

Worldwide personal tax guide 2022-2023

Going to/leaving the
United States of America



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Local information	
Tax authority	The Internal Revenue Service (IRS)
Website	www.irs.gov
Tax year	1 January to 31 December
Tax return due date	15 April (for US residents residing overseas on 15 April there is a 2 month automatic extension to 15 June)
Are tax return extensions possible	Yes. However, an extension to file a return is not an extension to pay tax. To prevent interest and penalties from being charged on unpaid tax, any tax due should be paid by 15 April
Is joint filing possible	Yes, depending on personal circumstances, married taxpayers may file jointly or elect to file as "married filing separate"

2022 Income Tax Rates

Taxable Income Band USD	National Income Tax Rates
Married Filing Separately	
0-10,275	10%
10,276-41,775	12%
41,776-89,075	22%
89,076-170,050	24%
170,051-215,950	32%
215,951-323,925	35%
323,926 +	37%

Taxable Income Band USD	National Income Tax Rates
Married Filing Jointly	
0-20,550	10%
20,551-83,550	12%
83,551-178,150	22%
178,151-340,100	24%
340,101-431,900	32%
431,901-647,850	35%
647,851 +	37%

Taxable Income Band USD	National Income Tax Rates
Single	
0-10,275	10%
10,276-41,775	12%
41,776-89,075	22%
89,076-170,050	24%
170,051-215,950	32%
215,951-539,900	35%
539,901 +	37%

Taxable Income Band USD	National Income Tax Rates
Head of Household	
0-14,650	10%
14,651-55,900	12%
55,901-89,050	22%
89,051-170,050	24%
170,051-215,950	32%
215,951-539,900	35%
539,901 +	37%

Unmarried non-resident aliens are taxed under the rates for single individuals. Married non-residents whose spouses are also non-residents are generally taxed under the rates for married persons filing separately.

In addition, higher income taxpayers with income over USD250,000 for married filing jointly and USD200,000 for

single filing are subject to a 3.8% tax on their "net investment income". The definition of "net investment income" is broad and essentially includes all income other than income from a trade or business. Compensation from personal services is generally excluded from this tax.

The content of this document was updated in April 2023. The content is next expected to be updated in April 2024.

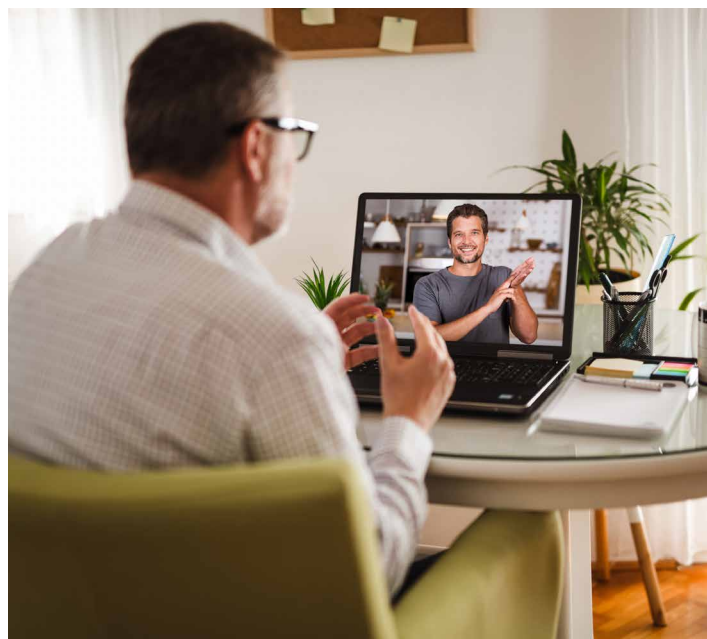
The United States also imposes alternative minimum tax (AMT) at a rate of 26% on alternative minimum taxable income, up to USD206,100, for all filers except USD103,050 for married filing separately and at a rate of 28% on alternative minimum taxable income exceeding USD206,100 for all filers except USD103,050 for married filing separately (long-term capital gains and qualified dividends are generally taxed at lower rates of 15% or 20%.

Some states, cities and municipalities also levy income tax. City or municipal income tax rates are generally 1% or lower. However, the top 2022 rate for residents of New York City is 3.876%. State income tax rates generally range from 0% to 12%. Therefore, an individual's total income tax liability depends on the state and the municipality where the individual resides or works.

