

Tax Information for US Citizen & Resident Employees at the Delegation of the EU to the US

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Disclosure

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Agenda

- Categories of employees
- Exemptions from US Tax
- Taxation of US Citizens and Residents
- Self-employment tax
- Deductions for unreimbursed employee business expenses
- SEP/IRA deductions & Self-Employed Health Insurance deductions
- Estimated Tax payments
- Joint filing election with nonresident alien spouse
- Foreign Bank Account Reporting (FBAR)
- Foreign Account Tax Compliance Act (FATCA)

Categories of Employees

Locally Engaged Staff

- US Citizens
- LPR/Green Card Holders
- G Visa Holders

Taxation of US Citizens and Residents

Basic Concepts

- US Citizens and residents are subject to tax on world-wide income
- All income from whatever source must be reported on US tax return unless it is specifically exempt from US tax under US law or a tax treaty or international agreement
- In the event income is also subject to tax in a foreign country, the US allows a foreign tax credit if the income is earned outside of the US. For income earned inside the US, the foreign country should allow a foreign tax credit to eliminate any double taxation

LPR Green Card Holders

- Green Card holders employed at the EU Delegation to the US are subject to U.S. income taxes on their wages
- Green card holders are NOT subject to U.S. Social Security taxes.
- Generally, no exemption under Section 893 of the Internal Revenue Code is allowed for green card holders.

Taxation of US Citizens and Residents

Form 1040

- US citizens and residents who are subject to tax:

Must 

- Report wages on Form 1040, Line 7
- Make Estimated Tax payments on Form 1040ES
- (US Citizens Only) Complete Schedule SE to pay into the US Social Security system as if they were self-employed.

Must Not 

- Report wages Schedule C
- Report wages as Other Income on Form 1040, Line 21
- Claim SEP/IRA deduction on Form 1040, Line 28
- Claim SE Health Insurance deduction on Form 1040, Line 29

Employee Business Expenses

- US citizens and Green Card holders may have deductions for unreimbursed business expenses
- Ordinary and necessary, required by employer
- No employer reimbursement available
- Use Form 2106 to calculate the amount of unreimbursed employee business expense and claim deduction on Schedule A, Miscellaneous Itemized Deductions. Subject to 2% AGI limitation
- Do not use Schedule C to claim employee business expenses

Nondeductible items

Simplified Employee Pension (SEP/IRA) Retirement Accounts

- Available only to self-employed individuals
- Wage income does not qualify as self-employment income for a SEP/IRA account
- No deduction is allowed for a contribution to a SEP/IRA plan on Form 1040, Line 28. See IRS Revenue Ruling 73-38

Self-Employed Health Insurance Deductions

- Available only to self-employed individuals
- Employees receiving wage income do not qualify to claim a deduction for self-employed health insurance on Form 1040, Line 29

Taxation of US Citizen Employees

Self-Employment Tax

- For Social Security tax purposes only, US citizens working at the EU are taxed as if they were self-employed. For all other purposes they are considered employees.
- Computation of self-employment tax is done on Schedule SE
- For 2017 and 2018 the SE tax rate is 15.3%
- A portion of self-employment taxes may be deducted on Form 1040, Line 27

Estimated Tax Payments

Federal Estimated Tax Computation

Either

- 90% of the current year tax due
or
- 100% of the prior year tax
(110% if the AGI from Form 1040, Line 37 is greater than \$150,000)

State Estimated Tax Computation

- NY & Maryland - 90% of current year or 110% of prior year tax (110% if the prior year State adjusted gross income is greater than \$150,000)
- DC & Virginia - 90% of current year or 100% of prior year tax

Estimated Tax Payments

- Federal estimated tax payments are made on Form 1040ES
- Federal (IRS) due dates for the current year are:

Quarter	Federal (IRS) Due Dates	NY State Due Dates	DC/Maryland State Due Dates	Virginia State Due Dates
1 st Quarter	April 17, 2018	April 17, 2018	April 17, 2018	May 1, 2018
2 nd Quarter	June 15, 2018	June 15, 2018	June 15, 2018	June 15, 2018
3 rd Quarter	Sept 17, 2018	Sept 17, 2018	Sept 17, 2018	Sept 17, 2018
4 th Quarter	Jan 15, 2019	Jan 15, 2019	Jan 15, 2019	Jan 15, 2019

Form 1040-ES
Department of the Treasury
Internal Revenue Service

2017 Estimated Tax

Payment
Voucher 3

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year—Due Sept. 15, 2017

Amount of estimated tax you are paying
by check or
money order.

