

# Tax Information for US Citizen Employees of the World Bank

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February 12, 2018

# Disclosure

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This presentation has been prepared for employees of the World Bank by Embassy Tax Services LLC.

The information in this presentation is current as of February 2018 and is intended to be of a general nature. The presentation is not intended to address the facts or situation pertaining to any particular individual. It should not be viewed as legal, tax or investment advice. If advice is needed please consult with a professional tax advisor.

# Issues for Discussion

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- How to report World Bank wages
- Self-employment vs. wages
- SEP/IRA deductions
- Self-Employed Health Insurance deductions
- Self-Employment taxes
- Estimated Tax payments
- How to report World Bank 1099 income
- Foreign Earned Income Exclusion
- Joint filing election with nonresident alien spouse
- Other categories of employees – Green Card, G-4 Visa
- Foreign Bank Account Reporting (FBAR)
- Foreign Tax Account Compliance Act (FATCA)
- 2018 Tax Changes

# Taxation of US Citizens

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## Basic Concepts

- US Citizens are subject to tax on world-wide income
- All income from whatever source must be reported on US tax return unless it is specifically exempt from US tax under US law or a tax treaty or international agreement
- In the event income is also subject to tax in a foreign country, the US allows a foreign tax credit if the income is earned outside of the US. For income earned inside the US, the foreign country should allow a foreign tax credit to eliminate any double taxation

# World Bank Articles of Agreement

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Article VII, Section 9(b) of the Articles of Agreement of the Bank provides that

- *“No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to executive directors, alternates, officials or employees of the Bank who are not local citizens, local subjects or other local nationals.”*

This provision has full force and effect in the US by virtue of Section 11 of the Bretton Woods Agreements Act (22 USC, Section 286(h)), which provides:

- *“The provisions of Article IX, sections 2 to 9, both inclusive, and the first sentence of Article VIII, section 2(b), of the Articles of Agreement of the Fund, and the provisions of Article VI, section 5(i), and Article VII, sections 2 to 9, both inclusive, of the Articles of Agreement of the Bank, shall have full force and effect in the United States and its Territories and possessions upon acceptance of membership by the United States in, and the establishment of, the Fund and the Bank respectively.”*

# Tax Reporting Documents for US Citizen Employees

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## Form W-2

- World Bank employees receive Form W-2 showing the amount of their taxable wages
- These W-2 forms are also filed with the IRS
- World Bank W-2's are different from other W-2's in that they show only taxable wages, but do not reflect any withholding for federal or state income taxes or social security taxes

# Taxation of US Citizen Employees

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## Simplified Employee Pension (SEP/IRA) retirement accounts

- Available only to self-employed individuals
- Wage income from the World Bank does not qualify as self-employment income for a SEP/IRA account
- No deduction is allowed for a contribution to a SEP/IRA plan on form 1040, Line 28. See IRS Revenue Ruling 73-38

## Self-Employed Health Insurance Deductions

- Available only to self-employed individuals
- Employees receiving wage income from the World Bank do not qualify to claim a deduction for self-employed health insurance on Form 1040, Line 29

# Taxation of US Citizen Employees

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## Form 1040

- Employee receiving form W-2...

**Must** ✓

- Report wages shown on Form W-2 on Form 1040, Line 7
- Complete Schedule SE to pay into the US Social Security system as if they were self-employed if their wages were earned in the US
- Make Estimated Tax Payments on Form 1040ES

**Must Not** ✗

- Report World Bank wages Schedule C
- Report World Bank wages as Other Income on Form 1040, Line 21
- Claim SEP/IRA Deduction on Form 1040, Line 28
- Claim SE Health Insurance Deduction on Form 1040, Line 29



# Taxation of US Citizen Employees

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## Self-Employment Tax

- For Social Security tax purposes only, US citizens working at the World Bank are taxed as if they were self-employed. For all other purposes they are considered employees.
- Computation of Self-Employment tax is done on Schedule SE
- Only wages earned inside the US are subject to self-employment tax

$$\text{Total Wages} \times \frac{\text{US Days}}{\text{Total Days}} = \text{Wages subject to SE tax}$$

- For 2017 and 2018 the SE tax rate is 15.3%
- A portion of self-employment taxes may be deducted on Form 1040, Line 27

# Estimated Tax Payments

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## Federal Estimated Tax Computation

Either

- 90% of the current year tax due  
or
- 100% of the prior year tax  
(110% if the AGI from Form 1040, Line 37 is greater than \$150,000)

## State Estimated Tax Computation

- Maryland - 100% of current year or 110% of prior year tax
- DC & Virginia - 90% of current year or 100% of prior year tax