Who is liable?

US citizens and resident aliens are subject to tax on their worldwide income, regardless of source. US citizens and resident aliens may exclude, however, up to USD112,000 (for 2022) of their foreign-earned income plus certain housing expenses if they meet specified qualifying tests and if they file US tax returns to claim the exclusion.

A non-resident alien is subject to US tax on income that is effectively connected with a US trade or business and on US-source fixed or determinable, annual or periodic gains, profits and income (generally investment income, including dividends, royalties and rental income). US-source investment income is taxed on a gross basis at a flat rate of 30%.



Residence status for tax purposes

Residence for income tax purposes generally has no bearing on an individual's immigration status. Generally, foreign nationals may be considered resident aliens if they are lawful permanent residents ("green card" holders) or if their physical presence in the United States lasts long enough under a substantial presence test. Under the substantial presence test, a foreign national is deemed to be a US resident if the individual fulfils both of the following conditions:

- ▶ The individual is present in the United States for at least 31 days during the current year.
- ▶ The individual is considered to have been present for at least 183 days during a consecutive three-year test period that includes the current year, using a formula weighted with the following percentages:
 - ▶ Current year – 100%
 - ▶ 1st preceding year – 33.33%
 - ▶ 2nd preceding year – 16.67%

Among several exceptions to the substantial presence test are the following:

- ▶ Days present as a qualified student, teacher or trainee, or if a medical condition prevented departure, are not counted.
- ▶ An individual might claim to be a non-resident of the United States by virtue of having a closer connection (such as a tax home) to a foreign country.
- ▶ Bilateral income tax treaties may override domestic US tax rules for dual residents.

In certain circumstances, it may be beneficial for an individual to be considered a resident of the United States for income tax purposes. An individual may make what is known as a first-year election to be treated as a resident in the year of arrival if certain conditions are met.

Income subject to tax

In general, gross income must be segregated into the following three separate baskets:

- ▶ Earned income, which is generally salary and earnings from active trades or businesses
- ▶ Portfolio income, which is generally investment income, including interest, dividends, certain royalties and gains from the disposition of investment property
- ▶ Passive income, which is generally income from traditional tax-shelter investments including real estate

Employment income – In addition to cash payments, taxable salary generally includes all employer-paid items, except, medical insurance premiums, pension contributions to a US qualified plan and, for individuals on short-term assignments of one year or less, meals and temporary housing expenses.

In general, a non-resident alien who performs personal services as an employee in the United States at any time during the tax year is considered to be engaged in a US trade or business. An exception to this rule applies to a non-resident alien performing services in the United States if all of the following conditions apply:

- ▶ The services are performed for a foreign employer.
- ▶ The employee is present no more than 90 days during the tax year.
- ▶ Compensation for the services does not exceed USD3,000.

These conditions are similar to those contained in many income tax treaties, although the treaties often expand the time limit to 183 days and increase or eliminate the maximum dollar amount of compensation.

Compensation is considered to be from a US source if it is paid for services performed in the United States. The place where the income is paid or received is irrelevant in determining its source. If income is paid for services performed partly in the United States and partly in a foreign country, and if the amount of income attributable to services performed in the United States cannot be accurately determined, the US portion is determined on a workday ratio basis.

States often follow the federal tax treatment in determining if a non-resident alien's income is subject to state taxation; however, certain states tax income of a non-resident regardless of federal tax treatment or treaty relief.

Self-employment income – In general, a non-resident alien who performs independent personal services in the United States at any time during the tax year is considered to be engaged in a US trade or business.

Although subject to tax at the graduated rates, compensation paid to a non-resident alien for performing independent personal services in the United States is subject to a 30% withholding tax.

Investment income – Dividends, interest income and capital gains are considered portfolio income and are generally taxed at the ordinary rates. Certain types of interest income, including interest on certain state and local government

obligations, are exempt from federal tax, but may be subject to alternative minimum tax.

Net income from the rental of real property and from royalties is aggregated with other income and taxed at the ordinary rates. Foreign rental properties considered to be qualified business units have an additional filing requirement of Form 8858 from 2018 onward.

