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Epsilon Alpha Chapter

Accounting and Finance Journal

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And More!

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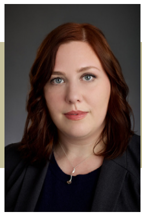


Letter from the Editor

Rahnia Beuter

October 8, 2014

Dear Readers,

Welcome to Volume 3 of the BAP Journal! We gave the Journal a design & structure overhaul this summer; it was a busy & productive summer for Epsilon Alpha. Our Executive VP, Sarah Dunbar, and I were able to attend the BAP Annual Meeting in Atlanta August 7-9. There, we were honored to accept several awards for Epsilon Alpha from BAP International:

Ethics Award, Sponsored by Grant Thornton LLP
VITA Award: Top 3 in Volunteer Hours
Superior Chapter

These awards are an exciting recognition of our continuous improvement as a chapter, a trend we hope to continue during the 2014-2015 academic year. As a chapter, we also want to reward excellence among our candidates & members. As part of this goal, we are introducing the BAP Service Award, with the first nominees to be honored at fall initiation. The BAP Service Award is given to candidates & members who have gone above & beyond in their dedication & service to Epsilon Alpha. The following candidates & members will be honored:

Winter 2014 Nominees

Alan Martin, VITA service
Rahnia Beuter, Journal & Ethics
Vita Utrecht, Membership & Outreach

Summer 2014 Nominees

Maree Jo Kettenring, Resume Critiques
Sharon Bryne, Resume Portal
Sean Baker, Graphic Design & Mock Interviews
Alex Gibson, Newsletter

We are welcoming a new member to the BAP Epsilon Alpha Publication family – The BAP Newsletter. As shown above, Alex Gibson has been a major force in getting this new publication off the ground. The BAP Newsletter will come out 2-3 times per quarter & is focused on our campus audience. Our first issue was published on September 24, 2014; if you can't locate one of our print copies, the BAP Newsletter can be electronically accessed on our website, bappdx.org.

Given the addition of the BAP Newsletter, the BAP Journal will now be a quarterly publication, with Volume 3, Issue 2 slated for publication in early January. Each issue of the Journal will now coalesce around a common thread; we hope to provide you with a multi-faceted look at different aspects of the accounting & finance professions. In this first issue, we focus on global topics, with a strong focus on international tax.

We are also fortunate to have two articles from a unique São Paolo, Brazil perspective – our President, Jessica Hoffman, participated in the Deloitte Global Internship Program in Brazil this summer and wrote about her experience. Elizabeth (Keiko) Okuda, one of our members who lived abroad in Brazil, brought back to Portland a fantastic profile of a local tax professional. This issue also features a profile of one our esteemed PSU faculty members, Bill Ramirez, technical articles on expatriate tax and foreign artist tax, a short history of individual taxation in several different countries, and a review of the book Double Entry: How the Merchants of Venice Created Modern Finance.

I hope you find this issue of the BAP Journal interesting and enlightening; I welcome your feedback and suggestions on how to improve this publication. Please take note of all of our contributors for this issue (see previous page), as they have all worked tirelessly to create this final product. If you are interested in becoming a future contributor (whether you are a student, professional, or faculty), please reach out to us at journal@bappdx.org.

Rahnia Beuter
Editor-in-Chief

Summer in Brazil: An Intern Abroad

by Jessica Hoffman

During July and August of 2014, I participated in the Deloitte Global Internship Program. This opportunity provided me the chance to split my internship experience between the Deloitte Portland, OR and Deloitte São Paulo, Brazil offices.

The work

My work was in the audit practice and I was assigned to a large international banking client with about 30 Deloitte professionals managing the engagement. Due to the complexity of the business structure, Brazilian banking regulation, and international accounting standards, the majority of my effort was spent on the English translation of the financial statements. I thought of it as translating accounting poetry - you had to be sure you understood the intent of the entire passage before you could suggest a single word.