Dollars Cents

Your first name and initial	Your last name	Your social security number
If joint payment, complete for spouse		
Spouse's first name and initial	Spouse's last name	Spouse's social security number
Address (number, street, and apt. no.)		
City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
Foreign country name	Foreign province/county	Foreign postal code

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Tear off here

Form 1040-ES
Department of the Treasury
Internal Revenue Service

2017 Estimated Tax

Payment
Voucher 2

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year—Due June 15, 2017

Amount of estimated tax you are paying
by check or
money order.

Dollars Cents

Your first name and initial	Your last name	Your social security number
If joint payment, complete for spouse		
Spouse's first name and initial	Spouse's last name	Spouse's social security number
Address (number, street, and apt. no.)		
City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
Foreign country name	Foreign province/county	Foreign postal code

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Tear off here

Form 1040-ES
Department of the Treasury
Internal Revenue Service

2017 Estimated Tax

Payment
Voucher 1

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year—Due April 18, 2017

Amount of estimated tax you are paying
by check or
money order.

Dollars Cents

Your first name and initial	Your last name	Your social security number
If joint payment, complete for spouse		
Spouse's first name and initial	Spouse's last name	Spouse's social security number
Address (number, street, and apt. no.)		
City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
Foreign country name	Foreign province/county	Foreign postal code

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Form 1040-ES (2017)

Joint Filing Election with Nonresident Spouse

- One-time election to file a joint tax return with a nonresident alien spouse
- Written election is required in year of election
- Nonresident alien spouse is required to report worldwide income
- If a joint filing election is made, the exemption from US tax for EU G visa holders is not affected. See IRS Revenue Ruling 79-246
- The election can be revoked, but once revoked cannot be made again

Foreign Bank Account Reporting

Form 114

- Required of US citizens or residents with a financial interest in or signature authority over foreign financial accounts if the total value of the accounts exceeded \$10,000 at any time during the year
- Form 114 is not an IRS form; it is filed directly with the US Treasury. Do not include with your tax return.
- Form is required whether or not a tax return is filed
- Filing deadline is April 15th of each year and can be extended
- Filing of Form 114 is required in addition to FATCA Form 8938 filing

Failure to file is risky – penalties are extreme

- Non-willful penalty is \$10,000 for failure to file
- Willful penalty is the greater of 50% of the account balance or \$100,000

Foreign Account Tax Compliance Act (FATCA)

Form 8938

- Required of US citizens or residents with an interest in Specified Foreign Financial Assets exceeding certain amounts
- Form 8938 is an IRS form and is required to be filed with your US tax return
- If a tax return is not required to be filed, no Form 8938 has to be filed
- Filing of FATCA Form 8938 is in addition to filing of FBAR form Form 114

Failure to file is risky – penalties are extreme

- Penalty for failure to file starts at \$10,000 and continues up to \$50,000 for continuing failure to file after IRS notification
- Additional 40% penalty for failure to report income on tax return
- Statute of Limitations does not start until accurate Form 8938 is filed

Foreign Account Tax Compliance Act (FATCA)

Form 8938

- Specified Foreign Financial Assets include:
 - Bank and investment accounts
 - Direct ownership of foreign stock
 - Foreign retirement accounts
 - Foreign life insurance policies
 - Foreign partnership interests
 - Foreign estate and trust interests
- **When in doubt file Form 8938**

Foreign Account Tax Compliance Act (FATCA)

Form 8938

- Form 8938 must be filed when Specified Foreign Financial Assets exceed specified amounts
- File Form 8938 if Specified Foreign Financial Assets exceed either the Year-end Total or Highest Annual values in the table to the right

Filing Status / Location	Year-end Total (greater than)	Highest Annual (greater than)
Single in U.S.	\$50,000	\$75,000
Single Overseas	\$200,000	\$300,000
Joint in U.S.	\$100,000	\$150,000
Joint Overseas	\$400,000	\$600,000
Separate in U.S.	\$50,000	\$75,000
Separate Overseas	\$200,000	\$300,000

Questions?

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