Tax Workshop for MIT Students and Scholars

Residents for Tax Purposes

Wednesday March 6, 2019
Presenters

Present Information:
- Chris Durham – Assistant Director of HR/Payroll & Merchant Services
- Jodi Kessler – Senior Manager of Tax, VPF Tax and Global Operations

Questions and Answers:
- PwC – Carol McNeil, William Fleming and Mark Sampson
Agenda

- Residency Status
- Filing Requirements
- Reportable Income
- Tax Forms
- Tax Treaty Benefits
- Q&A
Residency Status

Resident for U.S. income tax purposes is determined by 2 tests:

1. Green Card Test

2. Substantial Presence Test – Present in the U.S. for at least 183 days in a calendar year (or combination of 31 days in current and 183 total in past 3 years)
   - Scholars – exemption from counting days for teachers and trainers on a J or Q visa for 2 calendar years
   - Students – exemption from counting days for students on a F, J, M or Q visa for 5 years

Note:
- Prior visa and U.S. visit history must be taken into account
- Tax residency is separate from immigration residency
Substantial Presence

- Student vs. Scholar
  - Student – enrolled in an MIT Degree Program; Non-Degree students (Visiting, Special or Exchange)
  - Scholar – Post Docs, Lecturers, Visiting Professors, Scientists, Scholars and Engineers, and others that have graduated and are now working at MIT

- Student 5 year exemption and Scholar 2 year exemption:
  - The exemption allows students and scholars to remain nonresident aliens for this period of years, thus “exempt” from the substantial presence test
  - Exemption period is by calendar year – even if only in U.S. 1 day during a calendar year, it counts towards total years exempt
Residency Start Date

The residency start date is the earlier of the dates determined below:

- Substantial Presence Test – the first day you are present in the U.S. during the calendar year (usually January 1)
- Green Card Test – the date you become a lawful permanent resident

Example: A student on a J-1 visa since September 2013.

- 5 calendar years have passed (2013, 2014, 2015, 2016, 2017) that are exempt from substantial presence test.
- Year 2018 is not exempt. On the 183 day of 2018, the student has met the substantial presence test.
- Under the substantial presence test the residency start date is the first date the student was in the U.S.
- Residency start date = January 1, 2018
In rare circumstances an individual can claim dual-status residency, meaning they were a U.S. tax resident for part of the year, and a nonresident alien for the other part of the year. This is typically only possible when:

- Entering the U.S later than January 1 during year that substantial presence is met. Since the start date of residency status is the first day of the calendar year a person is present in the U.S., that person can claim to be a non-resident for the days before they enter the U.S. and a resident for the period after.
- Any individual who becomes a lawful permanent resident during the year may be able to claim to be a nonresident prior to that date.
- Why claim dual-status? U.S. residents are taxed on “worldwide” income, nonresidents are only taxed on U.S. sourced income.
Filing Requirements

Who is Required to File:

- IRS Interactive Tax Assistant:
  

- Refund withheld taxes if overpaid

- Claim refundable tax credits (e.g. earned income credit, additional child tax credit, American opportunity credit)
Filing Requirements, Cont.

- Forms - 1040, 1040A, 1040EZ
  - Software will determine appropriate form, if unsure use 1040, which includes all deductions and credits.

- Filing Options:

- Due Dates:
  - Federal (IRS) and Massachusetts – Wednesday, April 17, 2019
  - California – Monday, April 15, 2019
  - Other states – check on state tax website
Filing for Individuals

Get a jump on next year's taxes
Get ready today to file your 2018 federal income tax return.

What You Need to Know
Many people are required to file U.S. tax returns annually, while others choose to file in order to claim credits or other benefits.

Do I Need to File?  
How Do I File?  
Where Do I File?

