

## Headquarters, United States Army Europe

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## Frequently Asked Questions: 2014 Tax Year Returns

### 1. How can I contact the local tax center to make an appointment?

a. Please call your local tax center or contact them via their website, if applicable. Locations and phone numbers for all U.S. Army in Europe tax centers can be found at <http://www.eur.army.mil/taxes>.

### 2. What paperwork do I have to bring to the tax center?

a. Bring your DoD-issued ID card and official documentation of your Social Security Number / Individual Taxpayer Identification Number (ITIN) for yourself and all members of your family **OR** your 2013 tax return

b. All W-2 Forms received from employers / *Lohnsteuerbescheinigung*

c. A voided check that shows your bank account and bank routing number

d. Any other tax or documents related to your individual tax issues:

- Form 1099 INT (interest statement)
- Form 1099 DIV (dividend statement)
- Form 1099R (pension / IRA distribution)
- Original power of attorney, if filing for a spouse
- Documentation of child care expenses paid last year
- Documentation of Individual Retirement Accounts (IRAs)
- Documentation of charitable contributions
- Statements of interest expenses (mortgage, student loans)
- Alimony information (copy of divorce or separation agreement)
- Other relevant financial information (e.g., investment statements, rental reports, medical expenses, charitable contributions, or others)
- Any documentation of any other income (U.S. or foreign)

Internal Revenue Service forms and more information can be found at <http://www.irs.gov/Forms-&-Pubs>.

**3. What services are available at the tax assistance centers?** Tax assistance centers will electronically file (e-file) taxes for eligible community members. The tax centers and legal assistance offices are also a resource for people who prepare their own taxes. E-filers and legal assistance attorneys can provide personal income tax advice, publications and other reference materials, and review prepared returns.

Tax assistance centers are staffed by personnel trained and certified under the IRS Volunteer Income Tax Assistance (VITA) program. These personnel are supervised by a legal assistance attorney and paralegal.

**4. What resources are available to people who want to prepare their own tax returns?** The IRS offers taxpayers free help on federal tax questions and with filing a return. Assistance is available at any time on the IRS website at [www.irs.gov](http://www.irs.gov). Help is also available by telephone and in person.

- A few publications that are particularly useful for USAREUR community members:
- Publication 17: “Your Federal Income Tax”
- Publication 3: “Armed Forces’ Guide”
- Publication 54: “Tax Guide for U.S. Citizens and Resident Aliens Abroad”
- Publication 519: “US Tax Guide for Non-Resident Aliens”

Eligible taxpayers who prepare their own taxes and need additional assistance can contact their tax assistance center. In addition to assisting with filing taxes, tax assistance centers can provide tax advice and help understanding the tax code. A full list of tax centers across U.S. Army Europe is available [here](#).

**5. I heard I have extra time to file/pay taxes since I am overseas; is that true?** Yes and no. The standard filing deadline is April 15, and overseas filers receive an automatic filing extension until June 15. The extension to file is

**Overseas taxpayers’ returns are due on 15 June, but taxes not paid by 15 April are subject to interest.**

an extension to pay, **BUT** you will owe interest on any tax not paid by April 15. Soldiers deployed to a qualified hazardous duty area during tax season receive additional time to file, pay any tax due or receive their refund. In addition, all taxpayers may request a 6-month extension to file their tax returns. IRS automatically grants this extension if you submit your request it by 15 April using IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.) For overseas filers who request a 6-month extension, the new filing deadline is 15 October as well

**6. What are the major tax law changes for 2014?**

a. **Health care: individual responsibility.** You must either:

- Indicate on your 2014 federal income tax return that you, your spouse (if filing jointly), and your dependents had health care coverage throughout 2014;
- Claim an exemption from the health care coverage requirement for some or all of 2014 and attach Form 8965 to your return; or
- Make a shared responsibility payment if, for any month in 2014, you, your spouse (if filing jointly), or your dependents did not have coverage and do not qualify for a coverage exemption.

All Military and most Civilian taxpayers in Europe already meet the minimal health insurance coverage requirement. However, if you have questions, contact your local tax preparation center or legal assistance office.

b. **Pell grants and other scholarships or fellowships.** Choosing to include otherwise tax-free scholarships or fellowships in your income can increase an education credit and lower your total tax or increase your refund. See the instructions for Form 8863 and Pub. 970, Tax Benefits for Education, for more information.

c. **Personal exemption amount increased for certain taxpayers.** Your personal exemption is increased to \$3,950. But the amount is reduced if your adjusted gross income is more than:

- \$152,525 if married filing separately,
- \$254,200 if single,
- \$279,650 if head of household, or
- \$305,050 if any other filing status

d. **Standard mileage rates.** The 2014 rate for business use of your car is reduced to 56 cents a mile. The 2014 rate for use of your car to get medical care is reduced to 23½ cents a mile. **The 2014 rate for use of your car to move is reduced to 23½ cents a mile.**

**7. What's the difference between a tax deduction and a tax credit? Credits are better than deductions.** A tax

**A *tax deduction* reduces your taxable income.**

**A *tax credit* reduces the amount of tax you owe.**

deduction is an amount which reduces the income used to compute the tax. A tax deduction saves you the percentage of the deduction equal to the tax rate. For example, if you are taxed at a rate of 20 percent and you have a deduction of \$100 then you save \$20. While deductions reduce tax liability, they are not directly refundable. A tax credit reduces tax liability after it has already been computed. One dollar of tax credit actually saves you one dollar. Nonrefundable tax credits can only reduce your tax liability to zero. Refundable tax credits can result in payment to the taxpayer from the federal government.