# Estimated Tax Payments

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- Federal Estimated tax payments are made on Form 1040ES
- Federal (IRS) due dates for the current year are:

Quarter	Federal (IRS) Due Dates	DC State Due Dates	Maryland State Due Dates	Virginia State Due Dates
1 <sup>st</sup> Quarter	April 17, 2018	April 17, 2018	April 17, 2018	May 1, 2018
2 <sup>nd</sup> Quarter	June 15, 2018	June 15, 2018	June 15, 2018	June 15, 2018
3 <sup>rd</sup> Quarter	Sept 15, 2018	Sept 15, 2018	Sept 15, 2018	Sept 15, 2018
4 <sup>th</sup> Quarter	Jan 15, 2019	Jan 15, 2019	Jan 15, 2019	Jan 15, 2019

Form	<b>1040-ES</b> Department of the Treasury Internal Revenue Service	<h1>2017 Estimated Tax</h1>	<b>Payment Voucher 3</b>	OMB No. 1545-0074
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.			<b>Calendar year—Due Sept. 15, 2017</b>	
			Amount of estimated tax you are paying by check or money order.	
			Dollars	Cents

<b>Print or type</b>	Your first name and initial	Your last name	Your social security number
	If joint payment, complete for spouse		
	Spouse's first name and initial	Spouse's last name	Spouse's social security number
	Address (number, street, and apt. no.)		
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
	Foreign country name	Foreign province/county	Foreign postal code

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Tear off here

Form	<b>1040-ES</b> Department of the Treasury Internal Revenue Service	<h1>2017 Estimated Tax</h1>	<b>Payment Voucher 2</b>	OMB No. 1545-0074
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.			<b>Calendar year—Due June 15, 2017</b>	
			Amount of estimated tax you are paying by check or money order.	
			Dollars	Cents

<b>Print or type</b>	Your first name and initial	Your last name	Your social security number
	If joint payment, complete for spouse		
	Spouse's first name and initial	Spouse's last name	Spouse's social security number
	Address (number, street, and apt. no.)		
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
	Foreign country name	Foreign province/county	Foreign postal code

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Form	<b>1040-ES</b> Department of the Treasury Internal Revenue Service	<h1>2017 Estimated Tax</h1>	<b>Payment Voucher 1</b>	OMB No. 1545-0074
File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2017 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.			<b>Calendar year—Due April 18, 2017</b>	
			Amount of estimated tax you are paying by check or money order.	
			Dollars	Cents

<b>Print or type</b>	Your first name and initial	Your last name	Your social security number
	If joint payment, complete for spouse		
	Spouse's first name and initial	Spouse's last name	Spouse's social security number
	Address (number, street, and apt. no.)		
	City, state, and ZIP code. (If a foreign address, enter city, also complete spaces below.)		
	Foreign country name	Foreign province/county	Foreign postal code

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Form 1040-ES (2017)



# Tax Reporting Documents Self-Employed Individuals

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## Form 1099

- Individuals who are considered to be self-employed at the World Bank receive Form 1099 showing the total compensation they received.
- These 1099 forms are also filed with the IRS

## Contractors Receiving Form 1099

- Report income shown on Form 1099 on Schedule C
- Income reported on Form 1099 is subject to self-employment tax regardless of where the income was earned
- Individuals filing Schedule C are entitled to claim business expenses on Schedule C and other deductions available to self-employed individuals

# Foreign Earned Income Exclusion

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- If you are a US citizen assigned overseas for a period in excess of 12 months, you may qualify for the foreign earned income exclusion by filing Form 2555 with your tax return
- There is a separate World Bank presentation on the foreign earned income exclusion
- The 3 basic requirements to claim the foreign earned income exclusion are:
  - 1) Have a foreign tax home and
  - 2) Have foreign earned income and
  - 3) Qualify as a bona fide resident of or as physically present in a foreign country

# Joint Filing Election with Nonresident Spouse

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- One time election to file a joint tax return with a nonresident alien spouse
- Written election is required in year of election
- Nonresident alien spouse is required to report worldwide income
- If a joint filing election is made, the exemption from US tax for G-4 visa holders employed at the World Bank is not affected. Tax exemption is based on World Bank Charter and it is not lost by joint filing election.
- The election can be revoked but once revoked cannot be made again

# Summary of Tax Treatment of US Citizens, US Residents, and G-4 Visa Holders

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- US Citizens
  - Subject to both US income tax and Social Security taxes on wages
  - Exception: wages earned outside the US are **not** subject to Social Security tax
  - Self employed contractors are subject to SE tax on worldwide SE income
- Legal Permanent Residents / Green Card Holders
  - **Not** subject to US income taxes on wages received from the World Bank
  - **Not** subject to US Social Security taxes on their World Bank wages
  - Income from other worldwide sources is subject to tax in the US the same as a US citizen
- G-4 Visa Holders
  - **Not** subject to US income taxes on wages received from the World Bank
  - **Not** subject to US Social Security taxes on their World Bank wages
  - Income from other sources in the US subject to tax in the US