Popular
- Tax Reform
- Filing past due returns
- Fix/Correct a Return
- Where’s My Amended Return
- Employer Identification Number (EIN)
- Understanding Your IRS Notice or Letter
- Options for paying your taxes

Forms & Instructions
- Form 1040
- Form 1040X
- Form 2848
- Renew Individual Taxpayer Identification Number
- Identity Protection: Prevention, Detection and Victim Assistance
- Replacement Form SSA-1099
**Form 1040**

**U.S. Individual Income Tax Return**

**2018**

**Department of the Treasury - Internal Revenue Service**

**Your Name and Address**

- First name: 
- Last name: 
- Social security number: 
- Date of birth: 
- Occupation: 

**Dependents**

<table>
<thead>
<tr>
<th>First name</th>
<th>Last name</th>
<th>Social security number</th>
<th>Relationship to you</th>
<th>Child tax credit</th>
<th>Credit for other dependents</th>
</tr>
</thead>
</table>

**Sign Here**

- Your signature: 
- Date: 
- Your occupation: 
- Spouse's signature: 
- Date: 
- Spouse's occupation: 

**Preparer**

- Preparer's name: 
- Preparer's signature: 
- Firm's name: 
- Phone number: 

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.**

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**Form 1040 (2018)**

**Page 2**

1. **Wages, salaries, tips, etc.** Attach Form(s) W-2.
3. Qualified dividends: 3a. Ordinary dividends: 3b.
4. IRAs, pensions, and annuities: 4a. Taxable amount: 4b.
6. Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22.
7. Adjusted gross income: If you have no adjustments to income, enter the amount from line 6; otherwise, subtract schedule 1, lines 36, from line 6.
8. Standard deduction or itemized deductions (from Schedule A).
9. Qualified business income deduction (see instructions).
10. Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-.
11. a. Tax (see line 1) (check any from: 1. Forms 8814, 2. Form 4972, 3. )
   b. Add any amount from Schedule 2 and check here.
12. a. Child tax credit/credit for other dependents.
   b. Add any amount from Schedule 3 and check here.
13. Subtract line 12 from line 11. If zero or less, enter -0-.
15. Total tax. Add lines 13 and 14.
16. Federal income tax withheld from Forms W-2 and 1099.
18. Add any amount from Schedule 5.
19. Add lines 16 and 17. These are your total payments.

**Refund**

- If line 19 is more than line 15, subtract line 19 from line 15. This is the amount you overpaid.
- Amount of line 19 you want refunded to you. If Form 888 is attached, check here.
- Routing number: 
- Account number: 
- Type: Checking, Savings.

**Amount You Owe**

- Amount of line 19 you want applied to your 2019 estimated tax.
- Estimated tax penalty (see instructions).

Go to www.irs.gov/Form1040 for instructions and the latest information.
Reportable Income

Residents are taxed on worldwide income – Report all income from any source *U.S. AND Foreign*:

- Salaries (W-2)
- Taxable fellowships, scholarships and grants (1042-S or none)
- Bank interest and dividends (1099)
- Investment income (1099)
- Royalties, prizes and awards (1099)
- Real estate rentals and sale proceeds (none)
- Gifts and any money received (none/other)
Fellowships, Scholarships and Grants

Money received for the purpose of study or research:

- **Non-Taxable “Qualified” Fellowship and Scholarship Amounts:**
  - Degree candidate, and
  - Amounts received are used to pay tuition and fees for enrollment, or for books, supplies and equipment required for courses.

- **Taxable:**
  - All other amounts, such as amounts used for room and board, travel, equipment not required for a course.
  - Amounts received for services that are required as a condition of receiving the otherwise qualified amount (e.g. Research Assistant stipend amount, postdoctoral fellowship).
Determine Amount of Taxable Scholarships & Fellowships

Methods to Assist in Determining Amount of Taxable Scholarships & Fellowships:

1. IRS Interactive Tax Assistant – online interview to determine how much of your scholarship, fellowship, or education grant to include as income:
   https://www.irs.gov/help/ita/do-i-include-my-scholarship-fellowship-or-education-grant-as-income-on-my-tax-return

2. IRS Publication 970, Worksheet 1-1:
Reporting Taxable Fellowships & Scholarships

- **Amount to Report:**
  - W-2 (only for services in relation to fellowship/scholarship),
  - Grant/Fellowship/Scholarship Letter, or
  - Personal Bank Account or Student Account

- **Where to Report:**
  - Form 1040, Line 1 – include the taxable portion in the “Wages, salaries, tips” line of the return. If not included on a W-2 or 1042-S enter “SCH” along the line.

