What must I report if I own assets abroad

For U.S. taxpayers, owning assets held in foreign countries may have a variety of benefits, from ease of use for frequent travelers or those employed abroad to diversification of an investment portfolio. There are, however, additional rules and requirements to follow in connection with the payment of taxes. Some of these rules are very different from those for similar types of domestic income, and more than a few are quite complex.

Two documents do not apply directly to federal income taxation, but are nevertheless highly important. The first of these is a Treasury form, Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. Any individual or organization that owns or has control over a bank or brokerage account must complete this form if the aggregate value of all such accounts under that taxpayer's ownership or control exceeds $10,000. The second such form is not a requirement *per se*, but taxpayers who have income in a foreign country with which the United States has a treaty would be seriously remiss in failing to complete it. IRS Form 8802, Application for United States Residency Certification, helps to speed and simplify the application process for eligible taxpayers claiming the benefits of tax treaties in connection with foreign taxes paid. Requirements for organizations that may have dual or layered status offer complications that depend on the type of entity, so these instructions must be parsed carefully.

Taxes on real and personal property held overseas are treated quite differently for purposes of federal income taxation, as opposed to the treatment of domestic property. Individuals may claim foreign real property taxes as itemized deductions on Schedule A of Form 1040, just as they would with U.S. real estate. However, taxes on personal property may only be deductible if used in connection with a trade or business or in the production of income.

U.S. taxpayers who own homes in foreign countries are eligible for the capital gains exclusion on the sale of a principal residence subject to the same requirements as domestic homeowners. Likewise, if a taxpayer derives rental income from a home, the rules for reporting income and deductions are the same. However, claiming depreciation expenses in connection with rental income subjects taxpayers to a different set of rules. Code Sec. 168(g) indicates that tangible property used predominantly outside the United States must be depreciated using the alternative depreciation system (ADS), rather than the modified accelerated cost recovery system (MACRS), and involves longer recovery periods. This is true whether the tangible property in question is the residence itself or household appliances contained therein, as well as any other tangible property.

Intangible property such as patents, licenses, trademarks, copyrights and securities produce a variety of types of income, and the taxation of such income may be subject to different rules than similar domestic income. The provisions for taxation of foreign income are often subject to modification by treaty, and the United States has negotiated treaties with over sixty nations.

Income from all sources must be reported in U.S. dollars, regardless of how it is paid. One exception to this rule is that if income is received in a currency that is not convertible to U.S. dollars because of prohibitions placed on conversion by the issuing country, then the taxpayer may choose when to report the income. The income may be reported either in the year earned, according to the most accurate valuation means available, with the taxes paid from other income, or the taxpayer may choose to wait until the currency becomes convertible again.