

**Personal tax and reporting obligations**

November 2012

**You need to know your local tax and other obligations!**

As a beneficial owner or beneficiary to a company or trust or through the way you interact with a foreign bank account, company, partnership, trust or any other vehicle, you may have tax and other reporting obligations, depending on the laws and regulations of the country or countries in which you are considered to be tax resident or citizen.

Furthermore, the foreign companies or vehicles used may be subject to Controlled Foreign Company (CFC) rules depending on the CFC regulations that may exist in the owner's country of tax residence.

These tax, other reporting obligations and CFC rules vary from country to country. It is up to you to know and comply with these. It is always strongly recommended that you liaise with a professional from your country/ies of residence in respect of these issues.

**Totalserve does not and cannot be expected to advise from a non-Cyprus perspective.**

Upon request, we can recommend professional advisors in various jurisdictions with whom you can liaise directly in respect of these issues.

Indicatively, we set out below important tax and reporting obligations that apply to United States (US) 'persons'. Similar obligations, to one extent or another, apply to residents in many countries, both within and outside the EU.

**US persons: Tax Reporting obligations****Introduction**

The US is particularly strict and diligent with their tax reporting practices and obligations.

The US tax system provides that all US persons comply with certain tax reporting obligations in relation to their worldwide income, depending on the circumstances of each case. Furthermore there are additional US regulatory provisions that may apply.

US persons are defined as citizens of the United States, green card holders and tax residents living anywhere in the world.

It is the obligation of the individual to ensure 'true and accurate' returns are filed with the Internal Revenue Service (IRS) on time so as to avoid penalties or in some cases, criminal prosecution. Voluntary disclosure programs are available for past non-compliance. Should the IRS find you first, voluntary disclosure may no longer be an option.

**Details**

All US persons are required to file certain forms including annual income tax returns along with supporting documentation to report worldwide income.

The general rule is that, US citizens are taxed on their income regardless of whether they live inside or outside the United States. Foreign source income includes earned and unearned income, such as:

wages and tips, interest, dividends, capital gains, rents, pensions and royalties.

Sometimes, US taxpayers (and especially those living abroad) forget or are unaware that they have to comply with all the various reporting obligations such as the annual income tax returns and Reports of Foreign Bank and Financial Accounts (FBAR).

- **Report of Foreign Bank and Financial Accounts (FBAR):**

A US person who holds a foreign financial account may have an FBAR reporting obligation even in the case where such account produces no taxable income.

US persons may be required to file yearly to the IRS an FBAR form if:

1. The US person had a financial interest in or signature authority over at least one financial account (including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account) located outside of the United States; and
2. The aggregate value of all foreign financial accounts exceeded \$10,000 at any time during the calendar year to be reported.

For the purposes of the FBAR, United States person means United States citizens; United States residents; entities, including but not limited to, corporations, partnerships, or limited liability companies created or organized in the United States or under the laws of the United States; and trusts or estates formed under the laws of the United States.

The FBAR is required because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions.

**Warning**

The IRS has a number of ways to locate Americans living outside of the US who are not reporting their tax and Americans living in the US who invest offshore. These ways include the FATCA law requiring certain bodies and financial institutions such as local banks, stockbrokers, pension and hedge funds, insurance companies and trusts, to directly report to the IRS in relation to personal details and details of the accounts of their US person clients. Furthermore, the IRS may identify non-compliant US persons through exchange of information international agreements, upon passport renewals or even by whistleblowers who are often offered a reward.

**What to do**

As a US person, it is important that you know and be compliant with the US tax reporting obligations. Talk to your US advisor.

**NOTES:**

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. Totalserve Management Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.