Tax Reform: What's in it for expats?

Unless you have been hiding under a rock, you're aware the US passed the most sweeping tax reform since 1986. Since its passage, my US expat clients have been asking me, "What's in it for me?" The short answer, not much.

Neither FATCA nor citizenship-based taxation were repealed, so plan on continuing to file a US tax return and FBAR for the foreseeable future. Foreign reporting of things like foreign accounts, PFICs, and foreign entities, are unchanged meaning you still have to report them! The foreign earned income exclusion and foreign tax credit are largely unchanged as applied to expats.

There are, however, some changes that will affect all US taxpayers, including expats. I thought I'd take this opportunity to offer a brief explanation of them. Please excuse the brevity of my explanations, but my space is limited.

Individual income tax rates were lowered and there are now 7 brackets ranging from 10% to 37%. The standard deduction was more or less doubled, and personal exemptions were eliminated. The impact is that fewer people will be able to itemize deductions. You can no longer deduct moving expenses, unreimbursed job related expenses, business entertainment expenses, or miscellaneous itemized deductions like investment expenses or professional fees to fight the IRS. The child tax credit was doubled to $2,000. The healthcare mandate whereby you would be penalized for not having health insurance was repealed. Alimony is now not deductible to the payor and not income for the recipient. Estate, gift and generation-skipping tax exclusions were doubled to $11.2M.

Tax reform will have the biggest impact on expats who operate businesses through foreign (i.e. non-US) corporations. Prior to tax reform, expats would often operate businesses through foreign corporations because they wouldn't have to pay US tax on their foreign corporation's earnings and profits until it paid them a dividend. Tax reform changes this. For 2017, they will have to pay a one-time deemed repatriation tax - 15.5% on cash assets and 8% on non-cash assets - on any tax-deferred earnings and profits. And, going forward, they will have to pay 10.5% tax on their foreign corporation's Global Intangible Low Tax Income (GILTI). GILTI is basically any income not from tangible assets, like real estate.

Have questions? We have answers. Contact us if you need help navigating the maze that is the tax system in the US!

Jimmy Sexton, LL.M., is an expert in the field of international taxation, with an emphasis on expat issues. He has presented to American expats at groups that include American women's clubs throughout Europe and is a sought-after expert for several news organizations, including CNN and the Washington Post. He is the President of Esquire Group, an international tax preparation firm and Premier Sponsor of** Inspiring Women **Magazine.