



# ACA Town Hall Zurich

Presented on September 17, 2019



Presented by



**FRANCHESKA PIMENTEL, CPA, MSA**  
Partner, International Tax Services Group



# Agenda

- Individual Taxpayers
- Changes for Corporate Taxpayers
- Questions



# Filing Taxes from Overseas

- 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 15<sup>th</sup>, but any tax due needs to be paid in full by April 15<sup>th</sup> 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

	<b>2018</b>	<b>2019</b>
Single	\$12,000	\$12,200
MFJ	\$24,000	\$24,400
HOH	\$18,000	\$18,350

# 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

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	\$0	\$0	\$0
12%	\$9,525	\$19,050	\$13,600
22%	\$38,700	\$77,400	\$51,800
24%	\$82,500	\$165,000	\$82,500
32%	\$157,500	\$315,000	\$157,500
35%	\$200,000	\$400,000	\$200,000
37%	\$500,000	\$600,000	\$500,000

# 2019 Tax Brackets and Rates

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	\$0	\$0	\$0
12%	\$9,700	\$19,400	\$13,850
22%	\$39,475	\$78,950	\$52,850
24%	\$84,200	\$168,400	\$84,200
32%	\$160,725	\$321,450	\$160,700
35%	\$204,100	\$408,200	\$204,100
37%	\$510,300	\$612,350	\$510,300



# 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.



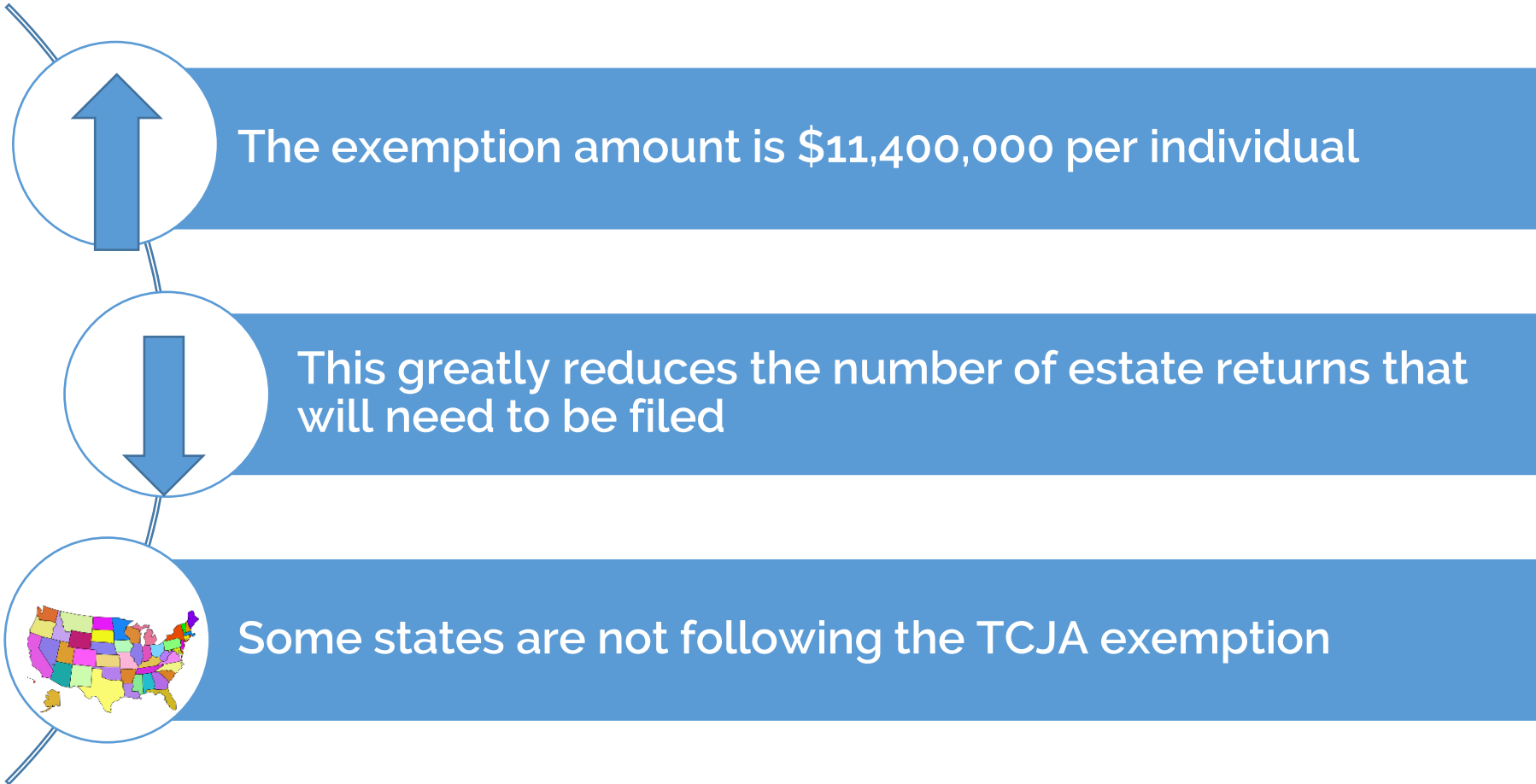
## Tax Brackets for 2018 & 2019: Income Tax Rates for Trusts and Estates

