

Tax Information for US Citizen Employees of the World Bank

Rick Ward
Embassy Tax Services LLC

February 11, 2020

Disclosure

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 2020 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

- 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)
- 2019 Tax Changes

Taxation of US Citizens

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

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

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

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, Sch 1 Line 15. 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, Sch 1 Line 16

Taxation of US Citizen Employees

Form 1040

- Employee receiving form W-2...

Must ✓

- Report wages shown on Form W-2 on Form 1040, Line 1
- 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, Sch 1 Line 8
- Claim SEP/IRA Deduction on Form 1040, Sch 1 Line 15
- Claim SE Health Insurance Deduction on Form 1040, Sch 1 Line 16

Taxation of US Citizen Employees

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 2019 and 2020 the SE tax rate is 15.3%
- A portion of self-employment taxes may be deducted on Form 1040, Sch 1 Line 14

Estimated Tax Payments

Federal Estimated Tax Computation

Either

- 90% of the current year tax due
or
- 100% of the prior year tax
(110% if the AGI from 2018 Form 1040, Line 7 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

- 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 |
|-------------------------------|-------------------------|--------------------|--------------------------|--------------------------|
| 1st Quarter | April 15, 2020 | April 15, 2020 | April 15, 2020 | May 1, 2020 |
| 2nd Quarter | June 15, 2020 | June 15, 2020 | June 15, 2020 | June 15, 2020 |
| 3rd Quarter | Sept 15, 2020 | Sept 15, 2020 | Sept 15, 2020 | Sept 15, 2020 |
| 4th Quarter | Jan 15, 2021 | Jan 15, 2021 | Jan 15, 2021 | Jan 15, 2021 |

Tax Reporting Documents Self-Employed Individuals

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

- 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

- 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

- 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

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 15th 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)

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)

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)

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 2019 Tax Returns

- The US Congress recently passed legislation with tax law changes which will be effective for 2019 income tax returns.
- Among the changes are:
 - 1) IRA Required Minimum Distributions required at age 72 instead of 70 ½
 - 2) Contributions to Traditional IRA accounts permitted at any age. No longer eliminated at age 70 ½
 - 3) Standard Deduction – Increased to \$12,200 Single and \$24,400 for Joint filers
 - 4) Itemized Deduction for Mortgage Insurance premiums restored retroactive to 2018.
 - 5) Medical Expenses – Floor reduced from 10% to 7.5% for 2019

What's new for 2019 Tax Returns

- 6) Child Tax Credit – Raised to \$2,000 per qualified child – Phase out starts at higher level \$200K single and \$400K married. Totally eliminated at \$240K for single and \$440K married
- 7) Health Insurance Mandate – Repealed starting in 2019

Taxation of US Citizens

Questions?