

# Expatriate Taxes



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If you are a US citizen or a resident alien of the United States and you live abroad, you are still taxed by the IRS on your worldwide income. But, if you earn wages as an employee or have self-employment income while working in a foreign country as an ex-patriate or expat, you might be able to use the foreign earned income exclusion to exclude up to \$107,600 (2020) as tax-free income (or 2 x \$107,600 or \$215,200 if married to another foreign income earner). This alone would save you **\$19,900 in taxes** (or over \$39,000 for couples who both qualify).

So, it's a big deal, and it's an even bigger deal that you take the necessary steps to qualify for the foreign earned income exclusion and its cousins the foreign housing exclusion and foreign housing deduction. Please visit our FAQs for more information on expat taxes and the foreign earned income exclusion.

### Expatriate Tax Preparation

WCG is a progressive tax consultation and preparation firm embracing internet technology to provide worldwide tax service from our offices in Colorado, USA. A secure online client portal allows remote taxpayers to exchange financial information, tax documents and tax returns saving valuable time and resources. Scan or fax your tax stuff at your leisure! In person appointments are certainly challenging, so if requested, we can set up a GotoMeeting video conference. Also, we can work with stateside representatives who have been given Power of Attorney to oversee your financial matters while you are away. We'll make this very easy.

Click on the buttons below for next steps, checklists and important worksheets-

### Foreign Earned Income Exclusion

There are several small hoops and gotchas that you need to be careful with when considered expat taxes, but the big requirements are-

1. Your tax home must be in a foreign country. (tax home definition)
2. You must have foreign earned income. (earned income definition)
3. You must satisfy one of the following (a, b **or** c) -

- a. United States citizen who is a **bona fide resident** of a foreign country or countries for an uninterrupted period that includes an entire tax year. Or,
- b. United States citizen or resident alien who is **physically present** in a foreign country or countries for at least 330 full days during any period of 12 consecutive months. Or,
- c. United States resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year.

You must satisfy all three parts above (1, 2 **and** 3). If you are married to another foreign income earner, you both do not have to meet the same test of a, b or c above. You could be a resident while your spouse qualifies as physically present.

Some people are simply not eligible for the foreign income exclusion. For example, US government employees paid by the US government cannot claim the exclusion. There are handful of other ineligible taxpayers based on their association with the US



government, armed services and the like.

## Expatriate Taxes Experience

There are several other pitfalls that can come up when dealing with expatriate taxes, and WCG has been handling taxes for expats since 2007. Our trusted experience will correctly guide you in qualifying for the foreign earned income exclusion and the foreign housing exclusion / deduction. But there are several other considerations-

- filing a joint tax return with another foreign income earner,
- taking a foreign tax credit or foreign earned income exclusion (at time the tax credit is better, especially in high income tax places like England, Japan, Germany, etc.),
- how partial years work with pro-rated exclusions,
- handling currency conversions and when to use year-end averages and when not to,
- properly reporting a foreign rental property,
- absentee ballot voting and how it can hurt you,
- reimbursements for moving expenses,
- IRA contributions and 401k contributions while earning foreign income,
- social security agreements and many other things to make you go crazy.

As if living in a foreign country wasn't hard enough. We're here to help! Please visit our FAQs for more information on taxes for expats and the foreign earned income exclusion.

## Expatriate Small Business Owners

WCG are specialists in small business owners, especially S corporations. We have several consultants, physicians, graphic designers, insurance agents, among several others, who operate domestic S corporations from overseas. It is quite simple- we usually create an entity in Washington, Wyoming or Florida, elect the entity to be taxed as an S corporation and run payroll to satisfy IRS rules all while you are working in a foreign country. If you want to take your talents abroad yet maintain your small business, we can certainly help!

## Fee Info (transparency)

Many tax preparation companies charge you a basic rate, and then add on additional charges for eFiling, joint returns, rental properties, capital gains, small businesses, etc. And once you're committed and find out the total fee, it's too late. Most expat tax returns are prepared for a fee range of **\$600 to \$800** which includes August and November financial tune-ups. Our fee also includes your state tax return (if necessary) and foreign earned income exclusion calculations. There are some additional filings that might be required, and those fees are below-

Filing	Fee
FinCEN 114, FBAR (Foreign Bank and Financial Accounts)	\$200 up to 5 accounts
IRS Form 8938	\$200 up to 5 accounts
IRS Form 5471	\$500
IRS Form 5472	\$500

Please review our Fee Structure for more information.



Non-resident aliens or anyone who has a United States tax filing requirement or obligation who are not U.S. citizens, our tax preparation fee range is \$700 to \$800. This usually involves extensive tax treaty research, overnight mailings, Power of Attorney documentation and a slew of special handling to ensure your tax consequence is correctly handled.

