

# Engagement Letter Addendum for Foreign Income or Assets Tax Year 2019



Taxes solved.

*Thank you for using Tucson Tax Team for your tax preparation needs. Clear communication is key to a successful business relationship. The purpose of this letter is to ensure we share an understanding of the services we provide.*

**World-Wide Income:** All income from all sources must be reported on a 1040 tax return either as a citizen or as a resident alien. Failure to report all income can result in substantial fines.

**Non-Resident Alien:** If you are a non-resident alien or on a special visa you might need to file a 1040NR if you have income from U.S. sources.

**Wages/Contract Labor:** Foreign wages and contract labor are taxable unless taxpayer qualifies for a foreign earned income exclusion. If you are self-employed, you are not exempt from Social Security and Medicare taxes unless you have a certificate of exemption from your country of residence.

**Bank/Investment Accounts (non-retirement):** These accounts must be disclosed on Schedule B *Statement of Interest and Dividend* income even if no interest or dividends were earned during the year.

**Foreign Retirement Accounts:** Taxability of foreign retirement accounts is complex. You may need to report your annual earnings; often the pension is taxable in the US when you remove it from the retirement plan. Foreign 401K's often do not qualify for wage exclusion as they do in the US.

**FIN CEN:** This form must be filed with the U.S Treasury by April 15 of the following year if there are investments from bank accounts, investment accounts, retirement accounts or any other investments with an aggregate total of over \$10,000 during the year. It must also be filed if you are a signatory (signer) on a foreign account – either for a relative, your employer, as a volunteer, etc.

**Form 8938:** This form must be filed with your U.S. tax return to report the above accounts if you exceed the filing requirements. These requirements start at \$50,000 of assets at any time in a calendar year. Tucson Tax Team will file all forms as needed with your personal tax return.

**Form 3520:** Taxpayers with foreign trusts or who have inheritances/gifts from foreign sources over \$100,000 must file Form 3520 by April 15<sup>th</sup> of the following year. Taxpayers who receive more than \$15,601 from a foreign corporation or partnership must also file this form.

**Form 3520A:** Taxpayers who have foreign retirements may be required to file this form on an annual basis by March 15<sup>th</sup> of the following year.

**Form 5471/5472:** Owners of foreign corporation and shareholders of certain foreign corporations must file one of these forms with their tax return by the due date of the return.

**Form 8865:** Partners of foreign partnerships must file this form by the due date of the return.

**Form 8621:** Investors or owners of Private Financial Investment Companies (PFICs) must file form 8621 and elect which taxation method to use. PFICs generally apply to most foreign mutual funds, foreign corporations and many foreign retirement funds.

**Penalties:** Failing to file required forms will result in steep penalties; e.g., the penalty for failure to file a FIN CEN can result in a 50% fine of the total account balance and a minimum fine of \$100,000. Tucson Tax Team is not responsible for any penalties for failure to timely file foreign reporting forms.

**Legal Aspects:** Due to the complexity of these issues and the severity of the penalties, Tucson Tax Team strongly recommends that you discuss your filing requirements with a tax attorney versed in foreign asset reporting. **Tucson Tax Team will not file any foreign asset reporting forms, other than the FIN CEN and Form 8938, without the guidance and subsequent review of your tax attorney.** Tucson Tax Team will not late file any asset reporting forms; you will need a tax attorney to develop a compliance plan.

**Mailings:** Many foreign reporting forms must be paper filed. We recommend that you mail all forms certified mail with return receipt and tracking. If you are out of the country, the IRS accepts returns post marked if you use certain Private Delivery Services. You can find an updated list at [irs.gov/pds](https://www.irs.gov/pds). Tucson Tax Team is unable to mail returns for clients outside the country.

**I certify the following:** YES NO

I have a foreign bank or investment account.

I have a foreign retirement Plan.

My total cumulative foreign bank/investment/retirement accounts were more than \$10,000 during the year.

I received a foreign inheritance, gift, or money from a foreign corporation or partnership.

I am an owner or shareholder of a foreign corporation.

I am a partner of a foreign partnership.

I request Tucson Tax Team to file a FIN CEN to report foreign accounts over \$10,000.

If this letter is in agreement with your understanding of this engagement, please sign below.

\_\_\_\_\_  
Client Signature Date Client Signature (if joint return) Date

Print Last Name

Print Last Name