

# What Expats Need to Know About the New Tax Law



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**W**hether U.S. expatriates are living overseas for personal or professional reasons, the IRS requires these American citizens to file and pay taxes. With the biggest overhaul in 30 years to the tax code, the process and obligations for expats has undergone several important changes.

Unfortunately, the issues that have caused decades of frustration for U.S. expats have mostly remained the same. Below are the modifications and new enactments.

## New Tax Brackets

The tax brackets are now larger, though tax rates have decreased slightly. Together, these changes mean that depending on the specific situation, Americans living overseas might fit into lower tax brackets than in years past and could potentially face lower taxes than in recent years.

| <b>2017 Personal US Tax Rates</b> |  |   |  |
|-----------------------------------|--|---|--|
| <b>Rate</b>                       | <b>For Unmarried Individuals, Taxable Income Between</b> | <b>For Married Individuals Filing Joint Returns, Taxable Income Between</b> | <b>For Heads of Households, Taxable Income Between</b> |
| 10%                               | \$0 to \$9,325   | \$0 to \$18,650   | \$0 to \$13,350  |
| 15%                               | \$9,325+ to \$37,950                                     | \$18,650+ to \$75,900   | \$13,350+ to \$50,800                                  |
| 25%                               | \$37,950+ to \$91,900                                    | \$75,900+ to \$153,100  | \$50,800+ to \$131,200                                 |
| 28%                               | \$91,900+ to \$191,650                                   | \$153,100+ to \$233,350   | \$131,200+ to \$212,500                                |
| 33%                               | \$191,650+ to \$416,700                                  | \$233,350+ to \$416,700   | \$212,500+ to \$416,700                                |
| 35%                               | \$416,700+ to \$418,400                                  | \$416,700+ to \$470,700   | \$416,700+ to \$444,500                                |
| 39.60%                            | \$418,400+   | \$470,700+  | \$444,550+   |
| <b>2018 Personal US Tax Rates</b> |  |   |  |
| <b>Rate</b>                       | <b>For Unmarried Individuals, Taxable Income Between</b> | <b>For Married Individuals Filing Joint Returns, Taxable Income Between</b> | <b>For Heads of Households, Taxable Income Between</b> |
| 10%                               | \$0 - \$9,525  | \$0 - \$19,050  | \$0 - \$13,600   |
| 12%                               | \$9,525+ to \$38,700                                     | \$19,050+ to \$77,400   | \$13,600+ to \$51,800                                  |
| 22%                               | \$38,700+ to \$82,500                                    | \$77,400+ to \$165,000  | \$51,800+ to \$82,500                                  |
| 24%                               | \$82,500+ to \$157,500                                   | \$165,000+ to \$315,000   | \$82,500+ to \$157,500                                 |
| 32%                               | \$157,500+ to \$200,000                                  | \$315,000+ to \$400,000   | \$157,500+ to \$200,000                                |
| 35%                               | \$200,000+ to \$500,000                                  | \$400,000+ to \$600,000   | \$200,000+ to \$500,000                                |
| 37%                               | \$500,000+   | \$600,000+  | \$500,000+   |

## New Corporate Tax Structure

One of the biggest changes is the new corporate tax structure. The U.S. is moving away from a worldwide system of taxation to a territorial tax system for corporations. So what exactly does this mean? Under the old system companies that had profits from overseas were taxed in the U.S. on these profits. If the profits were held in a foreign corporation, then the profits were U.S. tax deferred until they were repatriated to the U.S. Under the new system corporate profits held overseas will face a one-time deemed repatriation tax of 15.5 percent on cash and 8 percent on non-liquid assets. The tax due under this system will be payable over a period of 8 years. The payout for the first 5 years will be 8 percent of the net tax liability, the 6th year 15 percent, the 7th year 20 percent and the 8th year 25 percent.

## New Inflation Calculations

The way inflation is calculated affects many elements of the tax code, so it stands to reason that the changes to these calculations will have myriad effects. It used to be measured by factoring the “regular consumer price index” but that has been adjusted to factor the “chained consumer price index.”

Here's why this adjustment matters. The result now is expected to be a lower rate of inflation. As this lower rate is used to calculate certain thresholds — such as the annual increase to the Foreign Earned Income Exclusion — the amount of the exclusion will decrease relative to real inflation. This will result in a net increase in the amount of income tax expats will be liable to pay in the future.

For example, if the FEIE is \$104,100 for 2018, that's an increase from \$102,100 in 2017, or about 2 percent. Over the same period the chained CPI was about 1.9 percent. Over a 1-year period this is not a big difference, but over a 10-year period it would reduce the FEIE by \$1,238.62. This difference would increase if inflation were to rise.

### **New Modifications to Exemptions and Deductions**

The standard deduction still exists, as does the option to itemize deductions if that is the best choice for the taxpayer. However, the standard deduction has been nearly doubled. For single filers, the deduction increases to \$12,000 from \$6,350, and for married couples filing jointly, the deduction changes to \$24,000 from \$12,700.

However, the personal exemption amount of \$4,050 per filer and dependent is eliminated. So, a married couple with children will see a net decrease in their total deductions and exemptions (and therefore an increase in taxes owed), while a single person with no children who does not itemize their deductions will see their total deductions and exemptions increase.

Lastly, the tax reform caps state and local taxes at \$10,000, which would only come into play for the rare expat who is still required to pay state taxes.

The Tax Cuts and Jobs Act has completely transformed the U.S. tax code, and that means different things for different taxpayers. For American expats (U.S. citizens living outside of the continental U.S., Hawaii or Alaska), the number of changes faced will vary. The sweeping tax reform overhaul is still in its infancy, and the

And, while simplification was a key talking point for passage, when it comes to U.S. expat filing, the word is complication!

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## About Dave McKeegan

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David McKeegan, MBA, EA, is Co-Founder of [Greenback Expat Tax Services \(http://www.GreenbackTaxServices.com\)](http://www.GreenbackTaxServices.com), which specializes in providing expert Expat tax preparation and services for Americans living around the world. An experienced finance professional and entrepreneur, for over 9 years, McKeegan has led a team of CPAs and IRS enrolled agents serving clients living in over 200 countries. His company's annual US Expat Opinion Survey has become a leading indicator on Expat trends and data including sentiments toward US government representation, citizenship renunciations and more. David McKeegan can be reached at [info@GreenbackTaxServices.com](mailto:info@GreenbackTaxServices.com) (<mailto:info@GreenbackTaxServices.com>) and Twitter [@GreenbackTax \(https://twitter.com/GreenbackTax\)](https://twitter.com/GreenbackTax).

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