

Nagel on Finances: Be Careful Of What You Wish For

BY ROGER NAGEL
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Wouldn't it be nice to wake up one day to discover you have inherited money from a long-lost uncle you never met who lived in a foreign country? Or equally intriguing, what if you just won a jackpot while vacationing in another country. Wouldn't that be nice?

Most of us, I suspect, at some point in our life have fantasized about such large unexpected windfalls. What would you do with such a large sum of money or assets you did not expect? It can be fun to think about, right?

Much has been written about the personal risks and behavioral consequences of such riches. That's not the point of this article.

For more than 20 years now, the U.S. government has continually and steadily taken an increasing interest in the foreign affairs of its citizens. There are now more than 10 different forms that might apply to you if you have foreign activity.

Determining what is "foreign activity" can often be quite tricky.

Generally, if you have a bank account or an investment account in a foreign country that has a balance in excess of \$10,000, at any time during the year, then that account must be reported.

But what if you sold a condo in Mexico this year? Does that generate a new reporting obligation? More than likely.

Taxable income earned outside the U.S. has always been reportable since U.S. taxpayers must report all worldwide income. Generally, U.S. tax credits exist to offset taxes paid to a foreign government where U.S. tax treaties exist. It is rare to pay tax twice on the same income, simply due to the geographical location of the income producing activity.

But the information reporting is becoming quite burdensome. The penalties can be large and punitive, by design.



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Just last year, new rules were imposed for Pass Through Entities (Partnerships and S-corporations) that had more than \$600 of foreign income. The cost of compliance for adding 20-30 pages per owner's K-1 (K-2, K-3) adds up fast, but, not as fast as the \$10,000 penalty or \$490 penalties per owner per month for faulty reporting.

Determining what is reportable is challenging. Err on the side of caution to minimize risk of penalty.

For example, if you have a business partner who travels abroad on business that opened a company account, with you both as authorized signers, for the convenience of paying local costs while on site, you, as well as your partner, may have a reporting obligation that is easy to overlook.

So, what if you mistakenly failed to report? What if you simply do not understand the rules on what is or is not reportable?

Talk candidly with your tax preparer soon.

Look at your 2021 form 1040, Schedule B, Part III, questions 7 and 8. If your return says NO and it should have said YES, you have signed a faulty return.

Learn about your rights and responsibilities and have that corrected soon.

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