.S. Persons With Respect to Certain Foreign Corporations.
- **Form 8865:** Information Return of U.S. Persons With Respect to Certain Foreign Partnerships.
- **Form 8858:** Information Return by a person having an interest in a disregarded entity (DE).
- **Form 8621:** Information Return by a Shareholder of a Passive Foreign Investment Company (PFIC). Explain the two tests for a PFIC (income test and asset test).
- **Penalties** are \$10,000 per filing per year

Hidden Trap: Transfers, Gifts and Bequests

Gifts and Bequests from Foreign individuals/entities: U.S. recipients of gifts or bequests from foreign persons may have a filing requirement, even though the gift is not taxable income to the recipient. The reporting threshold is over \$100,000 from an individual or estate, or a lower threshold for investments to corporations/partnerships.

- **Form 3520:** Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts from foreign persons.
- Penalties \$10,000+
- **Return by a U.S. Transferor of Property to a Foreign Corporation:** When a U.S. person transfers property to a foreign corporation, they must file **Form 926** if the value exceeds \$100,000 or if certain ownership thresholds are met (generally 10% or more).
- Penalties up to \$100,000 and/or 5 years prison.

Hidden Trap and Escaping Double Tax - Tax Treaties and Remittance Tax

- **Tax Treaties:** These are bilateral agreements between the U.S. and foreign countries to avoid double taxation.
- They can reduce or eliminate U.S. tax on certain types of income.
- **Remittance Tax:** The OBBBA puts into effect a 1% remittance tax for generally anyone who directly remits money to a foreign country from the US.
- Future guidance is anticipated

The Ultimate Escape - Expatriation

Sailing Permit - Form 2063 or 1040-C

- A departure permit required for certain resident aliens leaving the U.S. This certifies that you have complied with U.S. income tax laws.

Exit Tax

- This is a tax on certain high-net-worth individuals who give up their U.S. citizenship or Green Card.
- It applies to "covered expatriates" and essentially treats all their worldwide property as if it were sold at fair market value on the day before expatriation.

Summary and Final Thoughts

- Each person's unique facts and circumstances will impact their U.S income tax filings.
- FBAR/8938 are key filings for those with investments overseas
- Receiving gifts or transferring money outside of the US potentially has filing requirements.
- Penalties for non-compliance can be severe. Always consult a qualified tax professional.

Disclaimer - This presentation is for informational purposes only and is not tax or legal advice. Please consult with a qualified tax professional for your specific situation.



Questions?



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