New Year Update

January 2024

AMERICAN EXPAT TAX SERVICES

We are kicking off a new tax season

It's hard to believe another year has come and gone, and we are getting ready for the new tax filing season to open.

While there have not been many changes in the US Tax Code since last year, there has been some major challenges to the IRS's administration of the Internal Revenue Code in certain areas of international taxation. We are watching these developments closely and will make you aware of any changes that may impact the way we file your tax returns.

We value you as our client and sincerely appreciate you business. Our team is looking forward to working with you in 2024. -
Mary Beth Lougen AET President

NEWS CORNER :

How to Get Started for 2024

Our team will be contacting you to see if you want to engage AET in 2024 and if you had any changes in 2023 to discuss with us. Your engagement will be sent to you for review, signature and deposit. Our CSR team will follow up with instructions on uploading your information to your secure portal

US Filing Dates 2024

April 15th – Individual tax filing (or extension) deadline
June 17th – Expat filing deadline (or to **file for an Oct. 15th** extension)
October 15th – deadline for FBAR & Individual tax deadline if you requested an extension December 16th – final Individual tax deadline if you requested a special extension

Can. Filing Dates 2024

April 2nd – Trust Returns (Bare Trust)

April 30th – deadline individual, UHT

June 17th - deadline for Self-Employed

www.amexpattax.com

Year End Update

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US Tax Changes (not all inclusive)

- The Child Tax Credit remains at $2,000 USD per child, but the refundable portion has increased to $1,600 USD.
- The standard deduction has been adjusted for inflation and will be $13,850 for single and married filing separately, $20,800 for head of household and $27,700 for joint filers.
- For our clients living in the United States, now is a great time to do home renovations that increase the energy efficiency of your house. Be sure to check that whatever improvement you are planning will qualify for the credits before you sign any contracts. Additional information can be found at Home energy tax credits | Internal Revenue Service (irs.gov)
- The Energy Efficient Home Improvement Credit (EEHIC) applies to the qualifying expenditures made by an individual during the tax year for exterior doors, exterior windows, skylights, insulation, air sealing materials or systems, central air, water heaters, furnaces, heat pumps, boilers, and the like. The credit is a very generous 30% of qualifying expenditures, with some limitations. Exterior doors are limited to $250 per door, $500 total credit per year. Windows and skylights are limited to $600 per year. Overall credit is limited to $1200 ($2000 for heat pumps, biomass stoves and boilers).
- Home Energy Audits to identify home energy use and inefficiencies are eligible for a credit of $150. The audit must be performed by a qualified home energy auditor to be eligible for the credit.
- The Residential Clean Energy Property Credit (RCEPC) is available for solar panels, solar hot water heaters, fuel cells, wind turbines, geothermal heat pumps and battery storage technology. The credit is 30% of qualifying expenditures (limitations for fuel cell property). There is no overall limit on this credit, but it is not refundable. You can use it to offset your federal tax liability and any unused credit will be carried forward for use in future years.

Canadian Tax Changes (not all inclusive)

The one benefit to the inflation crisis is that the annual adjustments to the tax brackets and many of the non-refundable tax credits allow for taxpayers to earn more at lower tax rates

- Several provinces have either lowered some marginal tax rates or increased the ceiling on some of their tax brackets allowing taxpayers to keep more money in their pockets (or to help offset the slight increase in payroll taxes).
- A second CPP tax (CPP2) will now be in affect and will affect the deductions on an employee's paycheck or the amount of CPP that self-employed individuals are required to pay.
- Employees working remotely for an employer in a different province may notice their tax withholding has changed on their paychecks due to a new administrative policy of CRA which requires employers to withhold tax at the rate of the province where the employer is located instead of the province where the worker resides. This may cause some larger refunds/balances owing on your tax return since provincial tax rates vary.
- The flat rate for home office expenses as a result of the Covid Pandemic is not permitted after December 31, 2022. All employees who qualify to claim home office expenses will need to obtain a signed Form T2200 from their employer. CRA is making some changes to the form to simplify it for employees only claiming home office expenses for tax years 2024 and later.
- The Staycation Credit that was enacted to help get the hospitality industry going after the Covid Pandemic was not extended beyond tax year 2022
- Canadian residents who are "first-time homebuyers" can now open a First-Time Homeowner Savings Account (FHSA). Any US persons interested in these types of accounts should seek tax advice prior to opening one in order to learn about additional US tax and filing requirements that may be required.

