

# TAX SUPPLEMENT 1999

INTERNATIONAL



## Get a Foreign Tax Credit or Deduction



Paying income taxes to a foreign country or U.S. possession? Some people may qualify for either a tax credit or a deduction for those foreign tax payments when it comes time to pay their U.S. taxes.

The foreign tax credit is usually the best choice. According to the IRS, the foreign tax credit directly reduces a person's U.S. tax liability. When the foreign tax payment is taken as a deduction, taxable income is lessened by the amount of foreign income tax.

The IRS suggests taxpayers figure their taxes both ways to determine which works better for them.

Taxpayers cannot take credits or deductions for foreign taxes paid on income that is excluded from U.S. taxation, such as the foreign earned income exclusion, the foreign housing exclusion, or the possession exclusion.

More details on these deductions are available in IRS Publication 514, *Foreign Tax Credit for Individuals*. Get it through the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Nonresident Aliens Taxed on U.S. Rental Property

Nonresident aliens must pay a 30-percent flat tax on their U.S. rental property income. They pay this tax in the year in which they receive the income.

There is, however, an exception that allows nonresident aliens to claim a deduction for rental expenses and be taxed at graduated rates.



They can elect to treat rental income from real property as income effectively connected with a trade or business. Those electing to claim deductions on rental property must attach a statement to their tax return saying so.

Nonresident aliens must file their taxes using Form 1040NR, "U.S. Nonresident Alien Income Tax Return." They also must file Schedule E to reflect the income and expenses of their rental property, and Form 4562 to report allowable depreciation. File all forms and schedules by the due date.

More information is available in IRS Publication 519, *U.S. Tax Guide for Aliens*. Get this publication and any necessary tax forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Some Nonresident Aliens Get EZ Tax Form

The Internal Revenue Service has a simpler tax form for nonresident aliens with simpler tax reporting requirements. It's Form 1040NR-EZ, "U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents."

Besides having no dependents, nonresident aliens must meet certain other conditions to file their taxes using Form 1040NR-EZ.

They cannot be claimed as a dependent on someone else's return. They are under age 65 on January 1, 1999, and not blind at the end of 1998. Their taxable income is less than \$50,000, and comes only from wages, salaries, tips, refunds of state and local income taxes, and scholarship or fellowship grants. They are not claiming any itemized deductions other than state and local income taxes paid, credits, or any exclusions from income other than scholarship and fellowship grants. They have no "other taxes."

Married nonresident aliens from Canada, Mexico, Japan, or the Republic of Korea, a U.S. national, or an Indian student claiming a spousal exemption may not use Form 1040NR-EZ.

If these conditions aren't met, then use Form 1040NR, "U.S. Nonresident Alien Income Tax Return." To get the forms and instructions, write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



## Filing Extension for Taxpayers Overseas

IRS emphasizes that the following extensions are only extensions of time to file a complete tax return. Any tax due should be estimated and paid on the April 15 due date to avoid interest charges and late payment penalties. However, an extension application can be submitted even if those applying don't have the money to include a tax due payment.

Some people have until June 15 to file their income tax return this year. The Internal Revenue Service allows an automatic two-month extension to people living and working outside the United States on April 15. To get the extension, they should include a note with their return when it is filed stating that their tax home was in a foreign country on April 15.

Taxpayers abroad can also extend the due date to August 16 by filing Form 4868, "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return." The form must be filed by June 15.

Still another two-month tax filing extension, to October 15, is available on a case-by-case basis. File Form 2688, "Application for Additional Extension of Time to File U.S. Individual Income Tax Return," no sooner than 30 days following the filing of the automatic extension Form 4868.

IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, gives more information on extensions. Get it by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



## Tax Rules for Armed Forces



Different tax rules can apply to military personnel that don't apply to civilians. The Internal Revenue Service has a publication that explains these rules, such as the combat zone exclusion, extension of time to file income tax returns and what to include in gross income. It also discusses the tax relief provisions for troops involved in or in support of the peace-keeping efforts in Bosnia and Herzegovina, Croatia and Macedonia.

For details, get IRS Publication 3, *Armed Forces' Tax Guide*. Write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Residents Abroad Have Continuing Tax Obligation

U.S. citizens living outside the United States have a continuing federal tax filing obligation to the United States. U.S. citizens and resident aliens who live abroad may have to file U.S. income tax returns. People with permanent U.S. resident status are subject to tax on their worldwide income just the same as U.S. citizens.