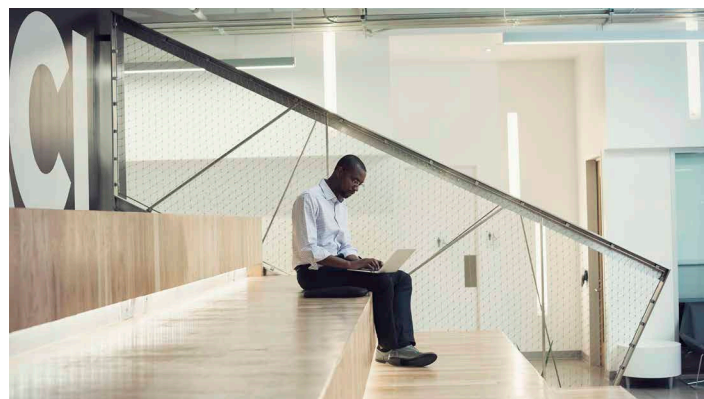
In general, passive losses, including those generated from limited-partnership investments or rental real estate may be offset only against income generated from passive activities.

Limited relief may be available for real estate rental losses. For example, an individual who actively participates in rental activity may use up to USD25,000 of losses to offset other types of income. The USD25,000 offset is phased out for taxpayers with adjusted gross income of between USD100,000 and USD150,000, and special rules apply to married individuals filing separate tax returns.

Disallowed losses may be carried forward indefinitely and used to offset net passive income in future years. Any remaining loss may be used in full when a taxpayer sells the investment in a transaction that is recognized for tax purposes.

Directors' fees – In general, directors' fees are considered to be earnings from self-employment.

Deferred compensation and participation in foreign pension plans – The United States has very complex rules regarding the taxation of deferred compensation. If a plan of deferral does not meet the requirements of the law, significant penalties and interest may be charged. Complex rules apply to the taxation related to participation in a non-US retirement plan. In many cases, continued participation in the home country plan may result in income that is taxable in the United States. Certain newer income tax treaties attempt to address this issue.



Income from certain foreign corporations – Under a complex set of rules, US citizens and residents with ownership interests in “controlled foreign corporations” may be subject to US tax on certain categories of income, even if the income has not been distributed to them as a dividend. Beginning in 2018, the categories of income subject to current taxation are expanded. Individuals who were subject to these rules in 2017 were required to calculate a “transition tax” when filing their 2017 tax returns.

Taxation of employer-provided stock options – Under incentive stock option (ISO) rules, options provided to employees under qualified stock option plans are not subject to tax at the time the option is granted or at the time the employee exercises the option and buys the stock. However, at the time of exercise, the difference between the exercise price and the fair market value of the stock at the date of exercise is considered a tax preference item for AMT purposes. Tax is levied at capital gains tax rates when the employee sells the stock.

A stock option provided to an employee under a non-qualified plan is taxed when it is granted if the option has a readily ascertainable fair market value at that time. Most non-qualified options that are not traded on an established market do not have a readily ascertainable fair market value and are not taxable at the date of grant.

The exercise of a non-qualified stock option triggers a taxable event. An employee recognises ordinary income in the amount of the value of the stock purchased, less any amount paid for the stock or the option. When the stock is sold, the difference between the sale price and the fair market value of the stock at the date of exercise, if any, is taxed as a capital gain.

Capital gains and losses

Net capital gain income is taxed at ordinary rates, except that the maximum rate for long-term gains is limited to the following:

- ▶ 0% for married individuals filing jointly, with a maximum taxable income of USD83,350 (USD41,675 for single individuals)
- ▶ 15% for married individuals filing jointly, with a maximum taxable income of USD517,200 (USD459,750 for single individuals)
- ▶ 20% for married individuals filing jointly, with taxable income of more than USD517,200 (USD459,750 for single individuals)

Net capital gain is equal to the difference between net long-term capital gains over net short-term capital losses. Long-term refers to assets held longer than 12 months. Short-term capital gains are taxed as ordinary income at the ordinary rates.

Once every two years, US taxpayers, including resident aliens, may exclude up to USD250,000 (USD500,000 for married taxpayers filing jointly) of gain derived from the sale of a principal residence. To be eligible for the exclusion, the taxpayer must generally have owned the residence and used it as a principal residence for at least two of the five years immediately preceding the sale.

Capital losses are fully deductible against capital gains. However, net capital losses are deductible against other income only up to an annual limit of USD3,000. Unused capital losses may be carried forward indefinitely. Losses attributable to personal assets (for example, a personal residence or an automobile) are not deductible.

