Tax FAQs

United States

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Contents

The content of this document is current as of 1 December 2024. The content is next expected to be updated by 1 February 2026.

General US tax queries

1. Do I need to file a US tax return?

In most cases, a US citizen or resident alien must file a US federal income tax return if their gross income exceeds a certain threshold, starting at approximately USD14,600 for a single individual.

US citizens and resident aliens are subject to tax on their worldwide income, regardless of source. US citizens and resident aliens, who live outside of the US, may exclude up to USD130,000 (for 2025) 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.

There are certain instances in which nonresident aliens (NRAs) may also have a US filing obligation, discussed further in 'Tax Residency' section.

In addition to the income tax return filing requirements discussed above, the US has information reporting rules, which affect certain US residents and citizens, and certain NRAs. The reporting rules related to interests in foreign accounts and entities are extremely complex, and penalties (both civil and criminal) for failure to comply can be significant. Almost all foreign assets and foreign accounts must be disclosed annually. One of the few assets that does not currently require disclosure is direct ownership of foreign real estate.

2. What are the US tax year dates and filing deadlines?

In most cases, the US tax year follows the calendar year, starting on January 1 and ending on December 31.

US citizens and resident aliens file Form 1040, US Individual Income Tax Return. The due date for calendar-year taxpayers is normally **April 15** following the end of the tax year. An automatic 6-month extension may be obtained by filing a request with the IRS. 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, a calendar-year taxpayer should pay any tax due by April 15.

For US citizens and resident aliens residing outside of the US on the regular due date (e.g., April 15), there is an automatic two-month extension to file by June 15. An additional extension to October 15 may be requested, if needed. Both extended due dates (June 15 and October 15) are for filing of the return only. Any taxes due should still be paid by the regular due date, April 15, to avoid any interest and penalties.

NRAs with reportable US gross income must generally file Form 1040-NR, US Nonresident Alien Income Tax Return. For NRA employees who received wages subject to US income tax withholding, Form 1040-NR is due on April 15 following the end of the tax year. For NRAs who did not receive wages subject to withholding, Form 1040-NR is due on June 15.

Tax residency

3. How is my US residency position determined?

Generally, non-US citizens may be considered US resident aliens (subject to US tax on their worldwide income) if they are lawful permanent residents ("Green Card" holders) or if their physical presence in the US meets the substantial presence test. Residence for income tax purposes generally has no bearing on an individual's immigration status.

Under the substantial presence test, a non-US citizen 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 in the United States for 183 days or more during a consecutive three-year test period that includes the current year, using a formula weighted with the following percentages:
    - Current year 100.00%
    - First preceding year 33.33%
    - Second preceding year 16.67%

Exceptions to the substantial presence test include:

- 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 nonresident 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.

4. Do I need to pay US tax if I am a non-US resident?

An NRA is subject to US tax on income that is effectively connected with a US trade or business (ECI) and on US-source fixed or determinable, annual, or periodic gains, profits, and income (FDAP). FDAP generally includes investment income, including dividends, royalties, and rental income. Portfolio interest is excluded from FDAP and generally not taxable to NRAs.

NRAs are generally subject to a 30% withholding tax on FDAP (may be reduced by applicable treaty). ECI for NRAs is taxed at the same graduated rates as US citizens and residents (see Income tax rates section). For taxation of NRAs on capital gains, see Capital Gains section.

Form 1040-NR, US Nonresident Alien Income Tax Return, is generally required for NRAs with reportable US gross income. This return is required even if a taxpayer has ECI but no taxable income, or if income is exempt under a tax treaty. Form 1040-NR is not required for NRAs who are not engaged in a US trade or business during the tax year and if any tax liability on US source income is satisfied by the 30% (or lower treaty rate) withholding tax.

5. Is it possible to be tax resident in more than one jurisdiction?

It is possible for an individual to be tax resident in more than one jurisdiction at the same time and, therefore, be regarded as a dual resident during a period. During a period of dual residence, it is necessary to consider any double tax agreement (DTA) between the two countries. The DTA will determine whether residence can be awarded to one of the jurisdictions, and also how the various sources of income and capital gains should be taxed in accordance with the individual's circumstances. It should be noted that some income may not be covered by the DTA and income or gains arising in other countries may also need to be considered.

