The New Tax Bill and **the American Living Abroad**

A GUIDE

Greenback
Expat Tax Services®

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Overview

The US Senate and House of Representatives have passed the biggest tax overhaul since the Tax Reform Act of 1986. The President has officially signed the bill meaning it will take effect January 1, 2018.

We have compiled the following guide to the tax code changes that will be of the most interest to US expats, so that you are prepared for the future of your expat taxes.

Please note: Greenback understands that there are some very strong opinions about these changes. The following guide is not meant as an endorsement or criticism, but is intended simply to explain how these provisions will impact a US citizen living abroad.

What Hasn't Changed: The Biggest Items for Expats

The Foreign Earned Income Exclusion and the Foreign Tax Credit are two of the most important provisions in the tax code for US citizens residing abroad. The Foreign Earned Income Exclusion allows a US citizen working abroad to exclude up to $104,100 dollars in 2018 from US taxation, if they meet certain residency requirements. This figure is indexed to inflation, so it increases every year. However, as we'll see later, the rate of this increase is going to slow down due to other changes in the tax bill.

The Foreign Tax Credit allows for a reduction in US taxes based on the taxes paid to a foreign government on income that is not US sourced. For most individuals, there is not going to be any change to the Foreign Tax Credit. Expats can breathe a sigh of relief, now, that they will maintain the most important ways to reduce their US tax bills!

The sometimes-onerous foreign information reporting requirements are here to stay, too. These include the FBAR ("FinCen 114")- which is required for any US citizen with foreign bank accounts and a cumulative balance of over $10,000, Form 8938 Report of Specified Foreign Financial Assets, Form 5471 Report of Certain Foreign Corporations, Form 3520 (Report of Foreign Trusts), and others.

This reform did not remove or substantially alter any of these requirements for the US citizen living abroad.

What Has Changed: Overview

While some of the most important provisions for expats specifically have remained the same, many general elements of the US tax system have changed. This will impact US citizens no matter where they currently reside.

We'll discuss the following changes below:

- Changed Tax Brackets
- Exemptions & Deductions
- Child Tax Credit Increased
- Inflation Calculation
- Estate and Gift Tax Exemption
- Individual Mandate Repeal
- Corporate Tax Territorialization

What Has Changed:
Tax Brackets

One of the major changes is the tax brackets. The tax rates have decreased slightly, and the brackets themselves have gotten a bit bigger, which means you might fall into a lower tax bracket than you had last year.

For example, a single filer would pay the top rate of $39.6% on any income over $418,400 under the old law. Under the new law, the top rate moves down to 37%, and it doesn't start until $500,000 in income.

The first table below represents the tax rates in 2017, and the second table represents the tax rates for 2018 under the new law.

OLD LAW				
Tax Rate	Single	Married/Joint & Widow(er)	Married/ Separate	Head of Household
10%	$1 to $9,325	$1 to $18,650	$1 to $9,325	$1 to $13,350
15%	$9,325 to $37,950	$18,650 to $75,900	$9,325 to $37,950	$13,350 to $50,800
25%	$37,950 to $91,900	$75,900 to $153,100	$37,950 to $76,550	$50,800 to $131,200
28%	$91,900 to $191,650	$153,100 to $233,350	$76,550 to $116,675	$131,200 to $212,500
33%	$191,650 to $416,700	$233,350 to $416,700	$116,675 to $208,350	$212,500 to $416,700
35%	$416,700 to $418,400	$416,700 to $470,700	$208,350 to $235,350	$416,700 to $444,550
39.60%	over $418,400	over $470,700	over $235,350	over $444,550

NEW LAW				
Tax Rate	Single	Married/Joint & Widow(er)	Married/ Separate	Head of Household
10%	$1 to $9,525	$1 to $19,050	$1 to $9,525	$1 to $13,600
12%	$9,525 to $38,700	$19,050 to $77,400	$9,525 to $38,700	$13,600 to $51,800
22%	$38,700 to $82,500	$77,400 to $165,000	$38,700 to $82,500	$51,800 to $82,500
24%	$82,500 to $157,500	$165,000 to $315,000	$82,500 to $157,500	$82,500 to $157,500
32%	$157,500 to $200,000	$315,000 to $400,000	$157,500 to $200,000	$157,500 to $200,000
35%	$200,000 to $500,000	$400,000 to $600,000	$200,000 to $300,000	$200,000 to $500,000
37.00%	Over $500,000	over $600,000	over $300,000	over $500,000

What Has Changed: Exemptions and Deductions

Every US citizen taxpayer will still have a standard deduction available, or they may choose to itemize their deductions if the itemized deductions save them money over the standard deduction. However, there are changes to both the standard deduction and to several popular itemized deductions.

The standard deduction will be nearly doubled. For single people, the deduction moves from $6,350 to $12,000, and the deduction for married couples filing jointly goes from $12,700 to $24,000. However, the personal and dependency exemptions are eliminated. In 2017, the exemption for every taxpayer or dependent was $4,050, and this will not be in place for 2018.

For example, a single person with no children who does not itemize their deductions, will see their total deductions and exemptions increase. Instead of a $4,050 exemption and a $6,350 deduction (totaling $10,400), they will have one $12,000 deduction. This will reduce total taxable income for this taxpayer by $1,600.