Other Tax Changes for 2024

US

- **965 Transition Tax**
  The US Supreme Court heard oral arguments in early December in the case of Charles G. Moore, et ux., v. United States, No. 22-800 (USSC June 2023) where the petitioners are challenging whether the 965 transition tax is constitutionally legal. The 965 tax, also known as the repatriation tax, came into being in late 2017 as part of the Tax Cuts & Jobs Act. This case will have a very wide reach into other sections of the US Tax Code since the most basic premise is whether the IRS has a right to tax income that has not been
  "realized". If the taxpayer wins, there will likely be significant changes to how and when income is taxed- including the application of the Global Intangible Low Taxed Income (GILTI) regulations that currently dictate taxation of controlled foreign corporations. We do not expect the decision until mid-2024.
- **FBAR Penalties**
  There was a significant taxpayer win in the US Supreme Court case Bittner v United States. The issue was whether the $10,000 for failure to timely file Form 114, Report of Foreign Bank Accounts (FBAR) was to be assessed per unreported account, or per year. The IRS, of course, interpreted the law in favor of the government and was assessing the penalty per account in some cases. The Supreme Court sided with the taxpayer and ruled that the most the IRS could assess as a penalty for non-willful failures to file FBAR was $10,000 per year.
- **Form 5471, Information Return of U.S. Persons with Respect to Certain Foreign Corporations**
  Another potential taxpayer victory may come from a Tax Court Case, Farhy v Commissioner, 160 T.C. No 6. The taxpayer challenged the IRS's authority to automatically assess a $10,000 penalty for failure or late filing of Form 5471 which reports ownership in non-US corporations. The Tax Court sided with the taxpayer and ruled that the IRS does not have the statutory authority to automatically assess the penalty. This case is being appealed by the IRS. The ultimate outcome is anyone's guess and probably more than a year away from final resolution, but for right now, we need to make sure we are meeting the requirements to file Form 5471 in every case where it is required.

- **New US Reporting Requirements- Corporate Transparency Act**
  Starting January 1, 2024, all entities formed in the U.S. or foreign entities registered to do business in the U.S. will be required to submit a new form to the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) that provides information about the company including who is the ultimate beneficial owner and who are the persons making the decisions of the company. There are a handful of exceptions to this filing, but we do not anticipate that many of our clients will be excepted from filing. This form is not a tax form and American Expat Tax Services will not be including this form in services we offer. We may be able to assist with a referral for those who need assistance with filing the form.
  More information can be found at Beneficial Ownership Information Reporting | FinCEN.gov
  U.S. Tax Changes (not all inclusive)

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Canada

Similar to the US side of things, Canada did not make many changes, however there are some new filing requirements for many taxpayers and/or real estate owners that can attract substantial penalties if not filed timely. Canadian filers are also still facing challenges with CRA's administration of the Income Tax Act and the limited guidance they have issued in relation to these new filing requirements. We are watching these developments closely and will make you aware of any changes that may impact the way we file your tax returns.

- **Are you a party to a "Bare Trust"?**
  Were you added to the title of a home when you co-signed for your child(ren)/parent(s)? This arrangement will most likely be classified as a "Bare Trust" and require the filing of a T3 Trust return on or before April 2, 2024 or face the possibility of a penalty equal to the greater of $2500CAD or 5% of the value of the property. If you are listed on the title of a property in a similar circumstance, please schedule a "B: I am an AET client/returning client - Returning Customer Set up - Individuals with Tax Changes" appointment ASAP to discern whether you have an additional filing requirement. Schedule Appointment with American Expat Tax Services (squarespacescheduling.com)

- **Short-term rentals – limited deductions**
  Several cities/provinces have placed restrictions, additional requirements or outright bans on short-term rental operations. Taxpayers operating these activities will no longer be permitted to reduce their profits subject to tax by the expenses incurred if local restrictions/requirements are no adhered to.

- **Alternative Minimum Tax (AMT) changes**
  The AMT tax system runs parallel to the regular tax system to essentially ensure that taxpayers pay a minimum amount of tax on their income regardless of most deductions and credits. While the changes increase the amount you can earn before AMT kicks in, the rate will be increased from 15% to 20.5%, will bring into play 100% of any capital gains and stock option benefit income instead of only 50% and reduce certain deductions/credits from 100% down to 50%. There will be many taxpayers that sold assets/property resulting in capital gains or have earned stock option benefits that will end up with an increase to their final tax bill as a result of these changes.

- **New Canadian Reporting Requirements- Underused Housing Tax (UHT)**
  Many legal owners of Canadian residential real estate (either directly or through an entity) are now required to file the new Underused Housing Tax return to determine whether they are required to pay a 1% tax on the value of those properties if they are either vacant or considered to be "underused" in Canada's attempt to make more housing available to Canadian residents as a result of the current housing crisis. This return and tax is in addition to the Vacancy Tax requirements in several municipalities across Canada such as Toronto and Vancouver.
  "Affected owners" are required to file a return for each property on or before April 30th each year in order to avoid the $5000CAD (individuals)/$10,000CAD (entities) late filing penalties that apply. "Affected Owners" do not include Canadian citizens or Permanent Residents, however most other individuals and entities that directly or indirectly have legal ownership will need to file the return, calculating any tax payable.