6. Is it possible to be taxed on the same income in different jurisdictions?

Yes. 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.

If an individual is subject to tax on the same income in two different jurisdictions, it should be considered whether there is a DTA in place between the two countries. If a DTA is in place, it may exempt certain income or gains from being taxed in one of the participating jurisdictions.

7. Should I setup a US or non-US bank account?

The US has extensive information reporting rules regarding non-US bank accounts. Ownership of, or interests in, non-US bank accounts may result in FBAR and Form 8938 reporting requirements. The reporting rules are extremely complex, and penalties (both civil and criminal) for failure to comply with the reporting requirements can be significant.

Deciding whether to open a US or non-US bank account will depend on an individual's personal circumstances and future intentions. We recommend individuals take independent financial, legal, and other professional advice when considering non-US bank accounts.

Domicile in the US (for gift and estate taxes)

8. How is my domicile position determined?

In contrast to the residency rules for income tax, determination of domicile for estate and gift tax purposes is a subjective one. Domicile depends on the facts and circumstances of each particular case. One acquires a domicile by living at a location — even for a brief period — while possessing no definite, present intention of later removing therefrom.

Courts in the US have relied on several distinct factors when attempting to discern an individual's domicile. These include immigration status, written statements of intention (such as those included in wills, visa applications, trust agreements and deeds), the time spent in the US in comparison to other countries, the location and size of the individual's residences, as well as business, family, social and religious attachments. No single factor is determinative, and each case will depend upon the totality of the circumstances.

A US domiciliary for US estate and gift tax purposes is a person who is not a citizen of the US and meets the subjective domicile test for US estate and gift tax purposes. Non-US domiciliaries are non-US citizens who do not meet the subjective domicile test for US estate and gift tax purposes.

9. Is it possible to change one's domicile position?

An individual has exactly one domicile — no more, no less — and once established, the individual must explicitly exhibit the intent to leave the old domicile in favor of a new one. Since US domicile is based on an individual's specific facts and circumstances, his or her domicile position may change as the relevant facts and circumstances change.

10. Are there any implications of bringing funds to the US?

Bringing assets to the US may result in these assets being considered US situs assets. Non-US domiciliaries are subject to US estate tax on their US situs assets. Therefore, bringing funds to the US may result in such funds being subject to US estate taxes for non-US domiciliaries. See Inheritance, estate and gift tax section for additional information.

Rental income

11. How is my rental income taxed in the US?

Net income from the rental of real property is aggregated with other income and taxed at ordinary rates. Certain expenses related to the maintenance and care of the property and depreciation may be deducted.

Capital gains tax

12. How is capital gain calculated?

Net capital gain is equal to the difference between net long-term capital gains over net short-term capital losses. Long-term gains are for assets held longer than 12 months.

13. What are the rates of CGT?

Net capital gain income is taxed at ordinary rates, except that the maximum rate for long-term gains is limited to the following (for 2025):

- 0% for married individuals filing jointly, with a maximum taxable income of USD96,700 (USD48,350 for single individuals)
- 15% for married individuals filing jointly, with a maximum taxable income of USD600,050 (USD533,400 for single individuals)
- 20% for married individuals filing jointly, with taxable income of more than USD600,050 (USD533,400 for single individuals)

Net investment income tax (3.8%) may apply in addition for certain taxpayers. See Income tax rates section.

14. How is a US resident taxed in relation to capital gains?

US residents are taxed on worldwide capital gains based on the rates in the Income tax rates section and Capital gains tax section. Investors who hold "qualified small business stock" may be entitled to exclude from income part or all of the gain realized on disposition of the stock.