Dividends received by individuals from domestic corporations and “qualified foreign corporations” are taxed at the same special rates as those applicable to net capital gains, for both the regular tax and the alternative minimum tax.

To qualify for the 15% (or 0% or 20%) tax rate, the shareholder must hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date. Other dividends are taxed at ordinary rates.

Net worth tax

No federal tax is levied on an individual's net worth. However, some states and municipalities impose a tax on an individual's net worth.

Estate and gift tax

US estate and gift taxes are imposed at graduated rates ranging from 18% to 40% on the value of property transferred by reason of death or gift. In general, citizens and residents are entitled to a unified exemption of USD10 million (indexed for inflation; USD12,060,000 for 2022) on these taxes. No exemption is available to non-US citizens or residents for gift tax purposes, and an exemption of only USD60,000 is available to non-US citizens or residents for estate tax purposes. A third transfer tax, known as the generation-skipping transfer (GST) tax, operates under a complex set of rules.

In general, transfers between spouses who are US citizens, or from a non-US citizen to a US citizen spouse, are not subject to estate or gift taxes. However, transfers from a US citizen to a non-US citizen spouse may be subject to estate or gift tax.

Like US income tax rules, US estate and gift tax rules differ, depending on whether a foreign national is considered to be a resident or non-resident alien. However, the distinction between residents and non-residents differs from that under US income tax rules. For estate and gift tax purposes, a non-resident is a foreign national who is not a US citizen and whose domicile is outside the United States at the date of death or gift. A person's domicile is defined generally as the place the individual regards as his or her permanent home—that is, the place where he or she is living with no present intention of leaving.

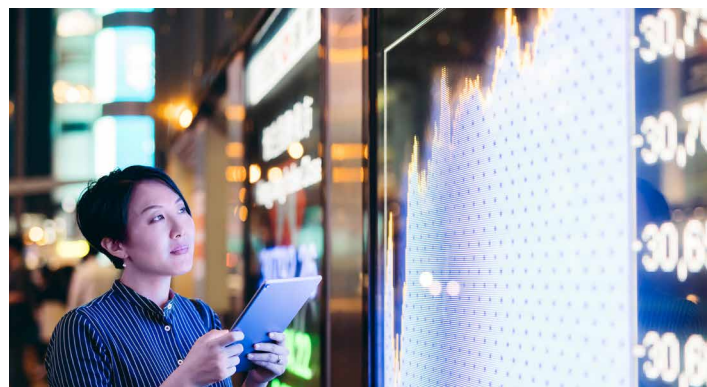
Application of US estate and gift tax rules may be modified if a non-resident alien is a resident of a country that has entered into an estate and gift tax treaty with the United States. The United States currently has estate and/or gift tax treaties with 15 countries.

Gift tax – US citizens and resident aliens are subject to gift tax on transfers of all property, tangible and intangible, regardless of the location of the property. Tax is imposed on the fair market value of property on the date of the gift, at graduated rates determined by the individual's cumulative lifetime transfers. Certain exemptions and reliefs apply.

Foreign nationals who are not domiciled in the United States must generally pay gift tax on transfers of real property and tangible personal property located in the United States. Intangible property, including stocks and bonds, is generally exempt. The gift tax rates for non-residents are the same as those for citizens and residents. These non-residents are allowed to give up to USD16,000 (for 2022) annually to each recipient with no gift tax consequences, but they may not split gifts with their spouses.

Estate tax – The estate of a US citizen or resident includes all property, tangible and intangible, regardless of location.

Property transferred at death from a US citizen to a non-US citizen spouse is generally not excluded from the decedent's gross estate, unless the property is placed in a qualified domestic trust or the surviving spouse becomes a US citizen before the estate tax return is due.



For US tax purposes, the estate of a non-resident includes only property deemed to be located in the United States. This generally includes tangible, intangible and real property located within the United States at the time of death. The estate tax rates are the same as those for citizens and residents.

