

Unraveling the Complexity of Expatriate Taxation

How Employers Can Achieve Compliance and Promote Employee Satisfaction



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Housekeeping

Questions?

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Webinar Objectives

Learning Objective <i>To provide attendees with a better understanding of expatriate taxation</i>	Instructional Delivery Methods <i>Group Internet-based</i>
Recommended CPE <i>1.0 CPE</i>	Recommended Fields of Study <i>Tax</i>
Prerequisites <i>None required</i>	Advance Preparation <i>None</i>
Program Level <i>Basic</i>	Course Registration Requirements <i>None</i>
Refund Policy <i>No fee is required to participate in this session.</i>	Cancellation Policy <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i>
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Presenters



Troy Turner, CPA

Tax Partner

Troy focuses on expatriate taxation, nonresident alien reporting and complex tax filings including high net worth individuals. As a partner in the tax department, Mr. Turner is responsible for assisting firm clients who have an international aspect to their tax situation.



**Kathleen Curtis Fisksen, EA,
LPA, ATA**

*Principal, Outsourced Accounting &
Advisory Services*

Kate's specialized expertise includes international tax issues affecting US citizens and resident aliens living and working overseas, international nonprofit organizations and government contractors working internationally.

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Today's Agenda

1 | Organizational Ex-Pat Strategy

5 | Host Country Taxation

2 | Expatriate Taxation

6 | Foreign Bank Account Reporting (FBAR)

3 | State Taxation

7 | Q & A

4 | Taxation of Overseas Allowances

Organizational Ex-Pat Strategy

Why are we having this discussion?

Organizational Ex-Pat Strategy

Discuss your organizational strategy proactively

Employer concerns focus on developing strategies, policies and reporting systems to address: compliance, reporting to funding sources and to keep employees satisfied and productive while working overseas.

- Who makes up your team and who has the lead?
- What documentation/information does your organization provide before, during and after the assignment?
- How will you address compliance issues of the US and host countries proactively?
- Know the types of individuals who become your overseas employees: US Ex-pats (incl. green card holders), TCN's, dual citizens; be sure to keep track of where their assignments are and how long the assignments will last
- Know what presence you have in each country, the visa processing and each host country's taxation issues
- **GOAL: *Limit surprises***

Expatriate Taxation

Why are we having this discussion?

Worldwide Income Tax Reporting

The primary tax concern for expatriates is **double taxation**.

- Potential remedies:
 - Foreign Earned Income and Housing Exclusion
 - Foreign Tax Credit
 - Tax Treaties and International Agreements

Foreign Earned Income Exclusion

Requirements

- ✓ Tax Home Overseas; and
- ✓ Meet the Physical Presence Test (330 Full Foreign Days), **or**
- ✓ Meet the Bona Fide Residence Test (Facts & Circumstances)

2017 Amounts

- FEIE – \$102,100
- Housing Exclusion Standard Expense Cap – \$30,630
- Housing Exclusion Floor – \$16,336
- Maximum Standard Net Housing Exclusion – \$14,294
- Maximum Combined Exclusion in Standard Cost City – \$116,394
- High Cost City – Expense Cap can be up to \$114,300 (2016 Cap for Hong Kong)
- Both exclusions prorated in year of move

Forms & Resources

- ✓ 673 – Exemption from income tax withholding
- ✓ 2555 – Foreign Earned Income Exclusion
- ✓ IRS Publication 54

Poll Question #1

Does your organization provide for professional tax advice or tax filing assistance for your Expat Employees (initial consultation, annual allowance, reimbursement for actual cost, direct payment to a tax professional)?

- A) Yes*
- B) No*
- C) No, but we're planning to*

State Taxation

State Taxation

Domicile

- Maintain current state of domicile
- Domiciliary Resident Taxation
 - Worldwide Income – Federal conformity
 - Worldwide Income – Nonconformity
 - Nonresident Taxation – State source only
 - No income tax

State Taxation

Domicile

- Change Domicile
 - To another state
 - To a foreign country (more difficult)
 - In both cases one must generally cut ties with their current state and take actions to create ties in the other jurisdiction

State Taxation

HR Issues

- The requirement for a home/state of record for payroll reporting
- Employees providing a new state (with no taxation) when they leave the country
- Employees claiming no state when they leave the country
- Get documentation
- Review reporting requirements for each state
- Do not default to reporting wages to the state where the headquarters are located

Taxation of Overseas Allowances

Overseas Allowances

- Decide what should be part of your typical compensation package
- Document what allowances are taxable and provide this information to your employees during the hiring process
- Provide timely statements to your employee detailing ALL their taxable income and taxes withheld throughout the tax year

GOAL: *No W-2 surprises*

Typical Allowances in a Compensation Package

- Base salary
- Cost of living allowance/post differential
- Housing allowance
- Security allowance
- Danger pay/hardship allowance
- Education allowance
- Separate maintenance allowance
- Settling-in allowance
- Home leave
- R&R, TQSA, Auto



Poll Question #2:

Does your organization have an Ex-Patriate Policies and Procedures Manual?

- A) Yes
- B) No
- C) No, but we are planning to

Host Country Taxation

Organizational Tax Policies

Host Country Taxation (HCT)

- Assume your employees will be taxed overseas unless they meet certain exception(s): Tax Treaty, Bilateral Agreement, MOU, etc.
- What are the typical tax policies available to your organization? (Tax protection, tax equalization, hybrid, or other)
- What are the advantages and/or disadvantages of each policy?
- Has your leadership team done a “risk analysis” regarding HCT in the countries where your organization works?
 - **GOAL:** *No surprises*

US Taxation of Salary, Allowance & HCT Impact

Illustrative Example

Description	Domestic	Expat
Salary	\$85,000	\$85,000
Housing	N/A	\$41,700
Post Differential	<u>N/A</u>	<u>\$9,010</u>
Total Compensation	\$85,000	\$135,710

Description	Domestic	Expat
Cash Compensation	\$85,000	\$94,010
Less Host Country Tax	N/A	(\$39,813)
Less US Taxes	<u>(\$15,106)</u>	<u>\$0</u>
Net Cash Available	\$69,894	\$54,197

Poll Question #3

Does your organization have a Host Country Taxation Policy? If not, is your organization considering one?

- A) Yes, we have one
- B) No, we don't have one – but are considering one
- C) No, we don't have one and aren't considering one

Foreign Bank Account Reporting

FBAR Form 114

Foreign Bank Account Reporting

FBAR Form 114

- Filed annually and electronically via tax software or online at <http://bsaefiling.fincen.treas.gov/main.html>
- Filing threshold \$10,000 in combined account value
- Know who needs to file – **US Citizens/tax residents** who have a financial interest in or signature authority over a foreign financial account or **Entities** created or organized in the US or under the laws of the US
- Six year statute of limitations
- Reporting requirement disclosed on your personal/entity tax filing
- Penalties for late/not filing (abatement available for reasonable cause)
- Organizational help for employees with signature authority

Questions?

We'd like to take a few minutes to hear from you

Get In Touch



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