

How to manage the IRS and ensure efficient tax management

When a US citizen, whether at home or abroad, receives general income and / or earnings above the tax exemption threshold, a yearly tax return is required to be filed with the IRS. Although a two-month extension to pay the tax is given to non-resident US citizens, any unpaid liability at April 15 will incur interest and possible penalties.

Tax exempt thresholds vary depending on your filing status. Tax legislation enacted in 2017 removed the personal and dependent exemption and revised the standard deduction which forms the basis of the tax filing threshold. The standard deduction amount for single person or the individual who files 'Married Filing Separately' is \$12,000. However, if you can prove yourself to be the 'Head of Household', which encompasses being unmarried for the tax year, having a child or dependent and that of paying more than half of the household expenses, you will be allocated a lower tax rate and a tax-free threshold of \$18,000. Couples who file jointly with their spouse or civil partner are allowed \$24,000 and if you are over 65 the levels are slightly higher.

You should always ensure that you understand exactly what you are required to report on. As a US national living abroad, the tax return requirements grow considerably when complying with all the reporting obligations and if you are unprepared or unfamiliar with the system, it is easy to slip up and omit vital information that may be an issue at a later date.

However, queries often arise from the IRS and it is important to respond quickly to any requests made. If you should receive a notice, it does not necessarily mean that their information is correct, and it is often worth getting professional advice to check this before responding.

Unlike most countries, the US taxes its citizens and lawful permanent residents (the Green Card Holder) globally and although there are provisions in place to ensure that double taxation on the same income does not take place, navigating the complex cross border tax issues can be complicated. Therefore, should your affairs be multifaceted, you should consider seeking professional advice to ensure that you report all non-US investments correctly as well as ensuring matching tax credits are best utilized.

And finally, take care with tax free foreign investments. Although they may be tax free in their host country, the same will not necessarily apply in the US; so proceed with care and ensure that you avoid any additional costs with unnecessary reporting and taxation.