    - Form 1040NR, 1040NR-EZ – report on “Scholarship and fellowship grants” line
Resident taxpayers are subject to income from all sources, even income fully earned and sourced to another country, including:

- **Investment Income** – royalties, interest, etc.
- **Real Estate Income**, including:
  - Rental income from non-U.S. property
  - Capital gains from sale of property inside or outside of the U.S.

**Foreign Tax Credit/Deduction**

Foreign Assets/Accounts

Additional Forms required if you have foreign assets or bank accounts that exceed certain thresholds:

- Foreign Assets – Form 8938, Statement of Specified Foreign Financial Assets
  - Threshold - $50,000 or more depending on filing status

- Foreign Bank Accounts – FinCEN Form 114 (“FBAR”)
  - Threshold - $10,000 in an account over which you have signature or other authority
  - File electronically through BSA E-FilingSystem website at [bsaefiling.fincen.treas.gov/NoRegFBARFiler.html](http://bsaefiling.fincen.treas.gov/NoRegFBARFiler.html)
Estimated Tax Payments

If you expect to owe taxes on income received that was not subject to tax withholding you should pay quarterly estimated taxes with the IRS and any state in which you are required to file to avoid any penalties.

• Examples of when you want to pay estimated taxes:
  • Received taxable scholarship/fellowship income (U.S. or Foreign)
  • Significant foreign sourced income
  • In business for yourself

• How to make estimated tax payments:
  • Form 1040-ES – provides a worksheet to estimate taxes and instructions on how to pay (check, by phone or electronically)
Tax Treaties

Typically a resident does not receive the benefit of a tax treaty because the treaty only covers a number of years, which is the same as the substantial presence visa exemption period.

- Treaty Saving Clause – allows country to tax income when an individual meets residency status in that country.
- Exceptions to Saving Clauses – allow continuation of treaty benefits for the period specified in the treaty for that type of income, for example:
  - Example - UK treaty allows treaty for students without limit
  - Exception clause is in all but 2 treaties (Greece and Pakistan)

Contact VPF Payroll (payroll@mit.edu) for how to utilize a treaty savings clause.
Example of Savings Clause and Exception – may be hard to locate in treaty, check the miscellaneous provisions.

U.S. – UK Tax Treaty
Article 1, General Scope

4. Notwithstanding any provision of this Convention except paragraph 5 of this Article, the [U.S] may tax its residents… and… its citizens, as if the Convention had not come into effect.

5. The provisions of paragraph 4 of this Article shall not affect:
(b) The benefits conferred… under paragraph… 20 (Students), 20A (Teachers), 21 (Students and Trainees)... upon individuals who are neither citizens of, nor have been admitted for permanent residence in, [the U.S.].
How to Claim Tax Treaty on Form 1040

- Include the treaty-exempt income in the “wages, tips, salaries, etc.” line of the tax return.
- Take the treaty-exempt income out as a negative amount on the “other income” line and handwrite “See Attached 8833” on the dotted line next to the income.
- Complete Form 8833, Treaty-Based Return Position Disclosure:
  - Check the box to indicate you are a U.S. citizen or resident
  - Supply the appropriate treaty info in Section 1
  - In narrative section include brief immigration history and substantiation for treaty claim.
- Mail return, forms and schedules to IRS Philadelphia Service Center, regardless of how instructions say how and where to file.
How to Claim Tax Treaty on Form 1040

Example – Assuming $10,000 of treaty exempt income

Form 1040, Line 1

Form 1040, Schedule 1, Line 21
Tax Treaties

Following are Examples of Common Tax Forms you may receive:

