ACA Town Hall Zurich
Presented on September 17, 2019
Agenda

• Individual Taxpayers
• Changes for Corporate Taxpayers
• Questions
As a U.S. citizen or green card holder you remain subject to U.S. tax on your worldwide income even if you don't have a tax liability as a result of foreign tax credits, FEIE, and/or income tax treaty.

Mechanisms to avoid double taxation
- Foreign earned income exclusion (FEIE) allows you to exclude income earned abroad of $104,100 for 2018.
- Foreign tax credit - credit given for non-U.S. income taxes paid in the calendar year or income tax accrued
- No double dipping

Automatic two-month extension available until June 15th, but any tax due needs to be paid in full by April 15th to avoid interest accrual.
Filing Taxes from Overseas

Head of Household Status

- U.S. citizen married to a nonresident alien
- You must have a qualifying child or dependent
- You paid more than half of the cost of keeping up the main home
### Standard Deduction

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$12,000</td>
<td>$12,200</td>
</tr>
<tr>
<td>MFJ</td>
<td>$24,000</td>
<td>$24,400</td>
</tr>
<tr>
<td>HOH</td>
<td>$18,000</td>
<td>$18,350</td>
</tr>
</tbody>
</table>
Itemized Deductions

Still allowed under TCJA with limitations

- Medical and Dental Expenses
- Mortgage Interest
  - $750,000 limit post December 14, 2017
- SALT up to $10,000
  - State and local income or sales taxes, real estate taxes, and property taxes
- Charitable Contributions
  - 60% of adjusted gross income
Itemized Deductions

Not allowed under TCJA:

• Wealth taxes imposed by foreign governments
• Foreign taxes (other than income tax), including property taxes and VAT taxes
• Home equity loan interest NOT used to improve current home
• All miscellaneous 2% deductions, including investment, tax, and legal advice fees
• Unreimbursed employee business expenses
## 2018 Tax Brackets and Rates

<table>
<thead>
<tr>
<th>Rate</th>
<th>For Unmarried Individuals, Taxable Income Over</th>
<th>For Married Individuals Filing Joint Returns, Taxable Income Over</th>
<th>For Heads of Households, Taxable Income Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>12%</td>
<td>$9,525</td>
<td>$19,050</td>
<td>$13,600</td>
</tr>
<tr>
<td>22%</td>
<td>$38,700</td>
<td>$77,400</td>
<td>$51,800</td>
</tr>
<tr>
<td>24%</td>
<td>$82,500</td>
<td>$165,000</td>
<td>$82,500</td>
</tr>
<tr>
<td>32%</td>
<td>$157,500</td>
<td>$315,000</td>
<td>$157,500</td>
</tr>
<tr>
<td>35%</td>
<td>$200,000</td>
<td>$400,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>37%</td>
<td>$500,000</td>
<td>$600,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>
## 2019 Tax Brackets and Rates

<table>
<thead>
<tr>
<th>Rate</th>
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</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>12%</td>
<td>$9,700</td>
<td>$19,400</td>
<td>$13,850</td>
</tr>
<tr>
<td>22%</td>
<td>$39,475</td>
<td>$78,950</td>
<td>$52,850</td>
</tr>
<tr>
<td>24%</td>
<td>$84,200</td>
<td>$168,400</td>
<td>$84,200</td>
</tr>
<tr>
<td>32%</td>
<td>$160,725</td>
<td>$321,450</td>
<td>$160,700</td>
</tr>
<tr>
<td>35%</td>
<td>$204,100</td>
<td>$408,200</td>
<td>$204,100</td>
</tr>
<tr>
<td>37%</td>
<td>$510,300</td>
<td>$612,350</td>
<td>$510,300</td>
</tr>
</tbody>
</table>
Alimony Deduction & Income Recognition

- Payer no longer allowed a deduction
- Shifts the tax burden of the alimony to the payer
- Takes effect on all alimony agreements beginning after 12/22/17
Child Tax Credit

- $2,000 per qualifying child and phased out for taxpayers with AGI above $200,000 or $400,000 for MFJ.
- The refundable portion of each child credit is now $1,400.
- Child must have a valid SSN
- Request it through the SSA Federal Benefits Unit in Frankfurt or Paris.
Kiddie Tax Changes

- Previously, children with interest, dividends, and other unearned income totaling more than $2,100 would be taxed at the parents' tax rate.
- Under the TCJA, the Kiddie Tax no longer exists – all of the child’s unearned income will now be taxed using the trust and estate income tax bracket, shown to the left.
- By using the fastest-climbing rates, this deters parents from shifting income to their children.

