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6021. U.S. tax and reporting consequences of receiving interest income from foreign persons

Dear Subscriber:

You asked about the U.S. income tax and reporting implications of earning foreign source interest income from, for example, a savings account in a foreign bank or a bond issued by a foreign government or foreign corporation.

A U.S. citizen or resident alien individual (U.S. taxpayer) generally pays U.S. income tax at ordinary rates on his worldwide income, including interest income, regardless of where the income is earned. Income must be reported in U.S. dollars for U.S. tax purposes and interest income denominated in a foreign currency must be translated into U.S. dollars at the spot rate on the date the interest is received or accrued.

Foreign source interest income may be subject to foreign withholding taxes, which may be eliminated or reduced under a U.S. income tax treaty. You can mitigate the double taxation of your foreign source interest income by taking a deduction for or electing a credit for the tax paid to the foreign country.

Besides reporting your foreign interest income on Form 1040, Schedule B, you must also electronically file a Foreign Bank Account Report (FBAR) on Form 114 annually by June 30 to report financial interests in, and signatory and other authority over, each foreign account - even if the account does not generate any taxable income - if the value of the account exceeded \$10,000 at any time during the calendar year. For this purpose, a foreign account includes an account located outside of the U.S. that is a bank account, a securities account, a brokerage account or a mutual fund.

In addition, any individual who has an interest in one or more "specified foreign financial assets" whose value exceeds specified reporting thresholds must attach a completed Form 8938 (Statement of Specified Foreign Financial Assets) to his income tax return for that tax year for each asset. An unmarried taxpayer (or a married taxpayer filing a separate return) living in the U.S. has to report the specified foreign financial assets if their value is more than \$50,000 on the last day of the tax year or more than \$75,000 on the last day of the tax year. Married taxpayers filing a joint return living in the U.S. have to report if the value of their specified foreign financial assets is more than \$100,000 on the last day of the tax year or more than \$150,000 on the last day of the tax year. For a specified individual living outside of the U.S., who is a



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qualified individual under [Code Sec. 911\(d\)\(1\)](#) , Form 8938 must be filed if the aggregate value of the specified foreign financial assets in which the taxpayer has an interest exceeds \$200,000 (\$400,000 if a joint return is filed) on the last day of the tax year or \$300,000 (\$600,000 if a joint return is filed) at any time during the tax year.

For this purpose, a specified foreign financial asset includes an account maintained in a foreign financial institution and any stock, securities or financial instruments issued by a foreign person and held for investment.

The penalties for failing to file the FBAR report or Form 8938 can be very severe. Kindly contact Support, if you would like to discuss these (or any other) matters.

Very truly yours