



Common International Tax Issues for Individuals and Business Owners

More people than ever have financial ties that cross borders. A U.S. citizen working abroad, a foreign national settling in the United States, and an entrepreneur running a business in more than one country all face the same challenge: U.S. filing obligations that are easy to get wrong and costly when you do.

Missing a requirement can mean significant penalties and tax bills you did not see coming. Below are the international tax issues we see most often.

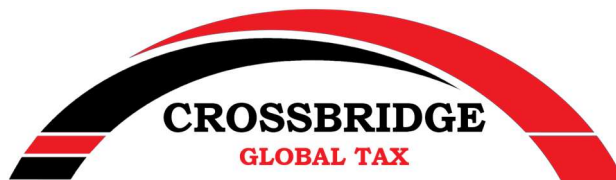
The Value of Planning Ahead

International tax rules change often, and new reporting requirements appear regularly. Given the potential for an honest mistake to trigger serious penalties, working with an experienced international tax advisor early, before a filing deadline or a cross-border transaction, is worth the investment. The right guidance helps you meet your U.S. tax obligations, keep your worldwide tax burden as low as it can legitimately be, and manage your global finances with confidence.

U.S. Citizens and Resident Aliens Abroad

U.S. citizens and resident aliens are taxed on their worldwide income no matter where they live or where they earn it. This surprises many people, and it can lead to double taxation if it is not managed carefully. The issues that come up most often for U.S. citizens and resident aliens abroad:

- **Foreign earned income exclusion:** Qualifying individuals can exclude a set amount of foreign earned income from U.S. tax. The exclusion is not automatic. It requires filing Form 2555, Foreign Earned Income, and meeting the tax home test along with either the physical presence test or the bona fide residence test (Secs. 911(a)(1) and (d)(1)).
- **Foreign tax credit (FTC):** The FTC lets individuals offset U.S. tax with taxes already paid to a foreign country, which helps prevent double taxation (Sec. 901). Using the foreign earned income exclusion and the FTC together, strategically, is often the key to minimizing the overall tax burden.
- **Foreign bank and financial accounts:** U.S. persons with an aggregate balance over \$10,000 in foreign financial accounts at any point during the year must file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts (FBAR). The penalties for not filing can be substantial.
- **Foreign Account Tax Compliance Act (FATCA):** Beyond the FBAR, FATCA requires specified individuals and specified domestic entities to report specified foreign financial assets on Form 8938, Statement of Specified Foreign Financial Assets, once their value exceeds certain thresholds. This often overlaps with the FBAR, but the two have distinct reporting requirements and penalties.
- **Foreign business interests:** U.S. persons with certain ownership interests in foreign entities have their own filing obligations: Form 5471, Information Return of U.S. Persons With Respect to Certain



Foreign Corporations; Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships; and Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs). These filings are complex, and getting them wrong, or filing late, can trigger significant penalties.

- **Passive foreign investment companies (PFICs):** A foreign corporation is a PFIC if 75% or more of its gross income is passive, or if at least 50% of its assets, by average value, produce or are held to produce passive income. Owning shares in a PFIC, a foreign mutual fund or hedge fund, for example, can lead to complex, often punitive tax treatment if the owner does not file Form 8621, Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund. Planning ahead is the best way to avoid an unpleasant surprise here.
- **Transfer of property to a foreign corporation:** U.S. citizens and residents must file Form 926, Return by a U.S. Transferor of Property to a Foreign Corporation, to report certain transfers of tangible or intangible property to a foreign corporation (Sec. 6038B(a)(1)(A)). A cash transfer is reportable on Form 926 too, if, immediately after the transfer, the person holds at least 10% of the foreign corporation's total voting power or value (directly or indirectly), or if the cash transferred to that corporation exceeds \$100,000 over the 12-month period ending on the date of the transfer.
- **Social Security and Medicare taxes (self-employment tax):** U.S. citizens abroad who are self-employed can still owe U.S. self-employment tax, even while paying the equivalent social security tax in their country of residence.
- **Gifts and bequests from foreign individuals or entities:** A U.S. citizen or resident alien who receives a gift or bequest from a nonresident alien or a foreign estate must disclose it to the IRS on Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts, once the total exceeds \$100,000.
- **Sailing permit:** Before leaving the United States, most alien individuals need a "sailing permit" from the IRS confirming they have met their tax obligations. This means filing Form 1040-C, U.S. Departing Alien Income Tax Return, or Form 2063, U.S. Departing Alien Income Tax Statement, particularly for anyone leaving permanently.
- **Exit tax:** Also called the expatriation tax, this applies to certain U.S. citizens who renounce their citizenship and long-term residents who end their long-term resident status. These expatriates must file Form 8854, Initial and Annual Expatriation Statement, to certify compliance with their tax obligations for the five years before expatriation and to meet the initial and annual reporting requirements under Sec. 6039G.



Non-U.S. Citizens Living in the United States

Anyone who moves to the United States from abroad needs to determine their U.S. tax residency status: resident alien or nonresident alien. In general, you are a resident alien for tax purposes if you meet either the green card test or the substantial presence test for the year. Here is what matters most for non-U.S. citizens living in the United States:

- **Resident aliens:** Taxed on worldwide income, much like U.S. citizens, and they file the same return, Form 1040, U.S. Individual Income Tax Return. They also need to report foreign financial assets under the FBAR and FATCA rules, if applicable.
- **Nonresident aliens:** Taxed only on U.S. source income, which falls into one of two categories: effectively connected income, taxed at graduated rates, or fixed, determinable, annual, or periodical income, generally taxed at a flat 30% rate or a lower treaty rate. Special rules apply to certain types of income. Nonresident aliens typically file Form 1040-NR, U.S. Nonresident Alien Income Tax Return.
- **Tax treaties:** The United States has income tax treaties with many countries that can reduce or eliminate U.S. tax on certain income for non-U.S. residents. Knowing which treaty benefits apply, and claiming them correctly, makes a real difference.
- **Remittance tax:** Starting with transfers made on or after January 1, 2026, a 1% excise tax applies to remittance transfers sent to a designated recipient in a foreign country. It applies only when the sender pays with cash, a money order, a cashier's check, or a similar physical instrument (Sec. 4475, added by the One Big Beautiful Bill Act, H.R. 1, P.L. 119-21).

Foreign Business Income and Investments

Owning a stake in a foreign business raises the stakes. These situations usually call for more than individual tax compliance. They often bring reporting obligations tied to the foreign entity itself.

- **Classification of foreign entities:** How a foreign entity is classified for U.S. tax purposes, corporation, partnership, or disregarded entity, has real consequences for how it is taxed and reported. Filing Form 8832, Entity Classification Election, may be worth considering.
- **Controlled foreign corporations (CFCs) and tested income:** A U.S. shareholder, someone who owns 10% or more of the total value or voting power of a foreign corporation's stock, of a CFC (as defined in Sec. 957) is subject to a complex set of rules. These include the net CFC tested income regime (formerly the global low-taxed income regime, renamed under the OBBBA), which taxes certain foreign earnings in the current year rather than when they are distributed.
- **Corporate tax returns for foreign entities doing business in the United States:** Foreign corporations operating in the United States may need to file Form 1120-F, U.S. Income Tax Return of a Foreign Corporation. Not filing can lead to steep penalties.
- **Earnings and profits (E&P) and FTC carryovers:** Tracking a foreign corporation's E&P and managing FTC carryovers takes careful, ongoing attention, and it pays off in more efficient tax planning.