15. How is a non-US resident taxed in relations to capital gains?

Capital gains generally are not subject to US tax (or withholding) for NRAs. However, for an NRA with a US tax home and in the case where an NRA spends more than 183 days in the US, capital gains will generally be taxed at a flat rate of 30%.[1] Generally, NRAs will be subject to US federal income tax on the gain from the sale of partnership interests, to the extent the gain is treated as ECI, taxed at preferential rates (max. 20%), with 10% withheld on the sale price (plus the nonresident aliens' allocable share of partnership debt relief); gain attributable to the partnership's "hot assets" (e.g., inventory, accounts receivable) will be taxed at ordinary income tax rates (max. 37%). The amount of gain or loss allocated to each NRA partner will be based on the partner's distributed share of the gain or loss.

Gains from the sale of US real property interests are generally covered under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). FIRPTA is a special tax regime that applies to the disposition and transfer of US real property interests (USRPIs) by NRAs. Under FIRPTA, gains derived from the disposition of a USRPI by an NRA is treated as ECI and are subject to graduated tax rates based on whether the gains are long-term capital gains (rates up to 20%), or short-term capital gains (rates up to 37%).[2] In the case of a disposition (e.g., sale) of US real property by an NRA, the transferee is required to withhold 15% of the amount realized on the disposition, unless reduced by a withholding certificate, filed with the IRS.

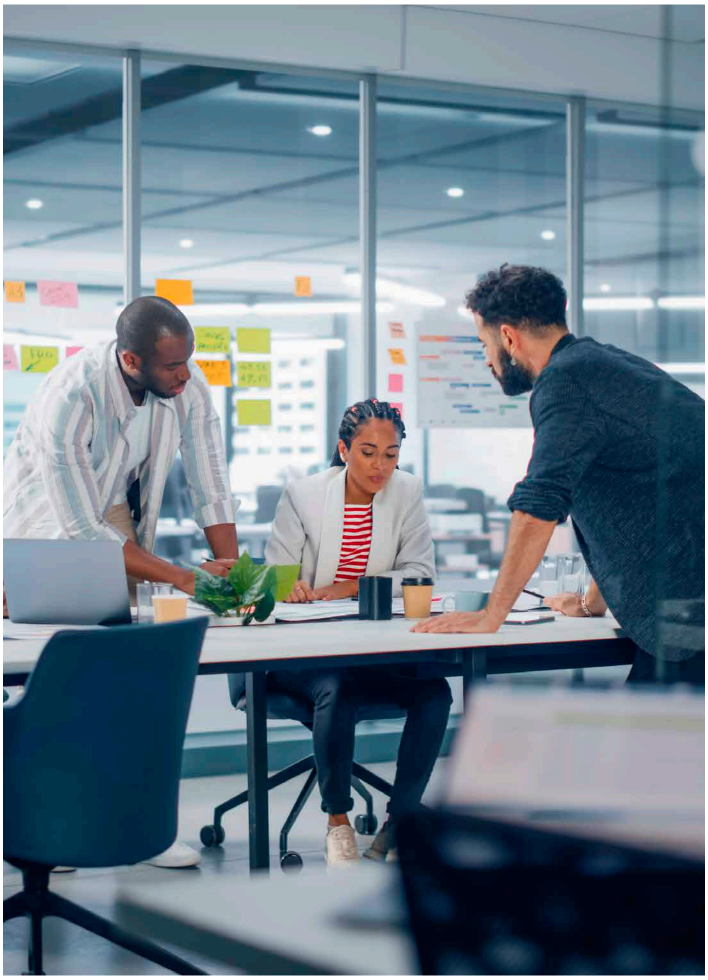
1. I.R.C. § 871(a)(2)
2. I.R.C. § 897(a)(1), § 871(b)(1)

16. I am selling my main residence, am I entitled to relief?

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. However, if a taxpayer moves due to a change in place of employment, for health reasons, or as a result of unforeseen circumstances, a fraction of the maximum exclusion amount is allowed in determining whether any taxable gain must be reported. The numerator of the fraction is generally the length of time the home is used as a principal residence, and the denominator is two years.

The repayment of a foreign currency mortgage obligation may result in a taxable exchange-rate gain, regardless of any economic gain or loss on the sale of the principal residence.