The culture

The company culture of Deloitte is strong and there were many similarities between the two offices, especially the investment in people. Although the college recruiting process there is much different, the result is the same: teammates that you continuously learn from and enjoy being around.

As for cultural differences, lunchtime holds far more importance in the São Paulo office. Good table manners are critical. I embarrassed myself by grabbing fries with my fingers while everyone else used a knife and fork. Everyone shows respect and patiently waits for the last eater to completely finish their meal, including dessert and espresso. Two-hour lunches are not uncommon, and provide a welcome opportunity to get to know co-workers and managers on a personal level. Speaking with superiors looked and felt more formal than in the United States, though this depended on the personality of the individual senior manager or partner. When in doubt I just followed their lead.

While preparing for the trip, I read that there is a high tendency to mix professional and social relationships in Brazil. In my experience, this proved true. Extensive hellos and goodbyes, more expressive communication, and displays of physical closeness with pats on backs and kisses on cheeks, were all part of our work day. We talk about the importance of business relationships in the United States, but in Brazil, I think the focus on long-term relationships is even more of a priority. For audit work, this means there is less engagement team rotation. Most of my Brazilian co-workers had worked on the same client, and therefore worked with each other, for years. As the only new staff member, I was definitely intimidated. Each day I tried to ease into the discomfort, observe, stay open, learn a little more Portuguese, and ask thoughtful questions. Luckily, everyone was very friendly and supportive of these efforts–people literally cheered any time I understood their questions in Portuguese. It was my personal nerd equivalent of scoring a winning football goal.

The recruiting

Recruiting seems to adapt to the education environment. Most of the professional degrees were in business administration or management because the local universities did not offer a specific option for accounting or finance. The Big 4 firms attend career fairs on campus, but nothing as involved as Meet the Firms. Students apply online and work through a series of tests: a general education/aptitude test, an English test, a teamwork/case study simulation, and an interview. There are no coffee dates with recruiters,

About two thirds of Jessica's team at the Deloitte offices in São Paulo, Brazil. *Courtesy Jessica Hoffman* no summer leadership conferences, and no internships. Instead of applying for internships while you finish the last two years of your degree, you apply for full-time employment to coincide with your remaining schooling. That means the professionals are working busy season while taking night classes and studying.

The profession

I loved asking my team how the auditing profession is viewed in Brazil. The general consensus, no matter the position of the respondent, was that the general public did not yet know enough about the importance of the work being done in the profession. As they explained, in the United States we have the two largest stock exchanges: the New York Stock Exchange and NASDAQ, the U.S. Securities and Exchange Commission as a regulating body, and extensive coverage of scandals like Enron. The BM&F BOVESPA stock exchange in São Paulo is currently ranked 17th globally by market cap. Investing in public companies is far more common practice in the U.S. and it's easier to understand the measures needed to protect the population. They were hopeful that with continued economic growth and increased education, more Brazilians would see the value of the profession and the career opportunities available to them in public accounting.

The Outcome

I'm incredibly grateful for this experience. It taught me more about Brazil, Deloitte, friendship, and myself than I could have reasonably expected from any four week period. Leaving with a now global network of connections—simultaneously professional and social—is a great gift. Getting to experience Deloitte's global commitment to coaching, professional development, and excellence confirmed that I had found the right home for me. By carving out personal time for reflection each week of the trip I began to envision my own professional path. The Big 4 firms are so immense that it is easy to feel microscopic in comparison, yet our individual impact on our teams, our clients, and the public good can be magnified by that sheer size; our contributions can even stretch from Portland to São Paulo. εα

Professional Profile: Adahel Almeida

by Elizabeth (Keiko) Okuda

I have spent most of the last two years in Brazil and have had the opportunity to meet accounting professionals in interesting careers. I first heard of Adahel Almeida from my lawyer in Brazil who described him as a specialist in taxes for Brazilians living overseas (especially Brazilians living in the US). Almeida's customer base consists of individual expatriates (i.e., foreigners in Brazil and Brazilians abroad), companies that employ expatriates, and wealthy individuals with complex tax structures.

