



Welcome to 2017 GAPP CPP Study Group- Section 14



GATEWAY ASSOCIATION OF PAYROLL PROFESSIONALS
AMERICAN PAYROLL ASSOCIATION





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Test Talk

- Learning Styles
 - Visual- see info and visualize relationship between ideas (charts & graphics)
 - Auditory- Prefer to hear info (recite information to presenter)
 - Reading/Writing- interacting with text (written quizzes/handouts to follow along)
 - Kinesthetic- Participate hands-on (practice in group setting)
- Study groups/practice problems/flash cards
- Test- Skip & mark for review







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Objectives

- Review Federal Income Tax Withholding Rules for U.S. Citizens and Resident aliens Working Abroad
- Review Social Security and Medicare Tax Rules for U.S. Citizens and Resident Aliens Working Abroad
- Define the Foreign Earned Income and Housing Cost Exclusions
- Define U.S. Income Tax Treaties
- Determine the Status of a Resident/Nonresident Alien
- Review Federal Income Tax Withholding Rules for Resident aliens
- Review Social Security and Medicare Tax Rules for Nonresident Aliens
- Identify various types of Visas

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Federal Income Tax Withholding
 - U.S. employers must withhold unless one of these exemptions apply:
 - Foreign earned income or housing cost exclusion
 - Wages subject to foreign income tax withholding
 - Wages for work in U.S. possessions other than Puerto Rico
 - Wages for work in Puerto Rico

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Social Security and Medicare Taxes
 - In general wages paid to U.S. citizens and resident aliens working abroad for a U.S. employer are subject to social security and Medicare tax withholding, which the employer must match
 - Totalization agreements (26 countries)
 - To alleviate the burden of double social security taxation
 - Foreign affiliate coverage elections- foreign affiliate of U.S. employer can elect SS coverage for citizens and resident aliens

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Federal Unemployment Tax
 - Employment of U.S. citizens working abroad for a U.S. employer is covered if the work performed would be covered in the U.S.
 - Does not apply to resident aliens working abroad or to American employees of foreign affiliates

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Foreign Earned Income and Housing Cost Exclusions
 - U.S. citizens and resident alien employees working outside the U.S. who qualify can exclude the first **\$102,100** of foreign earned income
 - Must have foreign tax home



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Foreign Country?



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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Foreign Earned Income and Housing Cost Exclusions
 - Bona fide residence test
 - Depends on several factors:
 - Whether employee brings their **family**
 - Purchase of a **home** or signing a long-term lease
 - Involvement in the **culture** and **social life** of the foreign country
 - Terms of the employment agreement
 - Type of **visa** or residence permit secured by the employee



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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Foreign Earned Income and Housing Cost Exclusions
 - Physical presence test
 - Physically present in a foreign country for **330** full days during any consecutive 12-month period
 - Foreign earned income exclusion
 - Up to **\$102,100** of foreign earned income may be excluded
 - » Foreign earned income
 - » Determining the source of earned income

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Foreign Earned Income and Housing Cost Exclusions
 - Determining U.S. Income vs. Foreign Income

Number of days worked in the U.S. x Total Income = U.S. Source Income
Total number of days worked

• Example

$$\frac{40 \text{ days worked in the U.S.}}{250 \text{ total days worked}} \times \$91,000 = \$14,560$$

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Poll #1

Mike is a U.S. citizen and earns an annual salary of \$84,000. He receives a \$3,500 cost of living allowance and also receives an educational allowance of \$5,000. During this past year, he worked 30 days in the U.S. and 210 days in Canada. Determine the amount of Mike's foreign earned income.

- A. \$92,500
- B. \$11,562.50
- C. \$80,937.50
- D. \$89,000

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Poll #1 - Answer

Mike is a U.S. citizen and earns an annual salary of \$84,000. He receives a \$3,500 cost of living allowance and also receives an educational allowance of \$5,000. During this past year, he worked 30 days in the U.S. and 210 days in Canada. Determine the amount of Mike's foreign earned income.

