Introduction to US Income Tax Reimbursement Procedures at The United Nations

Income Tax Unit
Payroll and Disbursement Section
Insurance and Disbursement Service
Accounts Division
25 February 2016
Objective: To Familiarize Staff Members with UN Income Tax Procedures

This presentation is NOT intended to replace the Information Circular ST/IC/2016/4
Outline of Presentation

→ General information
  • Cycle of U.N. Tax Reimbursements
  • Tax Advances
  • Self Employment Tax for US Citizens
  • Tax Settlement
  • Foreign Earned Income Exclusion
The Income Tax Unit

- Serves over 7,500 staff members (UN, UNDP, UNICEF, UNOPS, UNFPA, UN Women, UNHCR, OPCW, WHO and PAHO) in respect of US income tax obligations. Processes tax advances and tax reimbursement claims.

- Provides information and responds to queries related to UN taxable earnings, UN tax advances and reimbursements.
The Income Tax Unit

- Is prohibited from providing tax advice or preparing tax returns for staff members. For example, we cannot provide tax guidance regarding investments and capital gains/losses and therefore, we advise that you consult your accountant for tax return filing.

- In addition, we cannot contact the tax authorities on your behalf.
Services

- Internet: www.un.org/tax
  - Links to tax authorities web sites
  - UN Information Circular & Forms
  - UNJSPF (Pension Fund) - Guide to national taxation
  - Tax Briefing PowerPoint under “Links”, then “US tax reimbursement procedures”

- Email: tax@un.org (preferred communication means)
Services (cont’d)

- Walk-in inquiries:
  - FF Building 3rd Floor (Client Service Area);
    304 East 45 St.
  - Hours: 1 Apr – 18 April 2016:
    Mon.- Fri: 9 a.m. – 5 p.m.
  - All other times:
    Mon., Tues., Thurs., Friday: 1 p.m. – 4 p.m.
    Wednesday: 9:30 a.m. – 4 p.m.
  - Tax Drop off hours: 9:30 a.m. – 4 p.m.
  - 1 March: 8 a.m.- 5:30 p.m. (for drop off)

- Fax: 917-367-1997
What is new in 2016

- Settlement Payment, including penalty/Interest (if any) will be reimbursed through EFTPS to IRS.
- Staff Members have access to Umoja Employees Self Service (ESS), must update their address.
## Important Deadlines

<table>
<thead>
<tr>
<th>Status</th>
<th>Deadlines for submission to U.N. Tax Unit</th>
<th>IRS &amp; State 2015 Tax Filing Due Date</th>
<th>IRS &amp; State 2015 Tax Payment Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Working in the USA</td>
<td>1 March 2016*</td>
<td>18 April 2016</td>
<td>18 April 2016</td>
</tr>
<tr>
<td>Staff Working outside USA</td>
<td>1 April 2016</td>
<td>15 June 2016**</td>
<td>18 April 2016</td>
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* a) Settlement cheques for claims filed by 3 March will be distributed through the appropriate offices between 1 - 18 April.

** Filing extension does not extend payment due dates. Staff members are responsible for their share of taxes due 18 April. Interest will accrue from 19 April.
U.S. Citizens and Resident Aliens Abroad - Automatic 2 Month Extension of Time to File

• You will be allowed an automatic 2-month extension of time to file your return if on the regular due date (18 April 2016) you are living outside of the US and your main post of duty is outside the US.

• To use this automatic extension, attach a statement to your return indicating that you qualified for the conditions mentioned above.

• “I declare I am a U.S. citizen (or resident), AND on the due date of the return, I am living outside of the United States and Puerto Rico, AND my main place of business or post of duty is outside of the United States and Puerto Rico. I am therefore allowed an automatic 2-month extension to file my tax returns until June 15, 2016.”
Who is subject to US taxes on UN earnings?

- US citizens
  - even if your official UN nationality is different

- US permanent residents who have signed the waiver of privileges & immunities
  - See ST/IC/2004/31 for more details
Waiver of Privileges and Immunities

- Staff members **MUST** obtain approval from OHRM in writing before signing the waiver.
- Waiver form: to be signed in your UN Human Resources / Administrative Office.

