



## **US Expats: *Tax basics when living abroad***

Tax planning is an essential part of preparing to move abroad. You will continue to have reporting obligations and possible tax liabilities in the States based on your US nationality, in addition to the new requirements founded on fiscal residency in Portugal. As always, the IRS applies harsh penalties for non-compliance. The following is an overview of some of the basics for expats on federal and state taxes as well as estimated payments, penalties and interest. Fortunately, there is a bilateral tax treaty designed to protect you from double taxation. The accord can be used to mitigate or even eliminate assessment in the States while taking advantage of Portugal's most favorable tax breaks,

### **Filing a Federal US Tax Return**

All US citizens are required to complete an annual return when they live overseas. Other reporting requirements apply to US nationals as well, including FBAR (Foreign Bank and Financial Accounts) and FATCA (the Foreign Account Tax Compliance Act), that are triggered by meeting thresholds in foreign bank accounts and asset holdings.

### **Filing a State Tax Return**

State income tax can also be a problem. Whether you need to file a state tax return depends on the last state where you lived. Some states have more complex residency rules than others, which means that these states may continue to consider you as a resident if in the state you own a property, possess a driver's license, have bank accounts or an investment portfolio, are a registered voter, keep a mailing address, or have dependents who live in that state.

If you meet these criteria, you may need to submit a state tax return and pay state taxes even if you were absent during the fiscal year. Four of the more sticky states are California, New Mexico, South Carolina and Virginia. On the other hand, seven states charge no state tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington State and Wyoming.



Most of the other states only require a state tax return when you were actually present in that state during the tax year. If you were, income tax is only due on earnings within the state. Because of the variability in different state requirements, you should confirm your own individual circumstances.

Closing or moving bank accounts, selling a property or changing your driver's license to another state are steps that can help to sever the ties in your former state of residence.

### **Estimated Tax Payments**

The IRS requires taxpayers to make quarterly estimated tax payments if the following conditions apply:

- You anticipate at least \$1,000 in federal tax in the current tax year after federal withholding tax and refundable credits; and
- Federal withholding tax and refundable credits do not reach 90% of your current tax liability or are less than the total tax you owed in the previous year.

If you must make estimated payments, the reporting schedule is as follows:

<u>Payment Period</u>	<u>Due Date</u>
January 1 – March 31	April 15, 2019
April 1 – May 31	June 17, 2019
June 1 – August 31	September 16, 2019
September 1 – December 31	January 15, 2020

You will not have to make the 4<sup>th</sup> quarter payment if you file by January 31 and pay the outstanding balance with your tax return.

### **Penalties**

Two types of sanctions can be charged against expats who fail to pay their estimated taxes: “failure-to-pay” and “failure-to-file”. Submitting your federal tax return after the extended deadline can lead to a punitive “failure-to-file” penalty: 5% each month on the unpaid balance.



This charge is ten times the “failure-to-pay” fine. However, penalties are not allowed to exceed 25% of your total tax bill. If you are unable to pay all your taxes when due, reporting by the deadline is always preferable.

The “failure-to-pay” penalty is less severe: 0.5% monthly of the unpaid balance. “Failure-to-pay” fines begin to accrue on the day after the assessment is due. If you owe both penalties in one month, the maximum cumulative penalty in any given month is capped at 5%.

On the positive side, taxpayers living abroad get an automatic two-month filing extension. Nevertheless, keep in mind that a filing extension is not an extension on paying outstanding taxes.

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