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NEWSLETTER

Carter Tax Incorporated Newsletter Tax Alert

Foreign Income and Reporting Foreign Bank Accounts A Serious Matter With the IRS

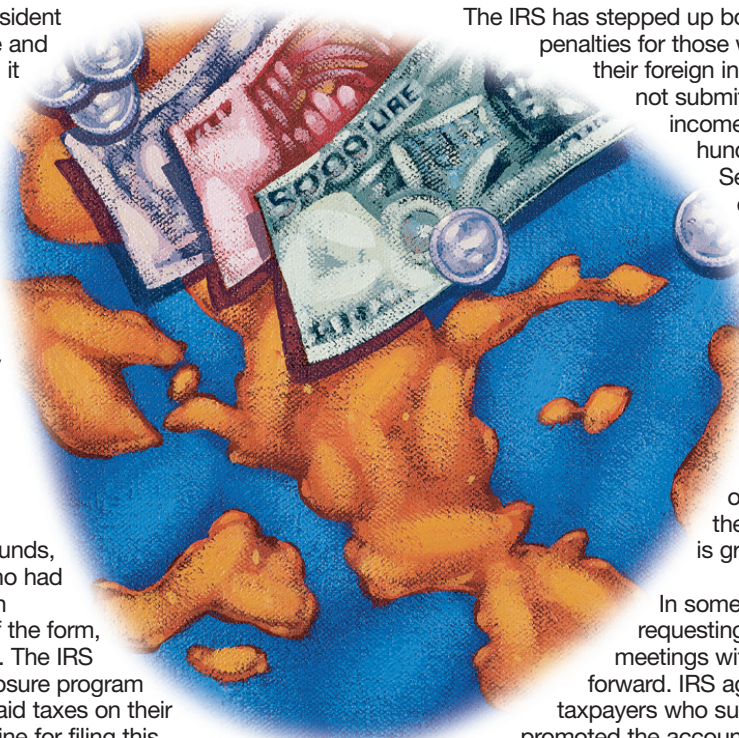
By: Yvonne Rowland, CEO, Carter Tax Incorporated

If you are a U.S. citizen or resident who receives foreign income and have not previously reported it for tax purposes, the IRS wants to make sure it is receiving its share of your earnings. So much so that it is using a previously lesser known tax form called the Foreign Bank Account Report, or FBAR, to obtain information on foreign income earned. The agency has also significantly broadened the definition of those required to file the report.

The filing requirement now includes investors who have offshore hedge and mutual funds, and also applies to those who had been paying taxes on foreign income but were unaware of the form, or thought it wasn't required. The IRS has set up a Voluntary Disclosure program for taxpayers who haven't paid taxes on their overseas income. The deadline for filing this year's FBAR and Voluntary Disclosure has been extended from the normal June 30 to September 23. All applications are first inspected by the IRS's criminal division.

Those taxpayers who report their foreign account may be required to provide up to six years' worth of back statements from the overseas institution. The statements are required in order to determine how much tax and interest is owed.

If you have reported your foreign accounts in the past but have otherwise not filed the FBAR forms, it is not necessary to file a Voluntary Disclosure. Instead, simply file the past due FBAR forms.



The IRS has stepped up both civil and criminal penalties for those who don't disclose their foreign income. Those who do not submit their overseas income of even a few hundred dollars by the September 23 deadline could receive a \$10,000 a year penalty that looks back several years. If the IRS determines a person has willfully evaded paying taxes, the penalty can be as high as \$100,000 or one half the value of the account, whichever is greater, per year.

In some cases, the IRS is requesting face-to-face meetings with those who come forward. IRS agents have asked taxpayers who suggested and promoted the accounts.

Some 386,000 forms were filed in 2008, but that number is expected to be much higher due to the changes in requirements. Taxpayers are exempt from filing the FBAR if the total value of accounts never reaches \$10,000 at any point during the year. (However, those who have not reported foreign income under the \$10,000 limit should still complete the Voluntary Disclosure described previously.) Non-income producing properties, such as art, are also exempt.

If you have unreported foreign income or have not reported foreign bank accounts, contact us immediately so we can guide you through the voluntary disclosure process.