Being out of the country does not change the U.S. resident status of U.S. citizens or of green card holders. They are still liable for filing U.S. tax returns and could end up with sizeable penalty and interest payments if they don't file and pay their taxes due.

However, the foreign earned

income exclusion can provide some relief to taxpayers living and working in a foreign country. To qualify for the exclusion, they must have a tax home in a foreign country and be a resident of that country or meet a physical presence tax test.

Those who qualify can subtract up to \$72,000, for each taxpayer, of foreign earned income from their U.S. gross income. U.S. government employees are not eligible for the exclusion, but some independent contractors working for the U.S. government may qualify. The foreign earned income exclusion will be increased by \$2,000 each year, reaching

\$80,000 in 2002 and thereafter.

To claim the exclusion, file Form 1040 and attach Form 2555, "Foreign Earned Income," or 2555EZ, "Foreign Earned Income Exclusion." Those who are late in filing may still be able to claim the exclusion for prior years, provided that they file before the IRS discovers their failure to elect the exclusion.

The necessary forms and IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, are available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Tax Law Change on Home Sale Profits

The Taxpayer Relief Act of 1997 repealed the rollover of gain and one-time exclusion provisions for sales of principal residences. This repeal applies to sales and exchanges after May 6, 1997, but taxpayers may opt to use the old rules for sales before August 6, 1997.

**For sales prior to May 7, 1997** (or, at the seller's option, prior to August 6, 1997):

People who sell their homes at a profit may usually postpone payment of taxes on the profit if, within two years of the sale, they buy a new home. This replacement home must cost at least as much as the sale price, minus certain adjustments, of the old home. However, U.S. taxpayers moving overseas to work may be able to extend the replacement period while they are out of the United States.

To qualify, taxpayers must move overseas to work within two years of the time their home was sold. The time frame for civilian U.S. taxpayers to replace their home is suspended while they are out of the United States but, overall, cannot be longer than four years from the date they sold their old home. Military personnel overseas may have up to eight years to purchase and move into a new home in order to defer paying tax on the gain from the sale of their old home. This extension also applies to those military personnel living in base housing at a remote site after being stationed overseas.

**For sales after May 6, 1997:**

Taxpayers can generally exclude up to \$250,000 of gain (\$500,000 if married filing a joint return) realized on the sale or exchange of the home. The exclusion is allowed each time a taxpayer sells or exchanges a principal residence, but generally not more than once every two years. The home must have been used as the taxpayer's principal residence for a combined period of at least two years out of the five years prior to the sale.

The exclusion does not apply to any gain resulting from depreciation allowable with respect to rental or business use of the property after May 6, 1997. Nor does the exclusion apply to expatriates who are treated under the law as having lost U.S. citizenship to avoid taxes.

Expatriates who have rented their homes in the United States do not qualify for the deferment of gain on the sale of a personal residence. They may qualify for the nontaxable exchange of like kind properties; however, taxpayers should carefully check to see if the situation meets the qualifications. These rules are described in Publication 544, *Sales and Other Dispositions of Assets*.

IRS Publication 523, *Selling Your Home*, contains details on this subject. It is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Foreign Adoptions

Taxpayers are not allowed to claim adoption expenses if a child is not a U.S. citizen or resident until the adoption becomes final. Publication 968, *Tax Benefits for Adoptions*, contains details on this subject. It is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627 or from the IRS Web site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov).



## Check IDs Before Traveling

To apply for a passport, travelers heading overseas must provide their Social Security number and related identification information to the U.S. State Department. This data can be used by the Internal Revenue Service to check the status of the traveler's tax records.

## Check Tax Treaties Before Paying

The United States has tax treaties that cover more than 50 countries. U.S. citizens and residents with income from any one of those countries may be entitled to various foreign tax benefits that prevent double taxation — paying tax on the same income to both the United States and the treaty country.

These treaties entitle people to certain credits, deductions, exemptions, and reductions in the tax rate of those foreign countries. They may also provide similar benefits for residents of

foreign countries who owe U.S. taxes.

In 1997, new or updated treaties were negotiated between the United States and Austria, Ireland, Luxembourg, South Africa, Switzerland, Thailand, and Turkey; a protocol was negotiated with Canada. These treaties were ratified in December 1997 and (with the exception of Luxembourg) have entered into force. Hong Kong is not covered under the tax treaty with China.