- A. \$92,500
- B. \$11,562.50
- C. \$80,937.50**
- D. \$89,000

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**Poll - Answer**

Foreign Earned Income Practice – Mike

Answer: \$80,937.50

- \$84,000 + \$3,500 + \$5,000 = \$92,500
- 30 days in U.S. + 210 days in Canada = 240 days
- 210 Days in Canada ÷ 240 total days = 0.875
- \$92,500 x 0.875 = \$80,937.50

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**Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.**

- U.S. Citizens and Resident Aliens Working Abroad
 - Foreign Housing Cost Exclusion
 - Employees who qualify under bona fide or physical presence test can take exclusion for reasonable expenses
 - Reasonable expenses do **not** include:
 - Lavish or extravagant expenses under the circumstances
 - Telephone and cable television charges
 - Deductible interest and taxes
 - Capital expenditures, such as a house, home improvements, or furniture
 - Cost of domestic labor (e.g., maids or gardeners)

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Base Housing Amount
 - 16% of the maximum foreign earned income exclusion, figured on a daily basis
 - For 2017, it would be a maximum of **\$16,336 (\$102,100 x 16%)**
 - Housing Cost Exclusion Limitation
 - 30% of maximum foreign earned income exclusion
 - For 2017 it would be **\$30,630 (\$102,100 x 30%)**
 - Formula for calculating the Foreign housing cost exclusion is:
 - Foreign housing cost exclusion =
reasonable housing expenses – base housing amount



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Poll #2

Jane qualifies for the foreign housing cost exclusion under the physical presence test for all of 2017, spending \$27,800 on reasonable housing expenses. Determine the amount of her foreign housing cost exclusion.

- A. \$102,100
- B. \$11,464
- C. \$27,800
- D. \$16,336

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Poll #2 - Answer

Jane qualifies for the foreign housing cost exclusion under the physical presence test for all of 2017, spending \$27,800 on reasonable housing expenses. Determine the amount of her foreign housing cost exclusion.

- A. \$102,100
- B. \$11,464**
- C. \$27,800
- D. \$16,336

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Poll - Answer**Foreign Housing Cost Exclusion Practice**

– \$27,800 – (\$102,100 x 16%)

– \$27,800 - \$16,336 =

– \$11,464



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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.**U.S. Citizens and Resident Aliens Working Abroad**

– Base Housing Amount – Calculating on a Daily Basis

• If employee is not in the foreign country for the entire year, then the base housing amount must be calculated on a daily basis

• Base Housing Amount (\$16,336) ÷ 365 = Daily Base Housing Amount (\$44.76 per day)

• Total Base Housing Amount = Daily Base Housing Amount (\$44.76) x Number of Days in Foreign Country



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Poll #3

During 2017, Marcus qualified for the foreign housing cost exclusion under the physical presence test for 275 days, spending \$18,000 on reasonable housing expenses. What was Marcus' base housing amount for 2017?

A. \$18,000.00

B. \$ 5,691.00

C. \$16,336.00

D. \$12,309.00



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Poll #3 - Answer

During 2017, Marcus qualified for the foreign housing cost exclusion under the physical presence test for 275 days, spending \$18,000 on reasonable housing expenses. What was Marcus' base housing amount for 2017?

- A. \$18,000.00
- B. \$ 5,691.00
- C. \$16,336.00
- D. \$12,309.00**

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Poll - Answer

During 2017, Marcus qualified for the foreign housing cost exclusion under the physical presence test for 275 days, spending \$18,000 on reasonable housing expenses. What was Marcus' base housing amount for 2017?

$\$16,336 \div 365 \text{ days} = \44.76 per day
 $\$44.76 \times 275 \text{ days} = \$12,309.00$

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - U.S. Income Tax Treaties
 - Possible Treaty Benefits
 - Personal service income
 - Professors and teachers
 - Students, trainees, and apprentices
 - Tax credit provisions
 - Tax saving clauses

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- U.S. Citizens and Resident Aliens Working Abroad
 - Employer Tax Reimbursement Policies
 - Tax protection plans- ee reimbursed
 - Tax equalization plans- taxes neutral (er benefits from low tax)
 - Both use- Hypothetical taxes
 - Employer must determine tax the employee would have paid if **the employee had remained in the U.S.**



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- Resident and Nonresident Aliens Working in the U.S.
 - Determining Resident/Nonresident Alien Status
 - Qualify as residents by meeting one of two tests:
 - **Lawful permanent resident or "green card" test**
 - **Substantial presence test**
 - 30 days current
 - 1/3 Preceding year
 - 1/6 second preceding year
 - =183
 - Federal Income Tax Withholding and Employment Taxes for Resident Aliens
 - Same Fed/State tax as citizen- W-4 – SS#
 - Federal Income Tax Withholding for Nonresident Aliens
 - Subject to same federal income tax withholding requirements as other employees for all income from **U.S.**
- Sources:**
- ITIN's = not eligible for SS# begin with a 9