However, a married couple with one or more children will see a net decrease in their total of deductions and exemptions. Instead of having a deduction of $12,700 and three $4,050 exemptions (totaling $24,850) they will have only the one deduction of $24,000, increasing their taxable income by $850. This change may be offset in whole or in part by the changes to the Child Tax Credit, which will be described later.

In addition to the changes in the standard deduction, there are some changes to the itemized deductions available to taxpayers. The biggest change here is the deduction for state and local taxes. Many US citizens living abroad are not paying any state or local income taxes if they do not reside in a state, so this change is unlikely to impact a large number of expat taxpayers. The new law limits the deduction for state and local taxes to $10,000.

What Has Changed: Mortgage & Moving

Another change to the itemized deductions is a limitation on the home mortgage interest deduction. Under previous law, a taxpayer could deduct the interest paid on the first $1,000,000 of their mortgage. Under the new law, this is now limited to $750,000.

Further, the moving expenses deduction has been fully eliminated, a change that could impact people either leaving or returning to the United States.

What Has Changed:
Child Tax Credit

The Child Tax Credit and Additional Child Tax Credit are important credits for US citizens living abroad, because the Additional Child Tax Credit is one of the only refundable credits available that does not have a US residency requirement.

A refundable credit is a credit that pays money back to you, even if you didn't pay anything to the IRS. This credit is available for certain taxpayers with US citizen children.

Under the old law, the credit was $1,000 per child, and that has been doubled to $2,000 under the new law. The refundable portion of the tax credit is now $1,400.

What Has Changed: Inflation Calculation

Many important items in the tax code are linked to inflation. The tax brackets, the Foreign Earned Income Exclusion amount, and the standard deduction are all tied to inflation so that they automatically rise over time.

This bill changes the measure of inflation from the "regular consumer price index" to the "chained consumer price index."

The result is a lower rate of inflation used to calculate tax figures. This will become a tax increase over time because the changes in the tax brackets and the deductions will be lower each year.

However, since the deductions themselves have increased and the tax rates have decreased, it is not likely that this provision itself will be a net increase in tax for most individuals for a very long time.

What Has Changed:
Estate and Gift Tax

The new tax bill increased the Estate and Gift Tax Exemption significantly.

Under the old law, a taxpayer or estate would not have to pay any tax on the gifts they give or the inheritance they leave behind if that amount were under $5,000,000 or $10,000,000 for a married couple if they planned for it properly.

These amounts are doubled, so the Estate and Gift Tax exemption are $10,000,000 for an individual and $20,000,000 for a married couple.

Since these figures are indexed to inflation, the amounts for 2018 specifically are likely to be $11,200,000 and $22,400,000, respectively.

What Has Changed: Individual Mandate

One of the major components of the Affordable Care Act, President Obama's 2010 healthcare overhaul, was repealed with this tax bill.

The shared responsibility payment, also known as the individual mandate, required all US citizens to buy health insurance or pay a fee. Expats living abroad had an exemption from the requirement, but in the year of moving out of or back into the US, it might sometimes be complicated or difficult to qualify for that exemption. The repeal of the individual mandate means that this is not a worry for expats any longer.

US citizens in the USA and abroad will still be subject to the Net Investment Income Tax of 3.8%, based on the individuals filing status and Adjusted Gross Income.

Single filers with AGI of $200,000 or more and Married Filing Jointly filers with AGI of over $250,000 will be subject to this tax on capital gains, dividends, rents, etc.

What Has Changed: Corporate Tax

The US is moving to a territorial system of taxation for corporations.

Previously, US corporations had to pay tax in the US on all profits they earned abroad. This was called worldwide taxation.

Now, US corporations will pay tax primarily only on the income they earn inside of the United States, subject to some limitations.

If a US company had their foreign operations run though a subsidiary foreign corporation, the US tax was delayed until the US parent company brought the money back. Because of this system, many multinational US companies have kept a lot of money in their foreign subsidiaries. They will face a one-time deemed repatriation tax of 15.5% of all of their previously untaxed overseas profits as the US transitions to a territorial system for corporations instead of a worldwide system.

That this tax will not only apply to US corporations with foreign subsidiary corporations, but will also apply to individuals who own corporations outside of the United States, means that it is an important change for some US expats.

Many individuals working abroad are doing so through a small corporation, and have been taking advantage of the tax deferral offered under this structure for many years. Luckily, this tax can be paid over eight years if it cannot be paid all at once.

Summary

For most expats, the most important provisions of the US Tax Code are not changing significantly. However, there are provisions that will change the future of expat taxes for those with children or corporations.

- The Foreign Earned Income Exclusion and the Foreign Tax Credit for individuals will remain in place.
- Some of the tax rate changes and the changes to the child tax credit will likely affect tax bills for expats.
- Expats with foreign corporations will see the most significant changes.

Please note that these tax changes are new and the IRS still needs to interpret the laws and clarify how they will be applied. The details of the tax changes have just been released and as the laws become clearer, we will be better able to advise on how best to minimize your taxes.

If you have more in-depth questions about how the new tax code will affect you, Greenback is here to help. Our accountants are ready to help you navigate the changes in US expat taxes. Just ***contact us with your specific questions*** and we will be in touch with you as soon as possible!