# Foreign Bank Account Reporting

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## FinCen Form 114

- Required of US citizens or residents with a financial interest in or signature authority over foreign financial accounts if the total value of the accounts exceeded \$10,000 at any time during the year
- FinCen Form 114 is not an IRS form; it is filed electronically with the US Treasury. Do not include with your tax return or send by mail.
- Form is required whether or not a tax return is filed
- Filing deadline is April 15<sup>th</sup> of each year and can be extended
- Filing of Form 114 is required in addition to FATCA Form 8938 filing

### **Failure to file is risky – penalties are extreme**

- Non-willful penalty is \$10,000 for failure to file
- Willful penalty is the greater of 50% of the account balance or \$100,000

# Foreign Account Tax Compliance Act (FATCA)

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## Form 8938

- Required of US citizens or residents with an interest in Specified Foreign Financial Assets exceeding certain amounts
- Form 8938 is an IRS form and is required to be filed with your US tax return
- If a tax return is not required to be filed, no Form 8938 has to be filed
- Filing of FATCA Form 8938 is in addition to filing of FBAR Form 114.

### **Failure to file is risky – penalties are extreme**

- Penalty for failure to file starts at \$10,000 and continues up to \$50,000 for continuing failure to file after IRS notification
- Additional 40% penalty for failure to report income on tax return
- Statute of Limitations does not start until accurate Form 8938 is filed

# Foreign Account Tax Compliance Act (FATCA)

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## Form 8938

- Specified Foreign Financial Assets includes:
  - World Bank Staff Retirement Plan (for certain individuals, see next slide)
  - Bank & investment accounts
  - Direct ownership of foreign stock
  - Foreign Retirement Accounts
  - Foreign Life Insurance Policies
  - Foreign partnership interests
  - Foreign Estate & Trust Interests
- **When in doubt file Form 8938**

# Foreign Account Tax Compliance Act (FATCA)

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## Form 8938

- The World Bank Staff Retirement Plan (SRP) is included in the definition of Specified Foreign Financial Assets if you are an employee in the Net Plan and you are not yet not eligible for the lifetime pension because you:
  - Have less than 10 years service; or
  - Do not meet the Rule of 60 (Age + Years of Service = 60 or more)
- If you are not eligible for a lifetime pension you can determine the value of your interest in the SRP
  - Sum of the Defined Benefit, Cash Balance, and Voluntary Savings components
  - This data is available to you on the HR Kiosk
- **When in doubt file Form 8938**

# Foreign Account Tax Compliance Act (FATCA)

## Form 8938

- Form 8938 must be filed when Specified Foreign Financial Assets exceed specified amounts
- File the Form 8938 if Specified Foreign Financial Assets exceed either the Year-end Total or Highest Annual values in the table to the right

Filing Status / Location	Year-end Total (greater than)	Highest Annual (greater than)
Single in US	\$50,000	\$75,000
Single Overseas	\$200,000	\$300,000
Joint in US	\$100,000	\$150,000
Joint Overseas	\$400,000	\$600,000
Separate in US	\$50,000	\$75,000
Separate Overseas	\$200,000	\$300,000

# What's new for 2018 Tax Returns

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- The US Congress passed legislation with comprehensive tax law changes which are generally effective starting on January 1, 2018.
- Among the changes are:
  - 1) Changes in the income tax brackets
  - 2) AMT – Exemption amounts increased
  - 3) Personal Exemptions – Eliminated
  - 4) Standard Deduction - \$12,000 Single and \$24,000 for Joint filers
  - 5) Itemized Deductions - State and Local tax deduction limited to \$10,000
    - Some Miscellaneous Deductions Eliminated
  - 6) Medical Expenses – Floor reduced to 7.5% for 2017 and 2018
  - 7) Mortgage Interest – Cap reduced to \$750,000

# What's new for 2018 Tax Returns

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- 8) Equity Loan Interest (HELOC) not deductible
- 9) Pass-through Deduction 20% deduction for qualified business income from a partnership, S Corp or sole proprietorship
- 10) Child Tax Credit – Raised to \$2,000 per qualified child – Phase out starts at higher level \$200K single and \$400K married
- 11) Health Insurance Mandate – Repealed
- 12) 529 Education Plans – Expanded scope of allowable expenses

# Taxation of US Citizens

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**Questions?**