



Overseas Tax Services

US Income Tax Preparation for Americans Living Abroad

News and Updates

January 17, 2018

Greetings!

Snowy Vermont greetings to you all! It's hard to believe it's our fifth winter here—that's a lifetime record for me in one house. A year ago we were wondering what the new year would bring for the (tax) world. And yes, as 2017 ended, we did indeed get a big new tax law to figure out. Very little of it will impact your 2017 returns (the ones we'll be preparing over the next few months). I'll highlight below some of the changes that may affect your 2018 returns. From what I've learned so far, I don't think most of you will see drastic differences. As with all things tax-related, however, "it depends!" It does appear that the basic foreign tax issues for individuals (Foreign Earned Income Exclusion and Foreign Tax Credit) will continue to work the same way as before.

You'll be happy, I think, to hear that prices will remain the same and I will generally not be adding new clients this year. I thank you all very much for the enthusiastic recommendations so many of you have made to your friends and colleagues. I truly appreciate them! But in the interests of providing excellent service to you all, and keeping a manageable "work-life balance," I'm going to hold things at their current level for this year.

In addition to tax law reminders and changes, deadlines are below, and the new questionnaires are available through your online account. I'm looking forward to working with you soon!

2018 TAX DEADLINES

| If you... | OTS wants your documentation by... | IRS Filing Deadline |
|--|--|--|
| Live in the US | March 1 (10% discount) | April 17 |
| Live overseas and expect to have significant tax due | March 1 recommended (10% discount) | June 15 , but interest charged on tax not paid by April 17 |
| Need to file an FBAR to report foreign accounts | With the rest of your tax documentation | *April 17* We expect that automatic extensions will again be available to October 15, but the process has not yet been announced. (See note 5 below.) |
| Live overseas | Early May (10% discount if file complete by March 1; extensions likely after May 20) | June 15 |
| Need more time | Notify OTS as early as possible | October 15 (maybe later if first year overseas) Extension must be filed by April 17 if you're in the US or June 15 if you're overseas. |

Notes

1. Once you have uploaded your questionnaire and all documentation, **you MUST email me to let me know you are ready!** I won't know unless you tell me.
2. Up until April 17 I will generally need to give priority to clients with the April deadline. However, if you have a June deadline but need the return done sooner (e.g. for a financial aid or mortgage application), please let me know your deadline and submit your paperwork as early as possible before then.
3. If your file isn't complete by **May 20**, I will most likely need to put you on an extension and prepare the return after the summer.
4. I do charge **rush fees** if your file is complete less than three weeks before your return is due.
5. **FBAR (Foreign Bank Account Report) extensions:** currently it appears that the extension will again be automatic with no request needed. I will update the **Deadlines** page of the

The website has been updated with current tax information. And the **Getting Started** page will help if you can't remember what you need to do to get things rolling here.

TAX REMINDERS AND COMMENTS

Things to know for the coming tax season...

- **IRA and Roth IRA contributions:** Please read the information on our **website** and check with me before contributing to any IRA accounts. Due to either the Foreign Earned Income Exclusion or your income level, many of you are not eligible to contribute to these.
- **College tuition and 529-plans:** If you're withdrawing from a 529-plan to pay college tuition (or, starting in 2018, primary or secondary school tuition), please be sure to match the year of the withdrawal with the year you pay the educational institution. If you make a withdrawal in December but don't pay the tuition bill until January, or pay in December and then withdraw to reimburse yourself in January, you may have a problem. The withdrawals are only tax- and penalty-free to the extent you have sufficient qualified education expenses *in the same year*.
- **New clients:** If you're one of the few new clients we've already accepted for this season, please inform your prior tax professional that you have moved on. We have had problems in the past with tax pros submitting extensions without notifying people, leading to problems if we later need to submit a tax payment with an extension request.
- **New babies:** Please apply for a Social Security Number for your newborn as soon as possible after the birth. (If you're overseas, you should be able to do it at the US embassy at the same time you apply for a passport.) Certain tax credits for children cannot be claimed retroactively on an amended return. You need to have the SSN at the time you file your original tax return for the year.
- **FAFSA financial aid timeline:** If you're applying for university financial aid, tax information is now requested from the *second* previous tax year. i.e. if you're applying for aid for the 2018-19 school year, you'll provide financial information from your 2016 tax return. The FAFSA can therefore be completed beginning October 1 for the following school year. Read more about it **here**.
- **ITIN renewals:** A few of you (or your children) who are not US citizens have ITIN numbers rather than Social Security Numbers. These now expire on a rotating schedule, rather than remaining valid permanently. If your ITIN is up for renewal, you should have received a letter from the IRS. For this year, renewals are required if the middle digits are 70, 71, 72 or 80 or if your ITIN has not been used on a tax return for tax year 2014, 2015, or 2016. I don't *think* this applies to any of you this year, but if I overlooked you and you think you might be affected, please get in touch right away. More information is available **here**.

