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Voices 5 things every U.S. expat needs to know about the new tax law

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Published January 19 2018, 2:29pm EST

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With the passage of the Tax Cuts and Jobs Act, the tax code has been fully transformed for the first time in three decades.

The plan has been marketed as a much-needed simplification for American taxes, and American expatriates comprise a tax-paying demographic most in need of simplification of the tax requirements. Does the TCJA deliver on its promise for those who live abroad? Below is the information U.S. expats need to know.

1. The most important tax code provisions for expats remain in place. The Foreign Earned Income Exclusion and the Foreign Tax Credit help expats avoid double taxation and are included in the tax reform. However, the amount of the FEIE that can be excluded from taxes each year is indexed to inflation, which brings us to our second point.

2. Inflation calculations have changed. The tax reform law has changed the measure of inflation from the "regular consumer price index" to the "chained consumer price index," and changing the way inflation is calculated will affect a number of tax-related issues. The end result is a lower rate of inflation used to calculate tax figures, which will increase taxes over time.

3. The foreign information reporting requirements are generally unchanged. Sadly, the burdensome reporting requirements expats are required to submit in addition to their tax returns are unchanged. The Foreign Bank Account Report, also known as FinCEN 114, the FATCA requirements, Form 8938 (Statement of Foreign Financial Assets), Form 5471 (Report of Certain Foreign Corporations), and Form 3520 (Report of Foreign Trusts), are here to stay. This means that many expats will continue having trouble banking abroad and face onerous penalties if they fail to file.

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4. Tax brackets, exemptions and deductions have been modified. Tax brackets are now larger, meaning taxpayers may now be in a lower bracket than they were previously, and the standard deduction has nearly doubled. For those considering a move to or from the U.S., two new issues should be considered. First, the moving deduction has been completely eliminated. Second, the individual mandate part of the Affordable Care Act has been eliminated. Unfortunately, the Net Investment Income Tax was not eliminated and will still impact expats.

5. Corporate taxes have significantly changed. The tax reform bill has transitioned the U.S. to a territorial system of corporate taxation. Before, the U.S. operated using worldwide taxation, meaning that corporations had to pay taxes on the income they earned abroad. This change will affect expats who own corporations outside the U.S., because they will face a one-time deemed repatriation tax of 15.5 percent of any previously untaxed overseas profits as the U.S. transitions to a territorial system for corporations instead of a worldwide system.

Overall, the bill that was intended to simplify taxes will not provide much relief to U.S. expats. The individual reporting requirements are, for the most part, the same. U.S. expats who own small businesses abroad may find their situation is worse under the TCJA than under the old system. Most folks will not find their taxes streamlined by the provisions of the Tax Cuts and Jobs Act.

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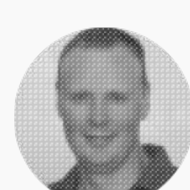

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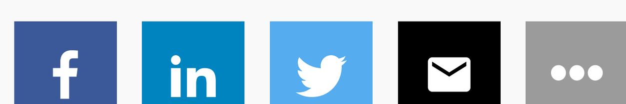
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