### Tax Brackets for 2018 & 2019:

<table>
<thead>
<tr>
<th>Marginal Rate</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>0 - $2,550</td>
<td>0 - $2,600</td>
</tr>
<tr>
<td>24%</td>
<td>$2,551 - $9,150</td>
<td>$2,601 - $9,300</td>
</tr>
<tr>
<td>35%</td>
<td>$9,151 - $12,500</td>
<td>$9,301 - $12,750</td>
</tr>
<tr>
<td>37%</td>
<td>Over $12,500</td>
<td>Over $12,751</td>
</tr>
</tbody>
</table>
Estate Tax Exemption

The exemption amount is $11,400,000 per individual

This greatly reduces the number of estate returns that will need to be filed

Some states are not following the TCJA exemption
Foreign Rental Depreciation

• Foreign rental properties are required to be depreciated using the Alternative Depreciation System (ADS)

• Foreign residential properties placed in service after 12/31/17 will now be depreciated over 30 years

• NOTE: Depreciation must be recaptured when rental property is sold at a gain
Sale of Foreign Principal Residence
Sale of Foreign Principal Residence

• If you owned and occupied the property as your principal residency for 2 of the 5 years before the sale you can exclude a gain of $250,000 ($500,000 – MFJ).

• Foreign Exchange Gain or Loss:
  – Be wary of the payoff of an outstanding mortgage in a foreign currency. A difference in the exchange rates will result in a FX gain or loss. These gains/losses are considered personal in nature.
  – Personal gains (short term) are taxed at graduated rates
  – Personal gains (long term) would get the preferential cap gains treatment.
Corporate & Business Changes
Corporate Tax Rate

35% to 21%
Section 199A Deduction

- The section 199A deduction offers a 20% reduction in qualified business income from pass-through entities (sole proprietorships, s-corporations, LLCs, etc.) on the owner’s 1040 for trade or business conducted within the **U.S.**

- Income received from service trade businesses including accountants, lawyers, or investment managers is excluded from this deduction.
Global Intangible Low Tax Income (GILTI)

- Accelerates U.S. taxation of previously deferred income irrespective of distributions
- Individual U.S. shareholders are taxed on GILTI at ordinary income rates (37% plus state)
- Imposes a foreign minimum tax on 10% U.S. shareholders of CFCs on the excess of “CFC tested income” over 10% return on capital invested in tangible depreciable property used in a trade or business
Global Intangible Low Tax Income (GILTI)

CFC Tested Income = gross income less allocable deductions

• Income excludes:
  – A CFC’s U.S. source income effectively connected with a U.S. trade or business
  – Subpart F gross income
  – Certain high-taxed Subpart F income
  – Dividends received from a related person
  – Foreign oil and gas extraction income
Who does GILTI apply to?

- Any foreign corp. if > 50% of total value or voting power of shares is owned by U.S. shareholders
- Any CFC, and
  - Any Foreign Corp. with respect to which one or more Domestic Corp. is a U.S. Shareholder.
- Any foreign corp. if > 10% of total value or voting power of shares is owned by U.S. shareholders
- A citizen or resident of the U.S.
- Domestic corporation or partnership
- Trust
- Estate other than foreign

U.S. Shareholders

Specified Foreign Corporation

10%

Controlled Foreign Corporation (CFC)

10%
Subpart F & CFC Changes

• Subpart F Income is CFC income that is deemed to be taxable to the U.S. shareholder in the year it is earned
• Under the TCJA, new downward attribution rules have taken effect, allowing ownership attribution to pass from a foreign person to a U.S. person if there is a 10% ownership
• This new rule effectively increases the number of foreign corporations that are CFCs
• The TCJA also changes the definition of a 10% shareholder to mean owning 10% of the value of the company, not just the voting power, also widening the definition of a CFC
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