Questions on all tax treaties can be

sent to IRS, Assistant Commissioner (International), Attention: OP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.

For details on tax treaties and conventions, get IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, and Publication 901, *U.S. Tax Treaties*, by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

## Gift and Estate Taxes

Here's the latest news on U.S. gift and estate taxes for U.S. citizens abroad and nonresident and resident aliens.

U.S. citizens who live abroad are still subject to U.S. estate and gift taxes, regardless of the location of their assets. Resident and nonresident aliens can also owe gift and estate tax to the United States.

Gifts valued at \$10,000 or more to any one person in one year must be reported to the Internal Revenue Service. It may even be necessary to pay taxes on these gifts. This applies to gifts of any property by U.S. citizens or residents, and to gifts of U.S. real property or tangible personal property by nonresident aliens. While most gifts to a spouse are free of tax, if the spouse is not a U.S. citizen, that tax-free amount is limited to \$100,000 a year. Use Form 709, "United States Gift Tax Return," to report gifts.

Certain nontaxable gifts must be reported to the IRS. If a U.S. recipient receives a gift or bequest from a nonresident alien or a foreign estate valued at more than \$10,000, it must be reported. In addition, if a U.S. recipient receives more than \$10,276 that was treated as a gift from a foreign corporation or a foreign partnership, the gift must be reported. Failure to report the gift can result in penalties. Use Form 3520, "Annual Return to Report Transactions with Foreign Trusts

and Receipt of Foreign Gifts," to report these gifts.

When a nonresident alien dies with over \$60,000 in U.S. assets, Form 706NA (nonresident alien), "U.S. Estate Tax Return," must be filed with the IRS. Also, when a U.S. citizen or resident dies with over \$600,000 in worldwide assets, Form 706, "U.S. Estate Tax Return," must be filed.

The amount that can be transferred tax free by gift or death will increase in steps. The maximum value of estates exempt from tax, currently \$625,000, will rise in 1999 to \$650,000 and increase to \$1 million by 2006. Beginning in 1999, the \$10,000 annual exclusion for gifts will be indexed each year to reflect inflation.

For information on gift and estate taxes, get IRS Publication 950, *Introduction to Estate and Gift Taxes*, the forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



## Taxability of Gambling/Lottery Winnings for Residents of Canada

Gambling and lottery winnings for Canadians while in the United States are taxable. The withholding rate for gambling winnings is 30 percent. Under the tax treaty between the United States and Canada, Canadians may offset their winnings with these losses while in the United States. Winnings from blackjack, baccarat, craps, roulette and big-6 wheel are not subject to the 30 percent withholding tax and are not taxable.

Canadians must file Form 1040NR, "U.S. Nonresident Alien Income Tax Return," to report their gambling and lottery winnings and to determine if any withholding is refundable due to gambling or lottery losses.

Publication 519, *U.S. Tax Guide for Aliens*, contains details on the subject. It is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627. Canadians may also call the IRS office in Puerto Rico for tax assistance at (787) 759-5100.

## Individual Taxpayer Identification Number (ITIN) - Acceptance Agent Program

On July 1, 1996, a tax processing number became available for certain nonresident and resident aliens, their spouses, and dependents. This number, the Individual Taxpayer Identification Number (ITIN), is only available to individuals who do not qualify for a Social Security number. The temporary IRS number previously assigned is no longer valid.

ITINs are only used for federal income tax purposes. If a U.S. tax return is to be filed or an individual is listed as a spouse or dependent and does not qualify for a Social Security number, an ITIN is needed. An ITIN can be obtained by completing IRS

Form W-7, "Application for IRS Individual Taxpayer Identification Number." It requires documentation substantiating foreign/alien status and true identity for an individual. The form and documentation may be mailed to the Philadelphia Service Center, brought to an IRS walk-in office or processed through an Acceptance Agent.

Acceptance Agents are entities (colleges, financial institutions, accounting firms, etc.) who are authorized by the IRS to assist applicants in obtaining ITINs. They review the applicant's documentation and forward the completed Form W-7

to the IRS for processing.

Publication 1915, *Understanding Your Individual Taxpayer Identification Number (ITIN)*, is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA. It's also available through the IRS Web site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov), or by phone at 1-800-829-3676 (continental U.S. only).

