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Increasing numbers of Americans have financial accounts in foreign countries. The internet and ease of international travel have made it possible to have accounts all over the world. While there is nothing improper or illegal about foreign investments and bank accounts, most people are unaware of the reporting requirements for foreign accounts.

## **Tax Reporting of Foreign Income**

From a tax standpoint, it is necessary to report any income or dividends from foreign accounts just as one would report income from US accounts. While American banks and brokers are required to issue [1099 forms](#) to you to detail the type and amount of investment income, foreign governments may not have the same requirements. However, Americans with foreign accounts are still required to report foreign income. It is your responsibility to determine the amount and type of income and report it completely and correctly. There is also a checkbox on tax returns (for example, page 3 of [Form 1065](#), [Schedule B](#) of [Form 1040](#), or page 2 of [Form 1041](#)) which requires you to report whether or not you have foreign accounts and the name of the country where they are held.

## **Foreign Account Reporting - FBAR**

In addition to the tax requirement, there is an often-overlooked requirement to report the existence of all foreign accounts each year if the collective balance in the accounts on any day of the year exceeds \$10,000. The reporting is a not a **tax** reporting per se, but an informational reporting that occurs independent of a tax return. The accounts and their values are reported on the Report of Foreign Bank and Financial Accounts (also known as FBAR or [Form 90-22.1](#)). Reporting is required even if there was no income. Failure to disclose the presence of accounts is a growing area of concern for the IRS and other branches of the government. There are potentially huge penalties for not reporting, even if there is no attempt to avoid taxes on income. The government has had [amnesty programs](#), [deadline extensions](#), and informational programs in 2009 and 2010, and it is clear that [aggressive enforcement](#) and stiff penalties are the next step toward forcing compliance.

## **Who Must File an FBAR?**

A US person with a financial interest in accounts in foreign countries must report if the value in the accounts exceeds \$10,000 at any point during the year. The reporting requirement refers to a [US person](#), which for these purposes is defined very broadly as an individual, corporation, partnership, LLC, non-profit organization, trust, or estate. The definition of reportable [financial accounts](#) is also quite broad, and could include savings, checking, brokerage, futures accounts, hedge funds, or an insurance policy with cash value. Any financial vehicle organized under the

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laws of a foreign country is considered foreign. Any account located on foreign soil is foreign (even if the parent bank is an American company). Finally, the financial interest is defined based on [signature authority](#). A person is required to report the account if he/she has signature authority, regardless of whether his or her name appears on the account. For example, a person with power of attorney would be considered to have signature authority even if her or she has never exercised the power.

### **When is Reporting Required?**

The requirement to report occurs as soon as the total value of all foreign accounts exceeds \$10,000. Even if the balance exceeds that threshold for only a day, the FBAR must be filed. Furthermore, the value refers to the aggregate value of all accounts. Once the total value of all foreign accounts exceeds \$10,000, reporting is required even if no single account exceeds \$10,000. The FBAR must be filed by June 30 of the following year. There is no extension available, and the form must be received by the due date (unlike most filings for which the postmark establishes the date of filing).

Example: A company with three accounts holding \$4,000 in each account would have to file a FBAR, reporting values for each account.

Example: A person with three accounts holding only \$100 in each would have to report all of them if a deposit were made for \$10,000, even if the sum was removed the next day.

### **What Information Must be Reported?**

Example: A person puts \$11,000 into a foreign account. She then closes that account, and transfers the money to a different foreign account. She would report two different accounts on the FBAR with \$11,000 each account.

The reporting on the FBAR requires the name, address, city, state, zip/ mailing code, and country of each financial institution. For each account, you must provide an account number and description of the type of account (bank, securities, or other). Finally, you must report the maximum value of each account during the year. The report does not show net worth or value at any particular time. As balances changes and currency exchanges fluctuate, each account will likely report the amount on different dates. If reporting is in foreign currency, the conversion is based on the year-end rate.

### **How do I File?**

The FBAR, Form 90-22.1, is available as a PDF at [IRS.gov](https://www.irs.gov) or it can be completed [online](#). You can also contact Dan Burzynski from our tax department ([dburzynski@komisarbrady.com](mailto:dburzynski@komisarbrady.com)) for assistance or questions regarding foreign account filings.