

**A Guide to US Federal Income Tax
for F & J Visa Holders:
Part Two**

Introduction

- The University of Michigan provides its F & J visa holders with free access to the user-friendly tax form completion software, CINTAX.
- While CINTAX simplifies the tax form completion process it does not explain how the US taxes F & J visa holders.
- This webinar was designed to provide a frame of reference for this process.
- It should not be mistaken for tax advice.

Topics of Presentation

Part Two

1. Deductions, Exemptions, Credits
2. Tax Treaty Benefits
3. US Income Tax Withholding

1. Deductions, Exemptions, Credits

Standard v. Itemized Deductions

RESIDENT ALIEN

- Standard deduction
 - OR
 - Itemized deductions
- *same eligibility as US citizens
- If itemized, use FORM 1040, Schedule A

NONRESIDENT ALIEN

- NO standard deduction
 - Limited itemized deductions
 - (1) State / local income tax,
 - (2) Charitable contribution to US orgs, or
 - (3) Casualty or theft losses
- * *See publication 519, pages 27-30 for specifics.*

Available Exemptions

RESIDENT ALIENS

- Personal & dependent
- Same use restrictions apply as for US citizens

NONRESIDENT ALIENS

- 1 Personal -- if engaged in US trade or business
- NO Dependent
- Special Exceptions - Residents of Mexico, India, Canada & S. Korea
See IRS Publication 519.

Claiming Tax Credits

RESIDENT ALIEN

- Eligible for same credits as US citizens
- Same restrictions apply

NONRESIDENT ALIEN

- Few if any available
- Eligibility also very restricted
- *See IRS publication 519, pages 31 & 32.*

2. Tax Treaty Benefits

For US Income Tax Purposes, Who Benefits from Tax Treaties?

- Many countries have tax treaties with the US.
- Residents of these countries are often able to reduce their US income tax by claiming treaty benefits.
- Generally, only non resident aliens of the US may collect treaty benefits.

**See www.irs.gov for treaties & IRS Publication 901, a quick reference guide to treaty provisions.*

Dual Tax Residency

- It is possible to be a tax resident of more than one country at a time.
- Treaties include tie breaker provisions that can break a tie should an individual be a tax resident of more than one country at a time.

Tax Treaty Criteria

- Each tax treaty has unique eligibility criteria one must meet to claim a benefit.
- One's original purpose for coming to the US is often one such criteria.
- Changes of status in the US can affect treaty benefit eligibility.
- Total dollar amount & number of years one can claim a benefit is often limited.

Tax Treaties Commonly Reduce Liability For the Following Activities:

- Wages received for personal services
- Wages paid to visiting teachers, professors, & researchers
- Funds received by students for maintenance & studies

3. Tax Withholding

Tax Withholding by Employer

Employer requests employee to complete a tax withholding form.

Employer withholds estimated tax from paycheck.

Employer forwards estimated tax to IRS.

Employee mails tax return & withholding report from employer to IRS (with or without check).

Employee prepares tax return & determines if additional tax is owed or a refund is due.

At the start of new tax year, employer reports total withholding to employee.

IRS reviews return.

IRS sends refund or cashes check.

Tax Withholding

- You should notify your employer(s) and/or payer(s) of your residency status so the correct amount of income can be withheld.
- In general, graduated withholding rates apply to resident & nonresident alien wages.
- In general, a 30% withholding rate applies to nonresident alien unearned income.

*Nonresident alien income may also be reduced by treaty.

Scholarship/ Fellowship Withholding Rates

Degree Candidate -
Scholarship
Fellowship funds for
qualified expenses

NO withholding.

Scholarship/
Fellowship funds for
unqualified
expenses, i.e. room
& board

14% or lower
treaty
withholding
rate.

Scholarship/
Fellowship funds in
exchange for
providing a service.

Graduated
withholding
rates like wages.

File with Withholding Agent (payer of income)

RESIDENT ALIENS

- File *FORM W-4* with employer.

NONRESIDENT ALIENS

File FORM W-4 →

- (1) if wages earned, or
- (2) if scholarship or fellowship funds received in exchange for services

File FORM 8233 → to claim treaty benefits on wages

File FORM W-8BEN → to claim treaty benefits for scholarship or fellowship if payer NOT also employer

Social Security & Medicare (FICA) Taxes

- Nonresident aliens, performing services in connection with their F-1 & J-1 status, are NOT eligible for Social Security or Medicare benefits.
- These taxes cannot be withheld if income from:
 - (1) On-campus employment,
 - (2) Practical Training (OPT/CPT/Academic)
 - (3) Off-campus approved employment, or
 - (4) On campus as teacher, professor, researcher
- Employed dependents & resident aliens are subject to FICA tax withholding unless student exception applies.

Refunds for Erroneously Withheld FICA taxes.

- If FICA taxes were withheld in error, contact your employer for a refund first.
- If your employer refuses to refund you, complete FORM 843 and submit it to the IRS.

Go to www.irs.gov to obtain forms and instructions.

See instructions for mailing address.