**8. Which tax credits might I be eligible for?**

a. **Earned Income Credit** – a refundable credit for taxpayers below an adjusted gross income threshold. For 2014, earned income and Adjusted Gross Income must be less than:

- \$46,997 (\$52,427 married filing jointly) with three or more qualifying children
- \$43,756 (\$49,186 married filing jointly) with two qualifying children
- \$38,511 (\$43,941 married filing jointly) with one qualifying child
- \$14,590 (\$20,020 married filing jointly) with no qualifying children

**A refundable credit is treated as a payment by the IRS. This means you can receive refunds based on these credits. Most credits are non-refundable, and will not add directly to a refund.**

Beyond these limitations, a number of other requirements exist to qualify – ask your tax center!

b. **Child Tax Credit** – Up to \$1,000 per child - but may not be applicable to all taxpayers. For those filing jointly, the tax credit begins to phase out at \$110,000 of modified adjusted gross income (MAGI) and at \$75,000 for taxpayers completing a single, head of household, or married filing separate tax return.

c. **Additional Child Tax Credit** – refundable tax credit for individuals unable to utilize the full benefit of their nonrefundable child tax credit.

d. **Child and Dependent Care Credit** – nonrefundable tax credit for working parents which reduces tax liability by a portion of child and dependent care expenses.

e. **Lifetime Learning Tax Credit** – nonrefundable tax credit up to \$2,000 per tax return for 20 percent of the first \$10,000 of eligible education expenses paid by the taxpayer for him/herself, a spouse or a dependent.

f. **Retirement Savings Contributions Credit** – nonrefundable credit for taxpayers with modified AGI below certain thresholds (depending on filing status) who make a contribution to a qualified retirement plan.

**9. Should I itemize my deductions?** The standard deduction rates were adjusted again for all filing statuses this year. To derive a benefit from itemizing deductions, the taxpayer must have significant expenses in the categories eligible for itemized deductions. Generally speaking, without significant out-of-pocket medical expenses, interest

payments on an eligible home mortgage or very large contributions to eligible charities, taxpayers are better off taking the standard deduction.

a. The 2014 standard deductions are:

- \$6,200 for unmarried taxpayers or married taxpayers filing separately
- \$12,400 for married taxpayers filing jointly
- \$9,150 for taxpayers filing as head of household

b. The additional standard deduction allowed for blind taxpayers and taxpayers age 65 or older at the end of the tax year will be \$1,200 if married filing jointly and \$1,500 if filing single. These deductions are cumulative.

c. You may not be able to deduct all of your itemized deductions if your adjusted gross income is more than:

- \$150,000 if married filing separately,
- \$250,000 if single,
- \$275,000 if head of household, or
- \$300,000 if any other filing status.

**10. Can service members and employees of the U.S. government stationed in Europe avail themselves of the Foreign Earned Income Exclusion?** No, that exclusion does not apply to U.S. service members and other employees of the U.S. government. If you are a US government employee, you must pay U.S. income tax, even if stationed overseas.

**11. Do I need to pay state income tax if I live in Europe?** Maybe. States can require their legal residents (domiciliaries) to pay income tax. A state has the authority to tax domiciliaries of that state, even if the domiciliary does not currently live in that state any longer due to extended overseas assignments - be they military or civilian. Each state's law is different, so to be sure you are complying with applicable state law, stop by your tax assistance center and check the rules for your state of domicile. See the state tax guide prepared by the Navy at <http://min.midco.net/stateinstructions> for details and instructions for each state

**12. Can I change my state of domicile/residence while overseas?** Generally no, you can only change your state of residence while living in that state. If you have questions, visit your local legal assistance office.

**13. My spouse works on the local economy and pays taxes to the host nation. Do I need to report my spouse's income on our return?**

a. Spouse is a **U.S. citizen or resident:** If you are filing a joint return, you must report your spouse's income on your tax return. If you are filing separately, the spouse will only need to file if the spouse's earned income is greater than \$3,950. If the spouse must file, you then may be able to exclude up to \$99,200 from your taxable income under the Foreign Earned Income Exclusion.

b. Spouses who are NOT a U.S. citizen or resident do not need to report their income. It may be to your advantage, however, to elect to treat your spouse as a U.S. resident so you can file a joint return. Consult your tax center for an individual discussion of these issues.