On a sunny afternoon in São Paulo, at a Starbucks on Paulista Avenue, I met Almeida to talk with him about his career. Almeida has over 30 years of experience leading tax services for two of the Big 4 accounting and consulting firms, giving him the background to work as independent consultant today. He explained the number of expatriates around the globe have increased due to globalization. This growth created a need for someone with his expertise; a consultant who can work anywhere, with no need for a physical space to meet neither his customers nor a 'big name' company to represent his services.

Almeida has participated in projects related to: Inbound/outbound investments, Mergers & Acquisitions ('M&A') under the Brazilian corporate and individual tax perspectives, expatriate tax cost projections, and employee benefit structures. He is also an active participant in external and in-house seminars, preparation of workshops on pertinent tax matters, publication of technical bulletins, and newspaper interviews.

How does one get such a career in Brazil? Almeida went to high school in Massachusetts. He was accepted to study Engineering at the University of Massachusetts however, due to financial restraint, he returned to Brazil, where he studied accounting. He earned a BA in Accountancy from Fundação Escola Econômica de São Paulo Álvares Penteado and received a post-graduate (i.e., 'graduate degree') in Tax Law. While in school, he worked for DuPont as a trainee for 3 years in the Finance Department performing economic business analyses In his last year of college, Almeida was hired by PricewaterhouseCoopers (PwC). At the time, PwC allocated new hires randomly to various lines of service, which is how he began his career in tax.

He initially trained for only one and a half months in corporate tax. One year later, there was a position in "expatriate tax" which required somebody who spoke English fluently, and Almeida was chosen. After his start in that department, he began doing US taxes for US citizens living in Brazil or Brazilians living in the US. Today he can still do both and said he would choose not to file taxes in another country besides Brazil or the US.

Almeida can still advise on the tax implication in countries that have an international tax agreement with Brazil. For example, he can evaluate the tax implications of a Brazilian that goes to work in Spain (e.g., which country has the power to tax that individual). Currently, Brazil has agreements with 30 countries, and the US is not among them. Almeida analyzes the agreements for Federal Taxes and Social Security implications (this is called 'Totalization Agreement' in the US).

After a rewarding career working at PwC for 17 years, he went to Deloitte Touche Tohmatsu, where he worked for another 17 years doing tax for expatriates. Three years ago, Almeida left Deloitte to pursue a solo career. While he does not have the same structure of working at a Big 4, he currently enjoys more freedom and the challenge of working on his own. His unique expertise, experience, and language skills have allowed him to carve out a successful career path. Students or current professionals interested in pursuing expatriate tax or related fields would do well to build similar skill sets and be ready to take even the most unlikely opportunities. εα

U.S. Taxation of Americans Abroad

by John Wertz, CPA *Professional Review by David Kessler, CPA and Yulia Sharapova-Leamy, CPA - Thompson Kessler Wiest & Borquist PC*

Many individuals consider the U.S. income tax system to be overly complex; indeed, informal studies estimate the U.S. Internal Revenue Code to be over 3.7 million words as of January 3, 2007. The U.S. income tax system further complicates issues through its use of arcane legal language while containing an array of exceptions and limitations for nearly all provisions and situations. For these reasons, public perception remains that completing and filing a tax return is overly time consuming and burdensome. Much of this sentiment comes from individuals who work and have investments domestically. The complexity of the U.S. income system is only magnified for individuals (defined as U.S. citizens and residents) who work or have investments outside the United States.