THE NEW TAX LAW

Changes that may affect you for 2018 and beyond...

There are lots of articles available online discussing various aspects of the new law and I'll be spending much of my continuing education time this year learning the intricacies. But here are some of the most significant changes that affect individual filers. Note that most of these are effective for tax years 2018-2025, after which they are slated to return to their 2017 status.

- **New tax rates and brackets.** Details **here**.
- **Higher standard deduction and changes to itemized deductions:** If you previously itemized deductions on Schedule A, it may no longer be useful to do so since the new standard deduction is roughly doubled. This will depend on the amounts and kinds of deductions you have. New itemizing rules include:
 - **state and local income and property tax** deductions are capped at \$10,000 total.
 - Interest on **home equity loans** is not deductible
 - **medical expenses** are deductible to the extent they exceed 7.5% of adjusted gross income for 2017-2018, and 10% for 2019-2025.
 - "**miscellaneous deductions**" such as tax preparation fees, investment management fees, and unreimbursed employee business expenses are no longer deductible.
- **Personal exemptions are eliminated.** i.e. no more deduction for yourself, spouse, or dependents.
- **Child Tax Credit is increased** to \$2,000, of which \$1400 is refundable.
- **529-Plans for college savings:** Up to \$10,000 per student per year may now be used for public, private, or religious elementary or secondary school expenses in addition to university.
- For **divorces** occurring after Dec. 31, 2017, there is no deduction for alimony paid, and alimony received is not included in income. (Alimony stemming from divorces prior to 2018 is still deductible/includible as before.)
- **Moving expense deduction is eliminated.**
- Penalty for not having **health insurance** is repealed beginning 2019. i.e. you must still have qualifying health insurance or an exemption for 2017 and 2018.
- Small businesses are eligible for a **new 20% business income deduction**. (Limited based on taxable income and type of business, but will apply to most of you with small Sch. C activities.)

SECURITY AND LOGISTICS

Keep your information safe, and help us to help you better!

- **OTS Questionnaires:** As usual, I've made a few refinements both to accommodate tax changes and to try to reduce the amount of follow-up needed. Please read carefully before putting "same as last year" for anything. I'm also working on a new fillable PDF version of the questionnaire. If I get it finished before tax work takes over, you'll see it available in ShareFile. Feel free to use either version.
- **IRS Notices:** If you happen to receive correspondence from the IRS or a state tax agency, please send me a complete copy of it promptly. Many times we can resolve issues quite painlessly if we do so promptly. But the IRS does not like to be ignored. If you fail to respond, the situation can get much more complicated and expensive to resolve.
- **Identity Theft:** The IRS says they made some good headway in blocking fraudulent returns last year. However, this continues to be a big problem. If you have any reason to believe you are the victim of ID theft, be sure to let me know so that we can take appropriate steps to notify the IRS (if they are not aware) or file according to their guidelines if they are already aware of your problem.
- **Website and Email:** For your own safety, **please** do not send sensitive personal information via email. Use the secure ShareFile system for any information or documentation that contains Social Security Numbers, account information, etc. Use strong passwords and change them regularly. We highly recommend that you set up **two-step verification** for another layer of security on your ShareFile account. This way, even if someone obtains your password, they will not be able to access your account. You can learn how to set that up **here**. Feel free as well to delete prior-year documentation and returns from your ShareFile account if you wish, once you have saved them locally.
- **IRS Emails and Phone Calls:** The IRS does not initiate contact with taxpayers by email. Please be alert for **scams**. If you receive an email claiming to be from the IRS, forward it to phishing@irs.gov. And various phone scams continue such as the caller claiming to be an IRS agent and threatening arrest and other scary results if the taxpayer does not cooperate. The IRS nearly always initiates contact by regular snail-mail. If you receive a threatening phone call, hang up and call the IRS main number at +1-800-829-1040. If there really is any issue with your account, the agents there will be able to identify and assist you with it.

Congratulations if you made it to the end of this! I wish you all the best for a peaceful and healthy new year, and look forward to working with you soon!

Warm regards,

Kim

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