**14. Do I need to report any money I have in my foreign bank account?** Possibly. Any United States person who owns or controls a foreign account that contains over \$10,000 at any time during the calendar year, must file an FBAR (Report of Foreign Bank and Financial Accounts.) The form number is FinCEN Report 114, and it is only available through the BSA E-filing System. This form is filed electronically at <http://bsaeiling.fincen.treas.gov/main.html> and must be received electronically by June 30<sup>th</sup>. It is not filed with

the federal return. If you have larger amounts, you may need to file IRS Form 8938. There are no taxes for holding accounts overseas, but the penalties for failing to file these reports are extremely severe.

**15. Why do I need to fill out the same paperwork (tax preparation info sheet, taxpayer info sheet, intake/quality review sheet) at my tax center every year if my info has not changed?** Your tax assistance center needs the intake sheet filled out each year to ensure the accuracy of your tax return. Tax law changes every year, and you may not be aware of all the changes. The forms help determine the tax you owe and the refund you may receive.

**16. What do I do if my spouse is not available to sign the tax return?** Generally, you must sign your tax return. There are a few narrowly drawn circumstances in which you can authorize another person to sign on your behalf. If you are overseas or incapacitated, you can grant a Power of Attorney to an agent to file and sign your return. These forms are available at your nearest legal assistance office. You may also use Form 2848 – the Power of Attorney provided by the IRS. Generally, joint returns must be signed by both spouses. However, when a spouse is overseas, in a combat zone, in a missing status, or incapacitated, a power of attorney may be needed to file a joint return. You can download the IRS Power of Attorney at <http://www.irs.gov/pub/irs-pdf/f2848.pdf>.

Soldiers who are deployed during the tax season may want to take advantage of the liberal extensions to file afforded them, make sure they have all necessary documents, corrected W-2s etc. In this case deployment orders should be attached and the return should be paper-filed. For more information regarding deployed spouses and extensions of filing deadlines, consult your tax assistance center.

**17. Secure your tax records from identity theft.** Identity theft occurs when someone uses your personal information, such as your name, SSN, or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

**18. Taxpayer identification numbers.** You must provide the taxpayer identification number for each person for whom you claim certain tax benefits. Generally, this number is the person's social security number (SSN). This rule applies even if the person was born in 2014. To apply for a Social Security Number for your US citizen child, you can download and complete application Form SS5 at <http://www.socialsecurity.gov/online/ss-5.pdf>.

If you married a foreign (non-resident alien (NRA)) spouse in 2014 and wish to recognize that spouse as a U.S. resident for tax purposes then you must apply for a Taxpayer Identification Number (ITIN) for your foreign spouse. You can download and complete the IRS ITIN application W-7 online at <http://www.irs.gov/pub/irs-pdf/fw7.pdf>. The application along with the required documents will be included with your tax return and mailed to the IRS for processing. Applying for an ITIN does not affect or change your immigration status.

This identification number will allow you to file Married Filing Joint (while including your spouse's foreign sourced income, and excluding that income), or Head of Household with a qualifying US citizen child (while only taking a personal exemption for your NRA spouse who has no U.S. sourced income and no U.S. tax liability). If you have no qualifying children for the Head of Household status and choose not to apply for an ITIN for your NRA spouse then you must file Married Filing Separate. Filing single is not an option if you were married on the last day of the tax year.

**19. Foreign source income.** If you are a U.S. citizen with income from sources outside the United States (foreign income), you must report all such income on your tax return unless it is exempt by U.S. law. This is true whether you live inside or outside the United States and whether or not you receive a Form W-2 or Form 1099 from the foreign payer. This applies to earned income (such as wages, sick pay in lieu of wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents, foreign unemployment compensation and royalties etc). If you live outside the United States, you may be able to exclude part or all of

your foreign source **earned** income. For details, see Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.

**20. Foreign financial assets.** If you had foreign financial assets in 2014, you may have to file Form 8938 with your return. Check [www.irs.gov/form8938](http://www.irs.gov/form8938) for details.

**21. Payment of taxes.** You can pay your taxes online, by phone, or by check or money order. You can make a direct transfer from your bank account or use a credit or debit card. If you *e-file*, you can schedule an electronic payment.

**22. Refund on a late filed return.** If you were due a refund but you did not file a return, you generally must file your return within 3 years from the date the return was due (including extensions) to get that refund.

**23. Frivolous tax returns.** The IRS has published a list of positions that are identified as frivolous. The penalty for filing a frivolous tax return is \$5,000.

**24. Filing erroneous claim for refund or credit.** You may have to pay a penalty if you file an erroneous claim for refund or credit. Please see: <http://www.irs.gov/Tax-Professionals/The-Truth-About-Frivolous-Tax-Arguments-Introduction>.

**25. Privacy Act and paperwork reduction information.** The IRS Restructuring and Reform Act of 1998, the Privacy Act of 1974, and the Paperwork Reduction Act of 1980 require that when we ask you for information we must first tell you what our legal right is to ask for the information, why we are asking for it, how it will be used, what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory under the law. A complete statement on this subject can be found in your tax form instructions.