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**Taxes for Expats: Interview**

1. We are speaking today with IJ Zemelman, the president of Taxes for Expats, a professional firm that specializes in the preparation of tax returns for expats all around the world. To begin, why don't you tell us a little bit about yourself and your firm?

**Thank you very much for the invite to chat! We've been preparing expatriate tax returns for 24 years and have clients in over 150 countries. However, despite our increasing breadth, we are still a boutique firm that treats clients as partners.**

2. There's a lot of misinformation out there about how expats are taxed, and what their filing requirements are. What are some of the most common questions that you receive from potential clients?

- 1. Do I have to file if I live abroad and have no US income?**
- 2. Will I have to pay tax to the IRS on my foreign income?**
- 3. What if I don't file - will the government find me and what consequences will I face?**
- 4. Does my non-American spouse have to report their income?**
- 5. Can I get a refund?**

3. What are your clients like? Do they come to you from all over the world?

**Over the years we have filed US expat returns for every job imaginable: from miners to oil executives to international sports stars to seamen and everything in between. Our last country count stands at 152 - I make a point of checking when someone signs up from an exotic locale to see if we already serve someone there. Most of the time we already do.**

**In recent years, our client base has broadened from expats to ‘accidental’ American citizens. By this I mean the individuals who may have never stepped foot in the US, but are citizens because of their parents, or had left the US at a young age.**

**Now, with increased focus on FATCA, they are contacted by their local banks or (in a better scenario) they are being proactive and reading about their requirement to file and are coming to us to get back into compliance.**

**Over the past several years, the IRS has introduced some great programs such as the Streamlined Procedure, which stress penalty forgiveness and a clean slate in exchange for an agreement to continue filing from here on out.**

4. Do you have any specific advice for American expats who have decided to live in Mexico?

**A point to consider is that Mexico, like the United States, taxes their residents on the worldwide income. It is important to note that Mexico allows for a foreign tax credit for any taxes paid outside of Mexico. So does the United States. As a result, the taxpayer may be required to pay taxes in both countries, but will also have offsetting tax credits. Also, considering the U.S. foreign earned income exclusion of \$100K per person (\$200K per married couple), having to pay extra U.S. income tax may never come into play.**

5. What about dual citizens? If an expat has both US and Mexican citizenship, how does that affect their tax situation?

**The IRS stance on any other citizenship you may hold is very simple - they don’t care.**

**Your obligations with respect to filing US taxes are exactly the same - whether or not you also have a Mexican (or Sri Lankan) citizenship.**

6. What if I have a bank account in Mexico? Does that require any additional tax filings?

**If you have over \$10,000 in a Mexican (or rather any bank outside the US) bank *at any point during the year* - you have to file a special form called Foreign Bank Account Report (FBAR).**

**It was created specifically for the purpose of reporting your foreign (meaning non-US) financial accounts to the US Treasury.**

7. I live and work in Mexico, and I pay taxes in Mexico. Do I have to pay taxes to the US, too? Can I exclude any of my earnings?

**Most likely – you will not. The first \$100k would be tax-free and you can also deduct taxes you pay in Mexico from your US tax obligation. So in the end – most people don't have to pay anything to the IRS when they live in Mexico. Moreover, certain type of income has lower tax rate in the United States than in Mexico (15% tax on capital gains in the U.S. vs Mexican tax rate on capital gains that may be as high as 30%). As a result, the tax credit from any tax paid on capital gains in Mexico will fully offset the capital gain tax in the U.S.**

8. What happens if I own a home, or a rental property in Mexico? Do I have to report anything?

**Prior to June 2013 US taxpayers with Mexican property Fideicomisos were required to file foreign trust return forms 3520 and 3520-A, which was a burdensome and expensive annual exercise.**

**In June 2013, the IRS made a FINAL RULING that Mexican Land Trust (MLT) Fideicomisos no longer need to file as foreign trusts (3520/3520A) as long as this real estate trust (fideicomiso) holds just *one* property and only allows just *one* activity: “holding title to the property”.**

**If these conditions are met, a Mexican Land Trust, despite the word “trust” in the entity definition, is not considered a Foreign Trust within the meaning of the IRS filing requirements for the foreign trusts.**

**To be exempt from foreign trust filing requirements, the Fideicomiso must hold only one property, and this exemption holds true if the property is rented out.**

**By the same token, the value of the Fideicomiso is not included in valuation of your foreign financial assets and not required to be reported on FBAR or FATCA forms.**

9. Do you have any other advice to offer for someone who is considering a permanent move to Mexico?

**Another point to consider is the repercussion for foreign residents to obtain a homestead exemption on the sale of their principal residence in Mexico.**

**If the homeowner has only one home, and that home is in Mexico, then they should be able to get a homestead exemption. However, if they have one home**

**in Mexico and another in the US, it may be difficult to get an exemption, especially if the homeowner's income is not derived from Mexican sources.**

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