When: Within 10 Days of the later of:

(i) Receiving Notice for Permanent Residency,

or

(ii) Effective Date of Employment with the UN

NOTE: Permanent residents who have not signed the waiver of privileges and immunities are NOT eligible for UN tax reimbursements.
Background

➢ US Tax Laws
  • UN staff who are subject to US income taxes must pay taxes and file tax returns in compliance with US tax laws:
    • Federal, State & local income taxes
    • Self-Employment tax

➢ Tax Reimbursement System:
  • Purpose: To achieve equality between staff members in respect of income tax obligations
  • This is achieved by reimbursing staff members for income taxes payable on UN earnings
  • Reimburses employer component of Self-Employment tax
**Terminology**

- **Settlement of income taxes:**
  - UN reimbursement of US taxes on UN income – Upon submission of tax return to UN Income Tax Unit.
Terminology (Cont’d)

- **Staff Assessment:**
  - NOT a withholding tax NOR is it related to the actual US income tax payable by an individual staff member.
  - It is the difference between gross and net salaries.
  - The deduction is made regardless of a staff member’s nationality or tax status.
  - It CANNOT be reimbursed to staff members under any circumstances.
  - And, it CANNOT be claimed as a deduction on US tax returns.
Cycle of U.N. Tax Reimbursements

1) New U.S. staff members who join the U.N., or staff members who are U.S. permanent residents and have just signed the Waiver should request estimated tax advances from the Income Tax Unit by completing the U.N. form F.65 and attach the respective Personnel Action Form.

2) The Income Tax Unit then calculates and issues tax advances to tax authorities quarterly for eligible staff members’ tax accounts and issues a quarterly statement of tax advances to staff members via e-mail.
Cycle of U.N. Tax Reimbursements (Cont’d)

3) Income Tax Unit issues Statement of Taxable Earnings to all U.S. taxpaying staff members by end of January via e-mail.

4) Staff members submit copies of their signed tax returns, U.N. forms F.65, F.65/A if applicable and signed F.243 to Income Tax Unit to request for tax reimbursements and estimated tax advances for the following year.

The cycle then repeats.
Estimated Tax Advances

- The UN does not withhold taxes.
- Staff members subject to income taxes are required by law to pay quarterly estimated taxes to tax authorities as follows:
  - 90% of current year (2016) estimated taxes, OR
  - 100% of previous year (2015) tax liabilities
Estimated Tax Advances

- UN will calculate and issue the estimated taxes on UN income upon request based on information on completed U.N. form F.65:
  - Estimated federal, NY State/NY City, DC, MD or VA income tax liabilities on UN income &
  - UN portion of Self Employment tax

- Staff members who are U.S. citizens and serving in the US are responsible to pay the IRS their share of Self-Employment tax on a quarterly basis.
Estimated Tax Advances (Cont’d)

- Eligibility for advances:
  - Staff members who must pay US taxes on UN earnings, and have ≥ 6 months contract with UN.
  - Staff members on WAE contracts are not eligible.
  - We will reimburse taxes and possible penalties for those ineligible for advances.
Estimated Tax Advances (Cont’d)

- Must inform Income Tax Unit immediately upon:
  - Employment
  - Significant changes in UN or non-UN earnings
  - Separation/Special leave without pay
  - Change in agency
  - Reappointment/break in service (as the break will cause the cessation of tax advances)
  - Leaving for / Returning from overseas assignment
  - Signing the waiver (US permanent resident)
  - Becoming US citizen/G-4 visa holder
UN Earnings & Self Employment (SE) Tax

- For income tax purposes, UN earnings are treated as wages, not as business income.

- Report UN Earnings on line 7 of 1040

- Warnings: Do not use Schedule C in relation to UN Staff earnings.
UN Earnings & Self Employment (SE) Tax

- Who is liable for SE taxes?
  - US citizens working in the US must pay the SE Tax on UN Earnings.