Marginal Rate	2018	2019
10%	0 - \$2,550	0 - \$2,600
24%	\$2,551 - \$9,150	\$2,601 - \$9,300
35%	\$9,151 - \$12,500	\$9,301 - \$12,750
37%	Over \$12,500	Over \$12,751

## 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.

# Estate Tax 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)

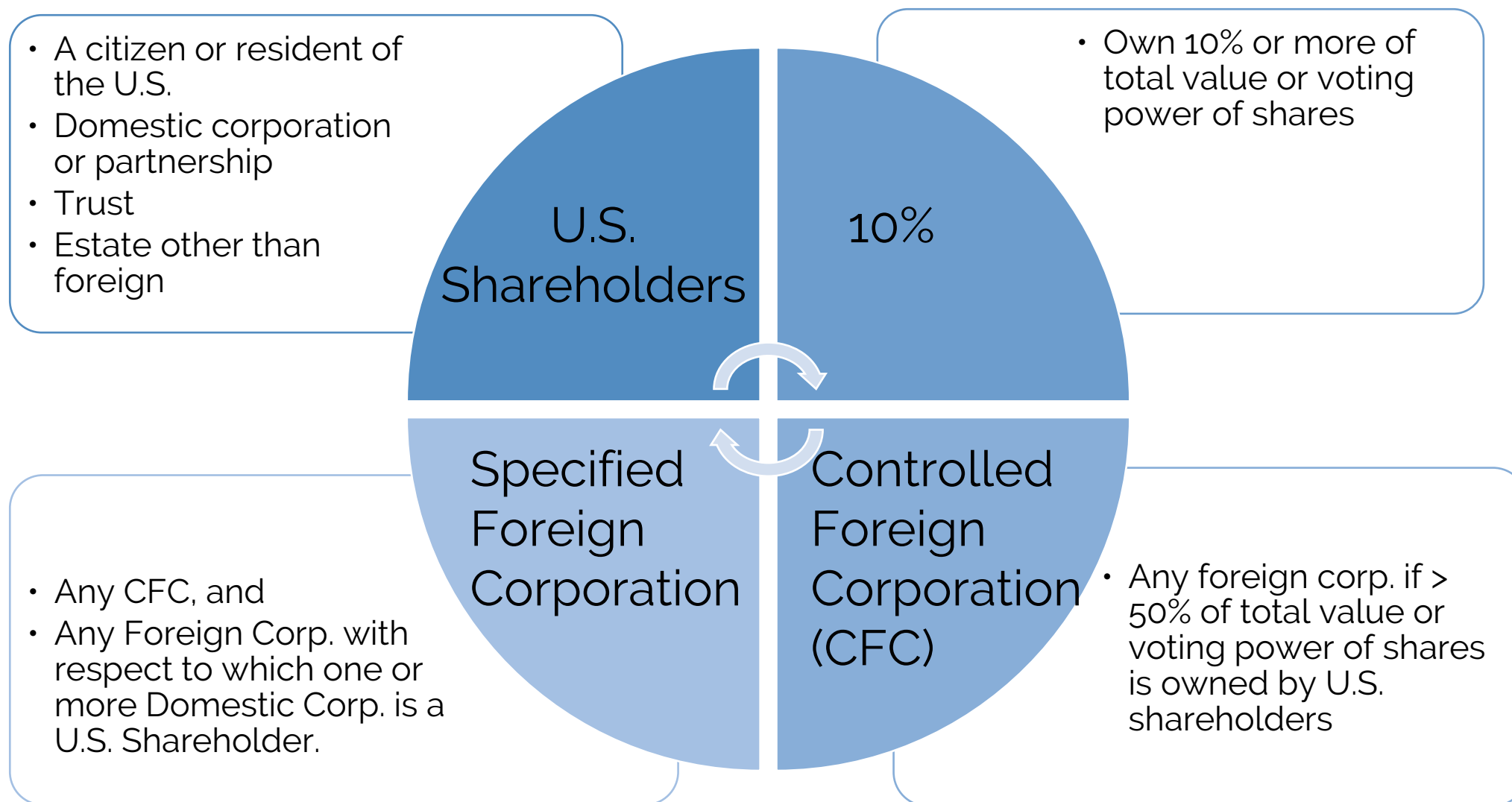
- Accelerates U.S. taxation of previously deferred income irrespective of distributions
- Individual U.S. shareholders are taxed on GILTI at ordinary income rates (37% plus state)
- Imposes a foreign minimum tax on 10% U.S. shareholders of CFCs on the excess of "CFC tested income" over 10% return on 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?





# 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



# Global Tax Services Group

---

We're here when you need us...

International Resources, Personalized Services

Expatriate Services   Inpatriate Services   Global Mobility





# Let's Connect



Francheska Pimentel, CPA, MSA  
fpimentel@KahnLitwin.com



888-KLR-8557

KahnLitwin.com

