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US expats get reprieve from IRS (new rules remove penalties)

By: **DAVID MCKEEGAN** | June 28, 2014 [Tweet](#) 7 [Like](#) 19

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Finally the IRS has done more than just listen – they acted. Last week the IRS announced major changes to the Streamlined Filing Procedure. The Streamlined Procedure was introduced to help low-risk delinquent taxpayers living overseas to become compliant with their US tax obligation.

The program has now been expanded to allow even more US expats to get caught up on their US tax return filing with no penalties. No penalties? That’s right. No fear of financial charges or jail time. Finally, US expats are being treated like citizens and not criminals. And it’s about time.



Here is exactly what the changes are:

1. Extension of eligibility to include US taxpayers residing in the United States;
2. Eliminating a requirement that the taxpayer have \$1,500 or less of unpaid tax per year;
3. Elimination of the risk assessment process;
4. Requiring the taxpayer to certify that previous failures to comply were due to non-willful conduct;
5. Waiving of all late payment, late filing and FBAR penalties for US taxpayers living abroad;

Every American expat should be thrilled with these changes, because they are a huge win and make it much easier for late filer to get caught up. Many US expats who are behind on their taxes were unaware that they had a US filing obligations, which is quite common. We live in the Information Age, but our research and conversations make it clear that expats aren’t getting information about new laws, regulations and tax obligations while abroad.

Here’s how we know:

In 2014, my company, Greenback Expat Tax Services, which handles federal tax preparation for US expats living across the globe, ran a survey in which more than 700 US expats participated. The most surprising piece of data was the lack of awareness by American expats on current laws.

In fact:

- 40% of respondents didn’t know what FATCA was (a new IRS reporting requirement for individuals with overseas assets that carries serious penalties for lack of filing);
- 37% did not know if or how they would be impacted by the Affordable Care Act and
- 15% did not know about the existence of the Foreign Bank Account Report (FBAR), which is another asset-reporting tool used by the US Treasury which has a June 30th deadline and also carries very stiff failure to file penalties)!

One of the biggest questions we get asked all the time servicing thousands of US expats worldwide is this: What is FBAR (Foreign Bank Account Report) and FATCA (Foreign Account Tax Compliance Act)?

The answer is quite simply this: FBAR and FATCA are both part of the US initiative to prevent US taxpayers from hiding money overseas to avoid US taxes. FBAR must be filed directly with the US Treasury if foreign bank account balances equal \$10,000 or more at any point during the tax year.

The deadline for this form is June 30 each year and there are no extensions. FATCA, or Form 8938, must be filed if individuals hold offshore assets that exceed certain thresholds (which are based on US resident status and filing status). These reportable assets are such things as foreign bank accounts, foreign pensions or other foreign investments.

Failure to file the FBAR or FATCA if required can result in steep penalties and even criminal prosecution. Fortunately, the revised Streamlined Procedure should help US expats get caught up on their taxes and these forms without the risk of huge fines, making now the best time in recent memory to get caught up on your US taxes.

The changes to the Streamlined Procedures show that the IRS has listened to the voice of US taxpayers around the world and is attempting to ease the burden of US tax compliance for honest individuals.

However individuals who have been purposefully hiding assets overseas are going to face more intense scrutiny as the Offshore Voluntary Disclosure Penalties have increased to 50% and individuals banking with a number of Swiss banks are no longer eligible to be included in this program.

We could interpret the IRS message in this new law to be: If you’re honest, get caught up now with no penalty; but if you are hiding money offshore, we will catch you, and you will pay!

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