

Mission Society of Enrolled Agents Newsletter

September 2017 Edition

MSEA Quick Links

[September Dinner Meeting](#)

[Mini-Seminar #7: Ethics](#)

[The 23rd Annual Tax Practitioner/IRS Fall Seminar](#)

[MSEA Classifieds](#)

[September Calendar](#)



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California Society of Enrolled Agents

[State Tax Agencies Liaison Meeting \(STALM\) 2017](#)

Enrolled Agents are the boots on the ground, in the trenches, working with clients trying to navigate the tax system. You know first-hand the issues you encounter - but how can one person effect change within four bureaucratic tax agencies? Sometimes change can only occur from a legislative standpoint, but change can also happen administratively - and that's where **STALM packs a powerful punch.**



[Fall Webinar Series*](#)

November and early December, NTPI Fellows® and advanced tax

What I've Learned Lately...

Foreign Tax Credits and the Form 1116

As Enrolled Agents, we are all aware that any US citizen or resident will pay taxes on their worldwide income. However, in order to reduce the effects of double taxation, the internal revenue code section 901 allows for foreign tax credits.

Taxes calculated from foreign investments or income earned in a foreign country, can be offset by any foreign taxes paid.

Foreign income (and the corresponding foreign taxes) is applied in different categories. The most common of those categories are:

General: salary, business income

Passive: interest, dividends, rental income, royalties, pensions, annuities, investment capital gains, gains/losses on foreign real property

Lump Sum Distributions: from pension plans

You use the form 1116 to apply these foreign tax credits. Due to its complexity, completing the form 1116 can be a daunting task. From a bird's eye view, you will be putting the foreign income on the **top** of the form (income reported on other areas of the tax return), the deductions for that foreign income in the **middle**, and then record the foreign taxes paid or accrued at the **bottom**.

By using this form, you will be helping your taxpayers avoid some amount of double taxation on income earned in another country.

As you wonder through the maze that is form 1116, be aware of these interesting facts:

- The foreign tax credit is a non-refundable credit that can be applied against qualified foreign income.
- You can only use a foreign tax credit in a year you have foreign income.
- Unused credits **MUST be** carried back one year, then carried forward 10 years. There is no election to forego the carryback in the tax code or the form 1116.
- You can avoid using the form 1116 if the taxpayer has \$300 (\$600 MFJ) or less in foreign taxes on dividends and interest from 1099s and K-1s. If the foreign tax credits are below this threshold, simply

practitioners may take advantage and earn 2 CE credits per session. All courses are offered live and will be available on demand within 24 hours of airing.

[Case Evolution w/ a Flowchart Approach](#)

[Advanced Innocent Spouse](#)

[Ethics in the Eye of the Beholder](#)

[Advanced IRS Summons](#)

[Real Estate Pros: Do They Really Exist?](#)

*INCLUDES 8 HOURS OF FEDERAL TAX LAW CE, PLUS 2 HOURS OF ETHICS CE

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put the foreign tax credit amount straight on the 1040, line 48!

- Form 1116 provides columns to input foreign tax credits by country, but interestingly, all foreign taxes gets lumped into one calculation!
- Only rental losses go on the form 1116, not passive carryovers.

When preparing a tax return with foreign tax credits, you may need to prepare multiple copies of the form 1116 for each category of income and a second set for alternative minimum tax calculations. Don't be surprised if you end up with multiple copies of this form on your client's return!

To Your Success,

Lee Assaf, EA
MSEA Director

MSEA Monthly Meeting:

[MSEA Board Meeting](#) 4:00 PM - 5:30 PM Aug 15, 2017

All members are welcome to attend our board meetings to gain insight and provide their input on the direction the society takes. The Board meeting precedes our dinner meeting.

[MSEA - San Jose Meeting and Dinner Seminar](#)

6:00 PM - 8:10 PM

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