In certain cases, part of the gain on the sale of a principal residence may not be eligible for exclusion. To the extent the taxpayer has "non-qualified use" of the property, that portion of the gain (determined on a time basis over the total holding period of the property) is not eligible for exclusion from income. A complex set of rules applies to determine whether a particular use of the property, such as renting out the property or leaving it vacant, is considered a "non-qualified use."



Inheritance, estate and gift law

17. Does the US have inheritance tax?

The US does not impose an inheritance tax at the federal level, but instead has an estate tax. However, a minority of states independently retain inheritance tax regimes. Generally, these state-level inheritance tax provisions do not impose taxes on transfers to spouses and descendants. Nonetheless, in the limited circumstances where state inheritance taxes do apply, the impact can result in significant tax implications, with rates ranging up to 18%.

18. Who is subject to estate tax?

The US imposes an estate tax on the transfer of a decedent's taxable estate at death. The estate tax will ultimately be assessed upon the value of the taxable estate (i.e., the gross estate, less applicable deductions).

For a US citizen or domiciliary (non-US citizen that meets the domicile test for US estate and gift tax purposes), the gross estate is the fair market value (FMV) of a decedent's worldwide assets at date of death; the taxpayer may also elect an alternative valuation date six months after date of death.

For non-US domiciliaries (those who are not US citizens and those without a US domicile for US estate and gift tax purposes), the gross estate includes only US situs property owned at death. Under the Internal Revenue Code (IRC), US situs property includes real and tangible personal property located in the United States, stock or options issued by a US corporation, debt of a US person (except portfolio debt), deferred compensation and pensions paid by US persons, and annuity contracts enforceable against US obligors. It does not include US bank deposits, proceeds from life insurance on the life of a nonresident who is not a US citizen, stock issued by non-US corporations, or pensions payable by non-US persons.

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.

19. What are the estate tax rates?

US citizens and domiciliaries dying after December 31, 2012, are subject to graduated estate tax rates ranging from 18%-40% and are entitled to a USD13.99 million (2025) estate tax exemption, indexed for inflation; the estate tax exemption is reduced by gifts (other than annual exclusion gifts) made during life. Non-US domiciliaries are subject to the same graduated estate tax rates, with an exemption amount of USD60,000 (not indexed for inflation).

20. Who is subject to gift tax?

US citizens and domiciliaries are subject to gift tax on transfers of all property, tangible and intangible, regardless of the location of the property. Gift tax applies to the FMV of the transferred assets as of the date of the gift.

An annual, per-donee exclusion (annual exclusion) exists that is indexed for inflation (USD19,000 in 2025), which offsets tax on gifts of present interests. Transfers on behalf of a donee directly to a service provider for qualifying medical expenditures, or to an educational institution for educational expenditures, are entirely exempt from the gift tax.

Gifts by US citizens or domiciliaries to a US citizen spouse are entitled to an unlimited marital deduction and do not incur gift tax. However, for transfers to a non-US citizen spouse, there is a special increased gift tax annual exclusion (USD190,000 in 2025, as indexed for inflation).

Unlike US citizens and domiciliaries, non-US domiciliary individuals do not receive a lifetime gift tax exemption, but they are entitled to use of the annual exclusion amount. Thus, every transfer of US situs property by a non-US domiciliary in excess of the gift tax annual exclusion is subject to gift tax. Non-US domiciliaries must generally pay gift tax on transfers of real property and tangible property located in the US. Intangible property, including stocks and bonds, is generally exempt.

21. What are the gift tax rates?

US citizens and domiciliaries are subject to gift tax rates up to 40%, after the application of the lifetime gift tax exemption (USD13.99 million for 2025). Non-US domiciliaries share the same gift tax rates with US citizens and domiciliaries; but as mentioned above, non-US domiciliaries do not receive a lifetime gift tax exemption.

22. Who is subject to generation-skipping transfer (GST) tax and what are the rates?

The GST tax is imposed on all direct transfers to "skip persons" and on "taxable distributions" and "taxable terminations" by trusts that have skip persons as beneficiaries. The GST tax is in addition to any gift or estate tax that may be assessed on a transfer. The IRC defines a skip person as someone who is two or more generations below the transferor or a trust for which all beneficiaries are skip persons.