For our foreign owners of C corporations, additional time is necessary for possible back-up withholdings, Form 5472, Form 8233, W-8 BEN and tax treaties, among other issues that need special handling. In these situations our tax preparation fee will be \$1,500 to \$2,000 for any C corporation owned by foreign investors or owners. While this isn't an issue for most expat taxpayers, at times overseas business partners get together and this becomes an issue if one person is a foreigner.

## FBAR FinCEN Report 114

As stated above, WCG can complete the Report of Foreign Bank and Financial Accounts (FBAR) for foreign financial accounts if you like. This report is now required to be filed by April 15 and is commonly filed in conjunction with your individual tax returns. We do not automatically complete the FBAR nor is it included in your tax preparation fee. Our fee for the FBAR filing is **\$200 which includes up to 5 accounts**. The FBAR is electronically submitted to the Financial Crimes Enforcement Network, a division of the U.S. Treasury Department (who also oversees the IRS).

According to a nice FBAR 8938 table on the IRS website, an FBAR is required when the "aggregate value of financial accounts exceeds \$10,000 at any time during the calendar year. This is a cumulative balance, meaning if you have 2 accounts with a combined account balance greater than \$10,000 at any one time, both accounts would have to be reported."

## IRS Form 8938

Similar to the FBAR, we do not automatically complete IRS Form 8938 nor is it included in your tax preparation fee. Our fee for IRS Form 8938 filing is **\$200 which includes up to 5 accounts**. If you are unmarried (filing as a single) and you have foreign

assets exceeding \$200,000 on the last day of the year or \$300,000 anytime throughout the year, or \$400,000 and \$600,000 respectively for married taxpayers, you are usually required to file Form 8938.

If you do not qualify as an expat, Form 8938 is still required for joint filers if you have foreign assets exceeding \$100,000 on the last day of the year or \$150,000 anytime throughout the year. The IRS has a nice Form 8938 table detailing the filing requirements for those living in the U.S. versus outside the U.S.

## FBAR vs IRS Form 8938

Some taxpayers might file on the FBAR. However, if a taxpayer has to file IRS Form 8938, it is a near certainty that he or she would also file the FBAR. Both forms are now typically filed with your individual tax return (Form 1040) and due April 15 (the FBAR does have an automatic 6-month extension built into it).

## August and November Financial Tune-Ups

For those clients who have a tax-only engagement with us, we offer a lot more than just a tax return. Tax returns are boring. Tax planning including projections and end of year tax moves is way more valuable to you than 100 pages of gobbly-goo in some dust-catching PDF aimed at IRS compliance. Wow, that is a long sentence... anyways, in August we offer a tax planning tune-up and later on in November we offer an end of year tax consultation. These are complimentary consultations. Sure, you're paying for it in some fashion with your tax preparation fees above but then again, this is a valuable service that most tax professionals don't offer. Click the buttons below for more information. Riveting!

## Foreign Earned Income Exclusion Consultation

Do you want to talk about expat taxes? Are you considering going overseas and need help understanding the foreign earned income exclusion? Let's chat!

Name (required)

Business Name (if applicable)

Phone Number (nice to have)

State

Chat with us

There are two types of tax appointments. One is a **tax intake** which is the initial meeting for tax preparation, and is complimentary of course. The other is a **tax consultation** where you have specific questions and you need answers from a tax professional.

Our fee is \$150 for 40 minutes (or \$250 for advanced consultation with a Partner or Senior Manager). If we decide to press forward with an engagement, we will **credit the consultation fee towards future services**. If you don't need convincing and already want our services such as tax return preparation, Business Advisory Services or Tax Patrol, and you simply have some housekeeping questions, we answer those at no charge. Charging a consult fee to tell you how great we are is not cool.

Consultations are scheduled on weekdays during the work day. Yes, we can accommodate other days and after-hours, but those are reluctantly agreed to after some eye-rolling and complaining. Additionally, our schedules are more compressed during January through April. We will answer your questions to determine three things-

- Do you need our help?
- Can WCG and its support staff help you?
- Can we work together as a collaborative partnership?

From there we can determine the best plan which might be a simple "keep on keeping on"; otherwise we will construct a malleable plan together and provide a quote for those services.

Shockingly we actually return all consultation requests via email or perhaps a phone call (if the moment strikes us). No black holes here!

## **Peace of Mind**

WCG is not just tax preparers- we are tax consultants, and our firm will take you through the cycles of your personal and business lives. We are a resource that is always available throughout the year. Have a question? Need advice? Received a notice from the IRS just before Happy Hour on a Friday? You can contact us anytime, day or night.

Our fee is not just for tax preparation- it offers the continuous peace of mind of knowing that you are not alone in your tax world. We are global minded people who can speak your language, not just in a theoretical sense but in a practical down to earth manner.

Moreover, our goal is to always prepare a comprehensive and accurate tax return but equally important is your understanding of how a tax return 'works'- to the extent necessary, we want you to be comfortable with your tax consequences so together we can successfully plan for your future.