- W-2
- 1042-S
- 1098-T
### Form W-2

**Employee’s social security number**: XXX-XX-xxxx

**Employer identification number (EIN)**: 04-2103594

**Employer’s name, address, and ZIP code**: Massachusetts Institute of Technology, 77 Massachusetts Ave, Cambridge, MA 02139, United States

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wages, tips, other compensation</td>
</tr>
<tr>
<td>2</td>
<td>Federal income tax withheld</td>
</tr>
<tr>
<td>3</td>
<td>Social security wages</td>
</tr>
<tr>
<td>4</td>
<td>Social security tax withheld</td>
</tr>
<tr>
<td>5</td>
<td>Medicare wages and tips</td>
</tr>
<tr>
<td>6</td>
<td>Medicare tax withheld</td>
</tr>
<tr>
<td>7</td>
<td>Social security tips</td>
</tr>
<tr>
<td>8</td>
<td>Allocated tips</td>
</tr>
<tr>
<td>9</td>
<td>Verification code</td>
</tr>
<tr>
<td>10</td>
<td>Dependent care benefits</td>
</tr>
<tr>
<td>11</td>
<td>Nonqualified plans</td>
</tr>
<tr>
<td>12a</td>
<td>Statutory employee</td>
</tr>
<tr>
<td>12b</td>
<td>Retirement plan</td>
</tr>
<tr>
<td>12c</td>
<td>Third-party sick pay</td>
</tr>
<tr>
<td>12d</td>
<td>Other</td>
</tr>
</tbody>
</table>

**State wages, tips, etc.**: 10,000

**State income tax**: 500

**Local wages, tips, etc.**: #

**Local income tax**: #

**Locality name**: #

**Wage and Tax Statement**

*Copy 1—For State, City, or Local Tax Department*
### Form 1042-S

*Foreign Person’s U.S. Source Income Subject to Withholding*

- **Form 1042-S**
- **Department of the Treasury**
- **Internal Revenue Service**
- **2018**
- **OMB No. 1545-0096**

#### Withholding Allowance

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income code</td>
<td>10000</td>
</tr>
<tr>
<td>Total withholding credit (combine boxes 7a, 8, and 9)</td>
<td>1400</td>
</tr>
</tbody>
</table>

#### Net Income

- Federal tax withheld: 1400

#### Federal Tax Exempt

- Check if federal tax withheld was not deposited with the IRS because escrow procedures were applied (see instructions): [ ]

#### Tax Withheld by Other Agents

- Overwithheld tax repaid to recipient pursuant to adjustment procedures (see instructions): [ ]

#### Total Withholding Credit

- Total withholding credit: 1400

#### Recipient’s Information

- **Recipient’s name**: John Doe
- **Recipient’s country code**: UK
- **Recipient’s address**: 123 Anystreet, Anytown, MA 02139
- **Recipient’s U.S. TIN**: XXX-XX-XXXX
- **Recipient’s foreign tax identification number**: YYYYMDD (YYYYMMDD)
- **Recipient’s account number**: [ ]
- **Recipient’s date of birth**: [ ]
- **Primary Withholding Agent’s Name**: [ ]
- **Primary Withholding Agent’s EIN**: [ ]
- **Intermediary or flow-through entity’s EIN**: [ ]
- **Intermediary or flow-through entity’s name**: [ ]
- **Address (number and street)**: 77 Massachusetts Ave., Cambridge, MA 02139
- **City or town, state or province, country, ZIP or foreign postal code**: Massachusetts Institute of Technology, 04-2103594
- **State income tax withheld**: [ ]
- **State tax rate**: [ ]
- **State tax code**: [ ]
- **Body of state**: MA

For Privacy Act and Paperwork Reduction Act Notice, see instructions.
Due to an IRS change in reporting requirements, MIT will be reporting **amounts paid** for qualified tuition and related expenses (QTRE) in Box 1 on the 2018 Forms 1098-T. In prior years, MIT reported only **amounts billed** for QTRE in Box 2. Depending on a student’s income (or family’s income, if a dependent), enrollment status (full-time or half-time), and/or the amount of your qualified educational expenses for the year, **students may be eligible** for a federal education tax credit. **Please consult your tax advisor for further tax questions or advice.**
MIT provides Form 1098-T to all MIT students:

<table>
<thead>
<tr>
<th>MIT provides Form 1098-T to all MIT students:</th>
<th>Student may prepare Form 8863 – Education Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Box 1: Tuition + Student Fee paid during Calendar Year 2018 (Spring Semester 2018, Summer Semester 2018 and Fall Semester 2018).</td>
<td>Report qualifying expenses from Form 1098-T Box 1 to claim credits. <strong>Note that students may choose to report calendar year 2018 expenses + first semester expenses for 2019 however, you may NOT double-count the first semester 2019 expenses when preparing your 2019 individual income tax return.</strong></td>
</tr>
</tbody>
</table>


MIT provides Form 1098-T to all MIT students:

<table>
<thead>
<tr>
<th>Box 5: Scholarships and/or grants paid during Calendar Year 2018 (Spring Semester 2018, Summer Semester 2018 and Fall Semester 2018). Scholarships and grants generally include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• All payments designated as grants or scholarships that are administered and processed by MIT SFS</td>
</tr>
<tr>
<td>• All payments by third parties, including governmental and private entities, civic and religious organizations and nonprofit entities, to offset the cost of attendance</td>
</tr>
</tbody>
</table>

Student may prepare Form 8863 – Education Credits

Scholarships and grants paid during Calendar Year 2018 may reduce the amount of qualified educational expenses used in calculating education credits on Form 8863.
Massachusetts Tax Filings

- For Massachusetts state income tax, you are deemed a full year resident if you maintain a permanent place of abode in MA & you spend more than 183 days of the taxable year in MA.

- Above tests not met, generally a nonresident for MA income tax. Earn more than $8,000 & the income is not exempt from taxation under a treaty, file MA Form 1-NR, if you are a nonresident alien. (Federal tax return may still be required)
  - Income less than $8,000 – May want to file MA Form 1-NR to claim refund of any tax withheld

- Resident, file MA Form 1. Need to prove you have health insurance – Form MA 1099-HC, Individual Mandate Massachusetts Health Care Coverage
Massachusetts Tax Filings

- Permanent place of abode depends on the type of housing. Off campus & not affiliated with MIT, you may be deemed to have a permanent place of abode in MA. – If non-U.S. citizen

- U.S. citizen still financially supported by parents are generally deemed to be residents of the state of parents’ residency
  - Unless U.S. citizen student provides more than one-half of his or her own financial support, likely supported by parents

- 1099-HC form – Not attached to MA return, need its information to complete the Massachusetts return
  - Informational Form Only – No Tax – Penalty assessed up to 50% of minimum monthly insurance premium qualified through MA Health Connector
Other States

If you worked or were a student in more than one state, (CA and MA for example), in the same year because you moved from one state to another, you may be required to file tax forms in each state.

Which form to use?

• Non-resident/Part-year resident – Generally less than 183 days present in a state or no place of abode, (rental apartment, home, or similar dwelling)
  ○ Taxed on only income earned in the state and/or all income received or earned during part-year residency
• Resident – Living in a state, or more than 183 days presence, with place of abode
  ○ Taxed on income from all sources
• Tax credits may be available on income taxed by both states
Healthcare

- Health Care Forms 1095B or 1095C
  - Forms are not required to file returns and very possible they will not be received before individuals file 2017 tax returns. (If received keep in your records)
  - Health insurance coverage from foreign employer generally satisfies the minimum essential coverage required
Changes in U.S. taxes for 2018

- Tax Law signed in late 2017 changes the federal income tax rates beginning in 2018:
  - Changes include removing individual deductions and replacing with an increased standard deduction
  - If employed, update W-4 once released by IRS (end of Feb.)
    - MIT Employees – Go to Atlas, About Me and choose Tax Withholding from the menu on the left