

EXPATRIATES

United States

Tax Facts for International Assignees



INCOME TAX: WHO IS LIABLE

All US citizens and permanent residents (i.e., green card holders) must continue to file US Federal income tax returns (including State and Local, if applicable) reporting worldwide income, even when residing outside of the US.

The due date for the tax returns and payment of any tax due remains April 15; however, the Internal Revenue Service (IRS) will grant an automatic 2-month extension for filing your returns if you reside in a foreign country on April 15th.

A Foreign Earned Income Exclusion is available to taxpayers who earn employment income while residing abroad. This exclusion (maximum of \$112,000 in 2022) is based on residency in a foreign country, which is determined by qualifying under one of two tests. Note that the exclusion is pro-rated for part years. It is imperative that a detailed travel calendar is maintained by the taxpayer to determine the qualification for this exclusion.

In addition, a taxpayer may also be eligible for a housing exclusion/deduction for certain qualified foreign housing expenses. The amount will be determined based on the location of the foreign housing as well as the number of days in the location.

On income that is not excluded, and taxes are paid to a foreign jurisdiction, the US will allow a foreign tax credit up to the amount of the applicable US taxes that would have been paid. Any excess foreign taxes can be carried back into the previous year (if available) or forward 10 years.

Whether an individual will remain resident in their home state when working overseas will depend on several factors.

If remaining a resident, most (but not all) states allow the Foreign Earned Income Exclusion. There are also a few states that will allow the foreign tax credit.

Non-US Investment and Assets

US taxpayers that hold funds in non-US bank or other financial institutions may be required to file an additional form (FinCEN Form 114 - Report of Foreign Bank and Financial Accounts) if the aggregate holdings exceed \$10,000 at any point during the year.

Additionally, for specified individuals living outside of the US (and who meet additional criteria), Form 8938 may be required if foreign assets exceed \$200,000 (\$400,000 for married couples filing jointly), including the value of any foreign pension plans the taxpayer may be a part of.

Other disclosure or reporting requirements exist for ownership in specific foreign activities, such as ownership in foreign corporation, partnerships, estate/trusts, pensions, and foreign mutual funds.

BREAKING RESIDENCY/EXIT PROCEDURES

To break US tax residency, a complex set of documents and processes needs to be followed and a fee of \$2,350 paid to the government to renounce US citizenship.

An individual must also appear in person at a US embassy or consulate and sign an oath or affirmation of the intent to renounce citizenship/green card status.

An expatriation or exit tax may also be applied based on the current fair market value of assets compared to the cost of those assets prior to departure.

The US may still seek to tax certain individuals on specific items after renouncing citizenship.

State residency is typically broken when all ties to the state are severed (e.g., no permanent home, driver's license returned, voter registration moved, etc.). Some states require an individual to create residency in another state or foreign country before breaking residency in the first state.

INCOME TAX RATES - 2022

Tax rate	Married filing jointly income	Single income
10%	\$0 - \$20,550	\$0 - \$10,275
12%	\$20,551 - \$83,550	\$10,276 - \$41,775
22%	\$83,551 - \$178,150	\$41,776 - \$89,075
24%	\$178,151 - \$340,100	\$89,076 - \$170,050
32%	\$340,101 - \$431,900	\$170,051 - \$215,950
35%	\$431,901 - \$647,850	\$215,951 - \$539,900
37%	Over \$647,850	Over \$539,900

Net Investment Income Tax (Surtax)

Beginning for tax years 2013 and forward, a Net Investment Income Tax needs to be considered. This tax will be assessed on net investment income at a rate of 3.8% on individuals whose total adjusted gross income exceeds \$200,000 (\$250,000 for married couples filing jointly).

Net investment income is determined by accumulating all investment income, such as interest, dividends, capital gains, and rental income. Certain investment related expenses (such as investment interest expense) are subtracted in determining the net investment income.

SOCIAL TAX RATES

The current maximum taxable earnings amount for Social Security (OASDI) taxes is \$147,000 for 2022. The tax rates for the OASDI taxes are:

- Employee - 6.2%
- Employer - 6.2%

Additionally, there is a Medicare Hospital Insurance tax that is charged on earned income for both employee and employer. The tax rate is:

- On income up to \$200,000 (\$250,000 if Married, Filing Jointly) - 1.45% for both employee and employer
- On income over \$200,000 (\$250,000 if Married, Filing Jointly) - 2.35% employee and 1.45% employer

A US person can remain in the US social security scheme while working abroad if the employer maintains a US based payroll and individual remains employed by the US entity.

Note that where the US has entered into a Totalization Agreement with a foreign country (30 countries to date), a Certificate of Coverage should be obtained from the Social Security Administration in order to avoid duplicate social tax contributions in the host country.

For further information and to register for future updates contact expat@bdo.global.

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