- UN reimburses 50% of the SE Tax (Social Security Tax and Medicare Tax) as like as any US employer.
UN Earnings &
Self Employment (SE) Tax

For the tax year 2015 the SE tax percentage is as follows:

<table>
<thead>
<tr>
<th></th>
<th>United Nations</th>
<th>Staff Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security</td>
<td>6.20%</td>
<td>6.20%</td>
</tr>
<tr>
<td>Medicare</td>
<td>1.45%</td>
<td>1.45%</td>
</tr>
<tr>
<td>Total</td>
<td>7.65%</td>
<td>7.65%</td>
</tr>
</tbody>
</table>

- For 2016, the United Nations will reimburse the same percentage on the U.N. earnings as for 2015.
Who is exempt from the SE Tax on UN earnings?

- All US permanent residents serving anywhere in the world
- US citizens working overseas (only for the period served outside of the US)
Enrollment with EFTPS

- Staff members who are liable to pay taxes on UN earnings are requested to enroll with the IRS Electronic Federal Tax Payment System (EFTPS).
- A copy of the registration confirmation must be provided to the Income Tax Unit. (PIN may be blacked out)
- Quarterly advances including UN share of self-employment tax and the final settlement payments will be electronically paid to the IRS.
Enrollment with EFTPS (Cont’d)

- Forms and instructions to enroll in EFTPS are available online at the website: www.eftps.gov
UN Statement of Taxable Earnings

- 2015 statements of taxable earnings (STE) have been distributed to US taxpaying staff members.

- Amount of earnings is reported to the tax authorities.

- Taxable amount = Gross salaries + Other emoluments + Taxable portion of pension withdrawals/Lumpsum
Common issues -

- Did not receive it due to:
  - Missing/Incorrect nationality or visa status on Personnel Action
  - Wrong e-mail or mailing address
  - Change of organization/agency
Please attach the STE to the income tax returns filed with the tax authorities.

Report UN Earnings on line 7 of the 1040.
Filing requirements

- To receive tax reimbursement cheques from the UN before the 18 April 2016 filing date, submit a complete and accurate tax claim to the Tax Unit by the U.N. submission deadline, 1 March 2016.
Tax Portal

- https://taxportal.un.org/
- One week extension of claim submission deadline.
- Hard copy submission is required.
- You can check status of claim
Filing requirements (Cont’d)

A tax claim is composed of:

- True, correct and complete copies of tax returns filed/to be filed with the tax authorities including a copy of the UN statement of taxable earnings (STE)
- Request for settlement of income taxes (F.65)
- Supplementary information to form F.65 (F.65/A) for staff members serving overseas
- Consent Form (F.243). For the IRS to disclose your tax return information to the UN for compliance purposes.

- Your tax return is subject to verification by the UN.
The following is a common error that we find in the processing of tax claims:

- Date format on the consent form (F. 243) is MM/DD/YYYY and MUST be numerical:
  - 06/15/2016 As imprinted on the form ← CORRECT
  - June 15, 2016, or 15/06/2016 ← INCORRECT
  - Please do NOT change the imprinted date as this will render the F. 243 invalid
Filing requirements (Cont’d)

Avoid common mistakes such as:

- Incomplete/missing forms and/or schedules
- Missing signatures on tax returns or UN forms
- Incorrect calculations on tax returns
- Did not inform the Tax Unit of change in organization, agency or duty station
- Incorrect e-mail or home/mailing address
Settlement of Income Taxes

- Upon receipt of the complete and accurate tax claim, the Tax Unit calculates your UN tax reimbursement as follows:

  - The difference between Tax with UN income and Tax without UN income (see Information Circular para. 26 – 27).
Settlement of Income Taxes (Cont’d)

• If UN 2015 tax liability > 2015 advances, UN will reimburse staff members by WT/checks payable to tax authorities (discussed later)

• If UN 2015 tax liability < 2015 advances, there is UN overpayment which will be recovered from 2016 advances (discussed later)

• The reimbursement cannot exceed the actual income taxes payable to the tax authorities
Tax Reimbursement Case #1

- Additional payment due:
  - Actual tax reimbursable by UN for 2015: $16,000
  - Tax Advance paid by UN for 2015: (15,000)
  - Balance of taxes: $1,000

- You will receive a tax settlement payment of $1,000 Cheque/WT to the tax authority.