A list of Acceptance Agents is available through Customer Service at your nearest IRS office, or the IRS Web site. For information on how to become an Acceptance Agent, refer to Revenue Ruling 96-52 or call 1-202-874-1800.

# Late Filing May Put Nonresidents' Tax Deductions at Risk

Nonresident aliens and foreign corporations in the United States must file their tax returns by the due date to avoid late penalties and interest. However, if their returns are still not filed within certain time limits after the due date, they risk losing certain tax deductions and credits.

Foreign corporations required to file a Form 1120F, "U.S. Income Tax Return of a Foreign Corporation," for the first time either this year or last year must file within 18 months after the due date of their current Form 1120F to avoid losing tax deductions or credits.

Foreign corporations not filing for the first time either this year or last year have an additional time factor to consider. They must file their returns by the earlier of 18 months after the current year tax due date, or by the date the IRS notifies them that their return has not been filed, or the credits and deductions may not be claimed.

Nonresident alien individuals who must file Form 1040NR, "U.S. Nonresident Alien Income Tax Return," have the same basic criteria except they have only 16 months to file their return before losing tax deductions or credits.

Additional information is available by writing to the IRS, Assistant Commissioner (International), Attention: OP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.



## IRS Spans the Globe

Located outside the United States? Here's where U.S. taxpayers can find help abroad from the Internal Revenue Service.

### Bonn

United States Embassy/IRS  
Deichmanns Aue 29  
53179 Bonn  
Federal Republic of Germany  
Tel.# [49] (228) 339-2119  
FAX#[49] (228) 339-2810

### London

United States Embassy  
24/31 Grosvenor Square  
London, England W1A 1AE  
Tel.# [44] (171) 408-8077  
FAX#[44] (171) 495-4224

### Mexico City

United States Embassy/IRS  
Avenida de la Reforma 305  
Col. Cuahatemoc, Rm. 116  
06500 Mexico, D.F., Mexico  
Tel.# [52] (5) 209-9100,  
ext. 3557 or 3559  
FAX#[52] (5) 208-2494

### Canada

Call (not toll free) the IRS Puerto Rico office for assistance.

- questions of a technical nature or a specific account-related issue: (787) 759-5100.
- those who received an IRS notice about their account that asked them to call the IRS: (787) 759-6262

### Paris

United States Embassy  
2 Avenue Garie!l  
75382 Paris Cedex 08  
France  
Tel.# [33] (1) 4312-2555  
FAX#[33] (1) 4312-4752

### Rome

American Consulate/Rome  
Via Veneto, 119/A  
2nd Floor  
Rome, Italy 00187  
Tel.# [39] (6) 4674-2560  
FAX#[39] (6) 4674-2223

### Santiago office is closed.

Call the IRS office in Mexico City or call the Puerto Rico IRS office at (787) 759-5100 (tax questions) or (787) 759-6262 (if you receive a notice about your account asking you to call the IRS).

### Singapore

American Embassy/IRS  
27 Napier Road  
Singapore 258508  
Republic of Singapore  
Tel.# [65] 476-9413  
FAX#[65] 476-9030

### Sydney office is closed.

Call the IRS office in Singapore.

### Tokyo

United States Embassy/IRS  
10-5 Akasaka, 1-chome  
Minato-ku, Tokyo 107  
Japan  
Tel.# [81] (3) 3224-5466  
FAX#[81] (3) 3224-5274

### Worldwide

Write:

Internal Revenue Service  
950 L'Enfant Plaza South, S.W.  
OP:IN:D:CS  
Washington, DC, 20024 USA  
FAX# (202) 874-5440  
or call the Puerto Rico IRS office at  
(787) 759-5100

### Tax Forms and Publications

Internal Revenue Service  
Forms Distribution Center  
P.O. Box 85627  
Richmond, VA 23285-5627  
USA

### Internet

World Wide Web -  
[www.irs.ustreas.gov](http://www.irs.ustreas.gov)  
FTP - [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)  
Telnet - [iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)

### Modem

(703) 321-8020

### TaxFax

Dial from the fax machine to get common tax forms and instructions.

Virginia - (703) 368-9694  
Bonn - [49] (228) 339-2822/2824  
San Juan - (787) 759-4524/4525  
Tokyo - [81] (3) 3224-5465



*Working to put  
service first*



Department of the Treasury  
**Internal Revenue Service**

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