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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- Resident and Nonresident Aliens Working in the U.S.
 - Federal Income Tax Withholding for Nonresident Aliens
 - Special withholding calculation rules- add amount to wages just to calculate tax
 - U.S. source income
 - Tax treaty exemptions
 - Foreign students receiving scholarships or fellowships
 - Scholarships and fellowships granted to nonresident alien students to cover tuition and related expenses are exempt
 - Students must be degree candidates temporarily in the U.S. as nonimmigrants under **"F", "J", "M", or "Q"** visas
 - Payments that do not qualify subject to withholding at a rate of **14%** (30% if certain conditions are not met)



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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- Resident and Nonresident Aliens Working in the U.S.
 - Social Security and Medicare Taxes for Nonresident Aliens
 - These taxes generally apply to all wages for work in the U.S. with these exceptions:
 - Nonresident alien students
 - Agricultural workers
 - Work performed on foreign ships or planes
 - Work performed for a foreign government
 - International organizations
 - Totalization agreements

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- Resident and Nonresident Aliens Working in the U.S.
 - Federal Unemployment Tax for Nonresident Aliens
 - Generally FUTA applies to all wages paid for work performed in the U.S.
 - Wages earned by nonresident agricultural workers temporarily in the U.S. under "**H**" visas are exempt from FUTA

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- Resident and Nonresident Aliens Working in the U.S.
 - Depositing and Reporting Obligations
 - Wages paid to employees- 941/W-2
 - Other compensation (EFTPS)
 - Liability \$2K + end of quarter-monthly period deposited w/i 3 days
 - Liability \$200-\$2K end of any month due by 15th next month
 - Liability less than \$200 can carry over to next month
 - End of year under \$200 paid with Form 1042 Annual Withholding Tax Return for U.S. Source Income of Foreign Persons

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- Late deposit
 - 2% underpayment if deposit within 5 days of due date
 - 5% underpayment if deposit within 6-15 days of due date
 - 10% underpayment if deposit is made more than 15 days of due date
 - 15% underpayment if deposit not made within 10 days after IRS notice

PENALTY

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Section 14 – Payroll For U.S. Employees Abroad and Aliens in the U.S.

- Types of Visas
 - Immigrant visas- foreign nationals entering U.S. as lawful permanent residents
 - Nonimmigrant visas- foreign nationals entering U.S. for specific purpose temporarily

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Poll #4

What income earned by resident aliens is subject to federal income tax?

- A. U.S. Income
- B. Foreign Income
- C. World-wide Income
- D. Unearned Income

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Poll #4 - Answer

What income earned by resident aliens is subject to federal income tax?

- A. U.S. Income
- B. Foreign Income
- C. World-wide Income**
- D. Unearned Income

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Poll #5

Which visa is used by full-time students at an approved U.S. educational institution?

- A. F-1
- B. B-1
- C. E-1
- D. J-1

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Poll #5 - Answer

Which visa is used by full-time students at an approved U.S. educational institution?

- A. F-1**
- B. B-1
- C. E-1
- D. J-1

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Poll #6

What visa is available to students or teachers on an exchange program?

- A. F-1
- B. B-1
- C. E-1
- D. J-1

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Poll #6 - Answer

What visa is available to students or teachers on an exchange program?

- A. F-1
- B. B-1
- C. E-1
- D. J-1**

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Poll #7

What does a totalization agreement allow an employee to do?

- A. Pay social security tax in only one country
- B. Pay social security taxes in two countries
- C. Pay income tax in two countries
- D. Pay income tax in only one country

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Poll #7 - Answer

What does a totalization agreement allow an employee to do?

- ☒ A. Pay social security tax in only one country
- ☐ B. Pay social security taxes in two countries
- ☐ C. Pay income tax in two countries
- ☐ D. Pay income tax in only one country

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Poll #8

Employers wishing to bring aliens of extraordinary ability in the arts, sciences, education, or athletics to the U.S. seek what visa?

- ☐ A. B-1
- ☐ B. H-1
- ☐ C. O-1
- ☐ D. Q-1

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Poll #8 - Answer

Employers wishing to bring aliens of extraordinary ability in the arts, sciences, education, or athletics to the U.S. seek what visa?

- ☐ A. B-1
- ☐ B. H-1
- ☒ C. O-1
- ☐ D. Q-1

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