- If receive a cheque mail it to the appropriate tax authority upon receipt. If you have paid the balance due already, return the U.N. cheque to the Tax Unit with a copy of your cancelled cheque for re-issuance to your name.
Tax Reimbursement Case #2

- Overpayment of taxes
  - Actual tax reimbursable by UN for 2015: $16,000
  - Estimated tax paid by UN for 2015: $(18,000)
  - Overpayment (O/P) of taxes by UN: $(2,000)
Recommended action:

- Active staff member should apply UN overpayment amount to 2016 estimated tax,
  - Form 1040, line 77 (Federal)
  - IT-201, line 79 or IT-203, line 69 (NY state);
  - For substantial overpayments for active staff AND for all overpayments for separated staff members, those individuals should request for a refund from the tax authorities and remit the payment to the UN.
Settlement of Income Taxes (Cont’d)

- What if you submit your Tax Claims after the deadline?
  - The UN is NOT liable for Penalties & Interest levied by the tax authorities.
  - 2016 tax advance payments by the UN will be delayed.
  - 2015 tax advances will be deducted from salary if the claim is not submitted by 15 Oct. 2016.
  - No reimbursement if submitted after 1 year from filing due dates to tax authorities.
For states other than New York, the settlement cheques are issued payable to the staff members.

If your tax claim is rejected for missing or incorrect information, please respond to our office as soon as possible as per the rejection letter in order to expedite the processing of your tax claim.
Payment of Income Taxes

- What you should know:
  - You are liable for additional 0.9% Medicare Tax and 3.8% Net Investment Income Tax, if any.
  - If married and receive spousal allowance/benefit, must file a joint return, unless prohibited by law.
  - If receive dependency allowance/benefit, must claim all dependents on tax returns (unless written justification provided).
  - Can file separately if no spousal allowance/Benefit is received.
Payment of Income Taxes (Cont’d)

- You may be subject to alternative minimum tax.

Obligation to minimize tax liability

- Must use greater of standard / itemized deductions
- If both spouses work with the U.N. and are both U.S. taxpayers, they must file jointly.
- Must claim all available tax credits.
If your spouse holds a G4 visa

- You may use the filing status of “married filing jointly,” if he/she has a social security number or individual taxpayer identification number (ITIN)
- The UN earnings of the G4 visa holder are not subject to US income tax.
- Refer to IRS Publication 519 “US Tax Guide for Aliens” for further information.
Interest & Penalties

- UN will NOT pay any late filing penalties under ANY circumstances.
- Will ONLY reimburse interest for late/underpayment:
  - Due to delays/incorrect information acknowledged as UN’s responsibility
  - For staff members serving overseas (up to 15 June filing deadline)
  - Underpayment of tax advances by UN:
    - Contract < 6 Months
    - WAE (When Actually Employed) contract
    - Separated Staff

- Refer to the Information Circular, paragraph 21
Foreign Earned Income Exclusion (FEIE)

- Eligibility:
  - must be out of the US for **330** full days during any period of 365 consecutive days.

- If qualified, can exclude up to **$100,800** from earned income.
Foreign Earned Income Exclusion (Cont’d)

- In addition to foreign earned income exclusion (FEIE), may qualify for foreign housing expenses exclusion.

- Reference:
  - IRS Publication 54 “Tax guide for US citizens …”

- Must figure the tax on non-excluded income using the tax rate that would have applied had you not claimed the FEIE exclusion – use Foreign Earned Income Tax Worksheet.
Thank you very much for your attendance.

Q&A session to commence.

For further information, please visit us at:

www.un.org/tax