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IRS eyes foreign accounts

By Kay Bell · Bankrate.com
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The Internal Revenue Service's main job is to collect our tax money. And some of that tax money comes from, or is supposed to come from, accounts that U.S. taxpayers have in foreign locations.

This filing season, a new reporting requirement, Form 8938, should help the IRS reel in taxes on foreign-held funds. It's the latest effort by the IRS to get taxpayers to report these so-called offshore holdings.

Form 8938's official title is Statement of Specified Foreign Financial Assets and it's due April 17 along with your individual tax return. You'll use Form 8938 to disclose interest in certain foreign financial accounts when your ownership exceeds the reporting requirements.

Form 8938 is in addition to the Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts or FBAR, which is cited at the bottom of Schedule B. Whereas the FBAR is basically an information form that has to be filed by June 30, Form 8938 is part of your tax return, noted Lynn Schmidt, an enrolled agent adviser for Lynco Financial & Tax Services in Winter Haven, Fla., during an IRS webinar on new tax laws.

While the FBAR trigger basically is $10,000 more of foreign-source assets that a taxpayer has control of or signature authority over, the reporting requirements for Form 8938 vary depending on where you live and your filing status. For example, if you're in the United States, married and filing a joint return, you'll have to file an 8938 if the total value of your reportable assets on the last day of 2011 was more than $100,000 or if the value exceeds $150,000 at any time during the year.

Does this mean you owe tax on the holdings? Not necessarily. But the IRS does want to know about them so if and when they do produce taxable income, you can't keep it hidden and escape payment.

So exactly what kind of accounts are the IRS interested in? The official phrase is a "specified foreign financial asset" and the list is as long as the name is vague. They include:

1. Any financial account maintained by a foreign financial institution.
2. Stock issued by a foreign corporation.
3. A capital or profits interest in a foreign partnership.
4. A note, bond, debenture, or other form of indebtedness issued by a foreign person.

5. An interest in a foreign trust or estate.

The list above is just a portion of the possibilities. And yes, No. 5 applies to that Italian villa that your late Uncle Giancarlo left you.

The bottom line is that if you have money in an account in another country or other offshore financial interests, look closely at the FBAR and 8938 rules. You probably should also find a tax professional who's knowledgeable about international tax issues.

Yes, you'll pay for such expertise. But it will probably save you some cash and trouble in the long run. If you're required to report foreign holdings and don't and the IRS eventually catches you, you could end up facing a $10,000 fine.