Generation-skipping transfers that are subject to GST tax are taxed at a rate of 40%. There is a GST exemption of USD13.99 million (2025), adjusted annually for inflation, available to US citizens, US residents and non-US residents. The GST exemption is in addition to the gift and estate tax exemption.

Deductions and exemptions

23. What basic deductions and exemptions are available in the US?

Generally, US residents have the choice between taking itemized deductions or a standard deduction (the more common approach). The amount of the standard deduction varies, depending on the taxpayer's filing status. For 2025, the standard deduction is:

- Single or Married filing separately: USD15,000
- Married filing jointly: USD30,000
- Head of household: USD22,500

Itemized deductions include:

- Unreimbursed medical expenses, to the extent that they exceed 7.5% of adjusted gross income
- Income, general sales and property taxes of US states and localities, but limited to USD10,000 in total (this limitation to USD10,000 was a controversial change in recent years)
- Foreign income taxes paid if a foreign tax credit is not elected
- Certain interest expenses, generally home mortgage interest and investment interest expenses, with new limitations with respect to home mortgage interest
- Casualty losses, to the extent they are attributable to specified natural disasters
- Gambling losses, to the extent of gambling winnings
- Charitable contributions made to qualified US charities

The standard deduction is not available to NRAs. Itemized deductions an NRA may claim are limited to charitable contributions made to qualified US charities, and state and local taxes imposed on effectively connected income (limited to USD10,000). An NRA may not claim an itemized deduction for medical expenses, taxes (other than state and local income taxes) or most interest expenses.

US qualified retirement savings plans

24. What retirement plan options are available in the US?

There are various qualified retirement savings plans, such as the individual retirement arrangements (traditional IRA and Roth IRA) and employer sponsored retirement plans (e.g., 401(k) plan), and Simplified Employee Pension (SEP) IRA.

25. How much can I contribute?

Individuals may contribute up to USD7,000 annually (2025) to IRA plans, and USD23,500 (2025) for 401(k) plans and USD70,000 or 25% of the employee compensation for SEP IRAs. Contributions to regular IRAs are deductible subject to certain income limits. Eligibility for Roth IRA contributions is also limited based on income levels. SEP IRAs have various requirements, including limits based on income levels and that contributions cannot favor highly compensated employees.

For individuals aged 50 and over, an additional catch-up contribution is available for IRAs and other retirement saving plans.

26. How and when can I access my US retirement plan?

Withdrawals from IRAs, SEP IRAs and defined contribution plans are penalty-free starting at age 59½. Taxes may apply, depending on the type of IRA accounts. Withdrawals from regular IRA accounts, SEP IRAs, and defined contribution plans prior to age 59 ½ may be subject to penalties unless certain exceptions apply.

For defined contribution plan participants and regular IRA owners, there is generally a required minimum distribution requirement beginning at age 72.[3,4] April 1 of the year following the year in which the taxpayer reaches age 72 is referred to as the "required beginning date"; the required minimum distribution (RMD) for the year in which the taxpayer turns 72 must be made by the required beginning date. The RMD for all following years must be made by December 31.

Roth IRAs do not require withdrawals until after the death of the owner; however, beneficiaries of a Roth IRA are subject to the required minimum distribution rules.

27. How are non-US retirement plans treated?

Complex rules apply to the taxation related to participation in a non-US retirement plan. If a plan of deferral does not meet the requirements of the law for deferral, significant penalties and interest may be charged when income is not picked-up. In many cases, continued participation in the home country plan may result in income that is taxable in the US. Certain income tax treaties attempt to address this issue.

3. The CARES Act enacted in March 2020 waived the required minimum distributions for 2020. The waiver included RMD for individuals who turned age 70 ½ in 2019 and took their first RMD in 2020.
4. The age for RMD was raised from 70 ½ to 72 by the SECURE Act on December 20, 2019.