Expatriation tax

Effective from 17 June 2008, certain individuals known as “covered expatriates” are immediately taxed on the net unrealised gain in their property exceeding USD600,000 (indexed for inflation; USD767,000 for 2022) as if they sold the property for fair market value the day before expatriating or terminating their US residency. In general, “covered expatriates” are US citizens, or long-term residents (“green card” holders for any part of 8 tax years during the preceding 15 years) who either have a five-year average income tax liability exceeding USD124,000 (indexed for inflation; USD178,000 for 2022) or a net worth of USD2 million or more, or who have not complied with their US tax filing obligations for the preceding five years. This treatment applies to most types of property interests held by individuals.

At the election of the taxpayer, subject to approval of the IRS, payment of the exit tax may be deferred if adequate security is provided. Such deferral is irrevocable, carries an interest charge and requires the taxpayer to waive any treaty rights with respect to the taxation of the property.

Social security taxes

Social security tax – Under the Federal Insurance Contributions Act (FICA), social security tax is imposed on wages or salaries received by individual employees to fund retirement benefits paid by the federal government. FICA tax is imposed on compensation for services performed in the

United States, regardless of the citizenship or residence of the employee or employer. Consequently, absent an exception, non-resident alien employees who perform services in the United States are subject to FICA tax, even though they may be exempt from US income tax under a statutory rule or an income tax treaty.

Self-employment tax – Self-employment tax is imposed under the Self-Employment Contributions Act (SECA) on self-employment income, net of business expenses, that is derived by US citizens and resident aliens. If a taxpayer has both wages subject to FICA tax and income subject to SECA tax, the wage base subject to FICA tax is used to reduce the income base subject to SECA tax. SECA tax is computed on the individual's US income tax return. Non-resident aliens are not subject to SECA tax unless they are required to pay tax under a totalisation agreement.

Federal unemployment tax – Federal unemployment tax (FUTA) is imposed on employers' wage payments to employees. FUTA is imposed on income from services performed within the US, regardless of the citizenship or residency of the employer or employee. It is also imposed on wages for services performed outside the US for a US employer by US citizens. The 2022 tax rate is 6% on the first USD7,000 of wages of each employee. Most states also have unemployment taxes that are creditable against FUTA tax when paid. Self-employed individuals are not subject to FUTA tax.

Tax filing and payment procedures

The US system of tax administration is based on the principle of self-assessment. US taxpayers must file tax returns annually with the IRS and with the state and local tax authorities under whose jurisdiction they live if those governments impose income or net worth taxes.

On the federal return, taxpayers must report income, deductions and exemptions and must compute the tax due. Taxes are generally collected by employer withholding on wages and salaries and by individual payment of estimated taxes on income not subject to withholding. Normally, tax due in excess of amounts withheld and payments of estimated tax must be paid with the return when filed. The taxpayer may also claim a refund of an overpayment of tax on the annual return. Substantial penalties and interest are usually imposed on a taxpayer if a return is not filed on time or if tax payments, including estimated payments, are not made by the applicable due dates.

An employer (US or foreign) is responsible for withholding US income and social security taxes from non-resident alien employees.

For years in which a foreign national is both a resident alien and a non-resident alien, two returns are generally prepared, attached to each other, and filed simultaneously. One return reports income and deductions for the residence period, and the other reports income and deductions for the non-resident period. The income from the non-resident period that is effectively connected with the taxpayer's US trade or business is combined with all income from the resident period for computation of the tax on income subject to graduated tax rates.

Two elections are available to married aliens that enable them to file one tax return and qualify for the lower married filing joint return tax rates.

In addition to the income tax return filing requirements, the United States has information reporting rules, which affect certain US residents and citizens, and certain non-residents. The rules cover interests and signature authority in foreign bank and other financial accounts and assets, including foreign pension plans, foreign corporations, foreign trusts and foreign partnerships. The reporting rules are extremely complex, and penalties (both civil and criminal) for failure to comply with the reporting requirements can be significant.

Double tax relief and tax treaties

A foreign tax credit is the principal instrument used by US individuals to avoid being taxed twice on foreign-source income—once by a foreign government and again by the United States. In general, the foreign tax credit permits a taxpayer to reduce US tax by the amount of income tax paid to a foreign government, subject to certain limitations.

The foreign tax credit is generally limited to the lesser of actual foreign taxes paid or accrued and US tax payable on foreign-source income. Separate limitations must be calculated for two categories of income. These categories are passive category income and general category income, which includes earnings from personal services.

Special rules apply to non-resident aliens who are residents of countries that have income tax treaties with the United States. The United States has entered into double tax treaties with 59 countries.

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