

U.S. TAX REGULATIONS

" . . . *but in this world, nothing is certain but death and taxes.*" - Benjamin Franklin [1789, Letter to M. Leroy]

Unfortunately, Benjamin Franklin was right about taxes. The most important thing you need to know is that all international students and scholars in the U.S. are required to file a U.S. tax return, even if you did not have any U.S. source income. If you are employed in the U.S., your earned income is usually subjected to federal (U.S.) and state income taxes. The Internal Revenue Service (IRS) is the name of the U.S. federal tax agency. Total federal and state taxes can commonly total 15% to 30% of your earned income, depending on your income level. Like immigration regulations, U.S. tax regulations are complex and vary tremendously in individual situations. In this short chapter, we offer a quick review of some of the basic concepts and a list of tax resources that will be helpful to you. Like the chapter on immigration regulations, this is a brief summary and is not meant to tell you all you need to know about your U.S. tax obligations.



INTERNATIONAL TAX OFFICE AT YALE

www.yale.edu/tax/int

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* *Note:* Yale's International Tax Office does *not* assist with personal annual income tax returns. See OISS for resources and information.

INTERNATIONAL TAX OFFICE AT YALE

If you will receive payment from Yale, including stipends, fellowships, wages, etc., it is important to meet with the Yale University *International Tax Office* before receiving the first paycheck. In fact, making an appointment with the International Tax Office at Yale should be among the first things you do. At this meeting your tax status will be reviewed to determine proper tax *withholding*, including whether or not you are eligible to claim a reduced income tax withholding rate because of a tax treaty and/or an exemption from *FICA (Social Security)* withholding. A reduced rate of federal income tax withholding (including full exemption) pursuant to a tax treaty is only effective if the treaty is applicable and the necessary paperwork is completed, signed and approved by the University Tax department. The reduced withholding rate will apply only to payments made after the necessary paperwork has been completed and signed by the individual, approved by the University tax department and filed with the IRS. To have the maximum amount of take home pay, schedule an appointment as soon as possible. International students and scholars or department administrators on behalf of a student or scholar, can go to the *International Tax Office* website to schedule appointments.

TERMINOLOGY AND FORMS

Resident or Non-Resident Status. For the purpose of filing your taxes, you are either a resident or non-resident taxpayer. This status is different from your immigration status. You will determine your tax status either at the time you meet with the Yale tax department or when you file your annual income tax return. For the

most part, F-1 and J-1 students are considered non-resident taxpayers during the first five calendar years they are present in the U.S. J-1 scholars are usually considered non-resident taxpayers if present for no more than two calendar years out of the last six. Visit the OISS or IRS website for more information about resident/non-resident tax status.

Social Security or FICA/Medicare Tax. All resident taxpayers are required to pay a social security tax, which supports the social security system in the U.S. Non-resident taxpayers, including many international students and scholars, are not required to pay FICA or Social Security Tax. (See above.) All other international students and scholars employed in the U.S. must pay social security and Medicare taxes, which total nearly 8% of their earned income.

Scholarship Income. Students who receive non-service scholarships must pay federal income taxes on the stipend portion of their award (unless they are exempt under a tax treaty); the University will withhold 14% of scholarship stipend payments for federal income tax unless the payments are covered by a tax treaty. The portion of your scholarship or fellowship that covers the tuition is not taxable.

Tax Return. This is the form that you must file every year to report your income to the U.S. government. All international students and scholars are required to file a tax return, even if you did not have a U.S. income. If you have paid more taxes than you owe (i.e. had more withheld than you are required to pay,) it is by filing a tax return that you will get a refund. The annual deadline for filing your tax return is April 15. Non-resident taxpayers will file the form 1040NR-EZ or 1040NR.

Tax Treaties. Some countries have tax treaties with the U.S. that can sometimes reduce or eliminate federal income taxes for you. As an individual who is not a U.S. citizen or U.S. permanent resident, you may be eligible to claim a reduced rate of withholding (including full exemption) because of a tax treaty between the U.S. and your country of tax residency. (Note: The provisions of any income tax treaty between the U.S. and another country are disregarded for Connecticut income tax purposes.) Tax treaty benefits are not automatic, they must be claimed in your annual tax return to be guaranteed. For detailed information on tax treaties and withholding, consult with Yale's International Tax department.

W-2 Form. You should receive an annual statement of your wages earned and taxes withheld from each employer you work for in the U.S. This statement is called a "W-2" form, and you should receive it by January 31 for the previous calendar year. If you do not receive a "W-2" form from an employer by January 31, contact the



TAX FILING TIPS

KEEP GOOD RECORDS.

Have one folder where you keep all your tax documents together throughout the year like:

- Property tax paid on your vehicle
- Pay stubs
- Bank/Investment statements

NEVER SEND ORIGINALS of anything such as your passport or immigration document when filing taxes or applying for an ITIN. If asked to provide "notarized photocopies" visit OISS to request assistance.

STUDENTS:

You may be able to reduce your tax liability on your taxable scholarship amounts by claiming certain expenses such as tuition, required course fees, books, etc.

- Keep all receipts or charge everything to your Bursar Account or ATM/Credit card so you have a record of these expenses.

employer, as this is an important document that you must have to complete your annual tax returns.

W-4 Form. When you begin work in a new job, your employer will ask you to complete a form called a “W-4” in which you are required to indicate your liability for federal income taxes. Most international students and scholars should indicate on their “W-4” forms that they are entitled to one “personal exemption” or “personal allowance.” You may also need to complete a CT W-4.

Withholding. The amount of money that is taken out of your paycheck and paid to the government on your behalf for tax purposes, as required by the IRS, the U.S. federal agency responsible for tax collection, is called a withholding. The IRS requires that the University apply specific federal tax withholding and reporting rules to all payments made to individuals classified as nonresident aliens for tax purposes.

1042-S Form. If you receive scholarship income from the University or any other source in the U.S., you should receive a 1042-S form reporting your scholarship income (above the amount of tuition) and any taxes withheld during the previous year by early March. You will also receive a 1042-S form if you received wages that were covered by a tax treaty and you had completed the necessary paperwork with the Yale International Tax Office. If you have a scholarship but do not receive a 1042-S form by March 15, contact your scholar grantor, since you must have this form to complete your federal tax return.

HELPFUL TAX RESOURCES _____

The IRS has a Frequently Asked Questions (FAQ) page for aliens living in the U.S. at www.irs.gov/individuals/foreign/index.html. In addition, you will find helpful tax information on the website of Yale’s International Tax Office at www.yale.edu/tax/int. The OISS will provide you with tax preparation software in February to help non-resident taxpayers at Yale prepare their tax returns. Go to www.oiss.yale.edu/tax/tax.htm to read more about the tax preparation software and other OISS resources.