Moving to the US
Business Services Fact Sheet

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CHARTERED ACCOUNTANTS

If you're considering a move to the United States - be it temporary or permanent, then in addition to your visa, travel and logistics, you'll need to consider how your position will change as a resident for tax purposes.

Whether you're moving for a specific job, study or for a temporary work, there are many facets of tax that are different in the US when compared to Australia's tax system.

Our international partner, **Frank Hirth PLC,** is a leading specialist in UK and US tax law and has compiled a list of the key areas of US tax that you should be aware of when planning your move.

Tax Year

The US tax year runs from Jan 1 to Dec 31.

Are you US Tax Resident?

If you are a Green Card holder the US regards you as a resident even if you live outside the US. Alternatively if you meet the Substantial Presence Test by spending over 183 days in the US during the calendar year then you are resident and taxed on your worldwide income. This may only be from date of arrival but the rules can be complex so get advice early.

If you have not spent more than 183 days in the US during the calendar year of your assignment there is still a second part to determine whether or not you are tax resident. You add 100% of days in year of arrival to1/3 of days in prior year plus 1/6 of days in year prior to that.

If the total of this is equal to or greater than 183 days, then you are resident and taxed on worldwide income in the United States typically from your date of your first arrival.

> *(Example for 2013 – arrive August 1 but spent 90 days in both 2011 and 2012. Calculation for 2013 is 153 (Aug. – Dec.) + (1/3 x 90 + (1/6 x 90) total is 198 – resident for 2013 but only from August).*

In both cases where you are tax resident in the US under this test, you might potentially be able to treaty exempt some of your foreign income.

If not a resident under either test then you are taxed on US sourced income only (and could be Treaty Exempt).

Most States and some local jurisdictions such as New York City have their own income tax. Each has individual rules regarding who is liable for tax and what is taxed.

Impact of Length of Stay in US

Housing costs and subsistence paid by your employer are not taxable if your intended stay is less than 1 year and you do not exceed that.

Married or Single

You can get potential benefits for filing a joint return, if married, and particularly if only one spouse earns income. May not be able to do this if only part year resident.

Things to Watch Out For

Foreign Bank Account Report

If you are a US resident and have over $10K in aggregate in foreign bank accounts you will have to report it on a separate annual statement to the Department of the Treasury.

Specified Foreign Assets

As part of a tax return, foreign bank, non-US investments and foreign pensions are reportable (but probably not taxable, seek advice early). Penalties for non-compliance are high.

Controlled Foreign Corporation (CFC)

if you have substantial Shareholdings in a non-US corporation you may have to report this to the IRS if you file a resident tax return and possibly pick up phantom income.

Passive Foreign Investment Company (PFIC)

If you receive distributions from a foreign mutual fund or other collective investments these distributions may be taxed at punitive rates in the US.

Rental of home

Taxable on any net rental income.

Sale of Home

If you decide to sell your main home while US tax resident the net gain is taxable in the US although you can exclude $250K if filing Single and $500K if filing Joint, depending on various tests. Everything is looked at in US dollars.

Sale of Assets

Also taxable using historic dollar values so be careful and ideally review before you become resident.

Foreign Mortgage Gain

If you had a mortgage on your foreign property and the dollar has strengthened against the currency since you first took out the mortgage the IRS will see this gain as taxable income. This is because you have repaid fewer dollars than you borrowed. You should contact your tax advisor before making capital repayments on foreign loans.

If you are the Beneficiary of a Foreign Trust please notify your tax advisers before you arrive in the US to find out the exact implications for your situation. Extensive reporting and heavy penalties for non-compliance.

Deductions & Exemptions

You are allowed a personal exemption and certain deductions to reduce your taxable income.

These deductions include, but are not limited to the following:

- **Real Estate Taxes –** whether your property is in the US or abroad
- **Mortgage Interest –** whether your property in the US or abroad (limited to interest on $1.1m)
- **State taxes paid –** this is deductible on your Federal Return
- **Charitable Contributions –** must be qualified US charity

More information

If you're considering a temporary or permanent move to the United States, understanding your tax obligations before you go may save you a good deal of time, hassle and money.

Contact us on 02 9957 4033 or email our team at enquiry@batescosgrave.com.au for more details.

Frank Hirth

About this factsheet
The information in this factsheet was prepared by Frank Hirth PLC, experts in tax and accounting matters in the United Kingdom and the United States of America. Visit www.frankhirth.com for more information.

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