Income tax rates

28. What are the income tax rates in the US?

US income tax rates range from 10%–37% (for 2025), depending on the applicable tax bracket and the taxpayer's filing status (e.g., single, married, head of household, etc.). Tax brackets and applicable rates for 2025 are:

	Taxable income brackets			
Tax Rate	**Single**	**Married Filing Jointly**	**Married Filing Separately**	**Head of Household**
10%	$0-$11,925	$0-$23,850	$0-$11,925	$0-$17,000
12%	$11,926-$48,475	$23,851-$96,950	$11,926-$48,475	$17,001-$64,850
22%	$48,476-$103,350	$96,951-$206,700	$48,476-$103,350	$64,851-$103,350
24%	$103,351-$197,300	$206,701-$394,600	$103,351-$197,300	$103,351-$197,300
32%	$197,301-$250,525	$394,601-$501,050	$197,301-$250,525	$197,301-$250,500
35%	$250,526-$626,350	$501,051-$751,600	$250,526-$375,800	$250,501-$626,350
37%	$626,351 or above	$751,601 or above	$375,801 or above	$626,351 or above

Higher income taxpayers (income over USD250,000 for married filing jointly and USD200,000 for single) are subject to an additional 3.8% tax on their "net investment income." The definition of "net investment income" is broad and includes all income other than income from a trade or business. Compensation from personal services is generally excluded from this tax.

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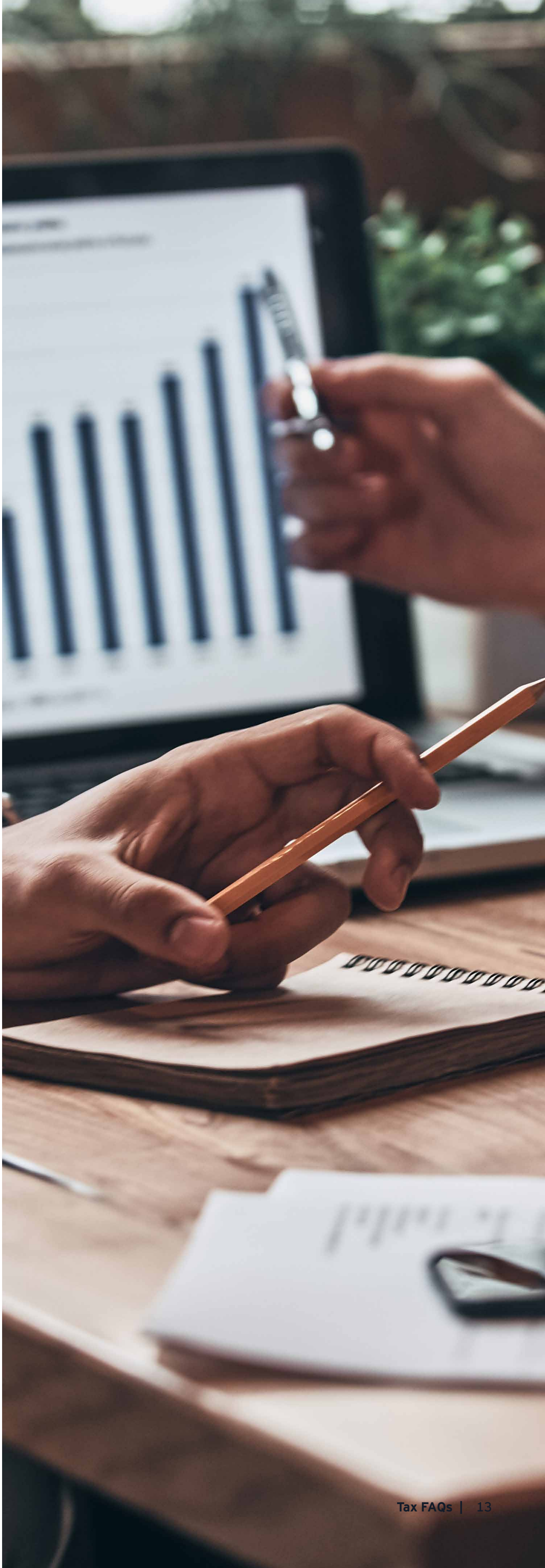

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