Overview

The U.S. is unique in the way it taxes its citizens and resident aliens (hereafter "citizens"). As compared to most countries, which tax their citizens on a territorial basis, the U.S. taxes its citizens on a worldwide basis. This means that all U.S. citizens, regardless of the country in which they reside, are subject to U.S. tax on their income no matter where in the world such income is earned. In contrast, a country with a territorial income tax system will generally only tax its citizens, residing outside that country on income earned from sources within the country's borders; income earned outside the country is not subject to tax by that individual's "home" country.

The application of a worldwide income tax system immediately creates an issue for a citizen of the US living or working abroad in another country: the US (the "home country") is taxing the individual's worldwide income while the "host" country is generally taxing any income the individual earns within that country. In effect, the individual is subject to double taxation—he or she is taxed twice on the same income earned in the host country. Although there are a number of remedies available to eliminate or mitigate double taxation, understanding and applying all the relevant rules is often exceptionally difficult for those not well versed in what is often referred to as "U.S. expatriate taxation". The most common methods available to U.S. citizens are discussed in the following sections. The last section briefly discusses the expatriation tax regime, which is a separate and distinct issue despite the similarity in name.

Methods Available to Alleviate Double Taxation

Foreign Earned Income and Housing Exclusion

U.S. citizens who live and work abroad may qualify for what is known as the Foreign Earned Income and Housing Exclusion ("FEIE") as a means to reduce their U.S. income tax. The FEIE, as its name indicates, functions as exclusion from income. The total gross income of an individual, including foreign earned income, is reduced by all or a part of his or her income earned outside the United States. An important concept to be considered here is the definition of "foreign earned income." In essence, foreign earned income is construed as wages (compensation) and business income earned outside of the 50 states of the U.S. The FEIE is broken into two components: the Foreign Earned Income Exclusion and the Foreign Housing Exclusion. For the 2014 tax year, the maximum amount of foreign earned income that can be excluded under the FEIE is US$99,200. Similarly, the Foreign Housing Exclusion also acts as an exclusion from income by allowing certain foreign housing costs in excess of a statutory floor to reduce an individual's taxable income. The amount allowed as an exclusion under this provision varies by location: these annual limitations are listed in the instructions to Form 2555. Both of these exclusions are available to each spouse on a jointly filed income tax return; however, both spouses are required to have foreign earned income. Claiming the benefits of the housing exclusion by one or both spouses depends on whether the spouses maintain one or separate households.

In order to qualify for the FEIE, certain qualifications must be met. A "qualified individual" may elect to claim the FEIE only if he or she meets the following conditions:

1. His or her tax home is in a foreign country and place of abode is not in the US; and

2. One of the following two tests is met:

a. The Bona Fide Residence Test—applies to U.S. citizens (and resident aliens who are citizens of treaty countries) who are bona fide residents of a foreign country for at least one entire taxable (calendar) year. The term bona fide resident is not defined statutorily and is usually determined by examining an individual's specific facts and circumstances. Examples of this include the individual's intent, location of family and belongings, participation in local activities, nature and duration of employment, and immigration status in the host location.

b. The Physical Presence Test—applies to U.S. citizens and resident aliens who are physically present in a foreign country for at least 330 days during a rolling 12-month consecutive period that begins or ends within the tax year in question. For example, if an individual departs for a foreign country beginning on July 1, 20X1, then the 365 day period would range from July 1, 20X1 to June 30, 20X2. The individual would meet the test if he or she was physically outside the U.S. for 330 days during this 365 day period.

If the first condition is not met or if both of the two tests are not met, then no FEIE is allowed. Individuals may be eligible for a partial exclusion if they arrived in or departed from the U.S. during the year. In this case, the maximum exclusion is pro-rated to reflect the portion of the year the individual qualified for the FEIE.

The FEIE is an election that is made on a timely filed tax return and is effective through all future years unless revoked. In certain circumstances, it may be beneficial to revoke the FEIE due to its interaction with the Foreign Tax Credit (discussed later) and the "Stacking Rule." Once revoked, the election cannot be made again until the sixth taxable year following the first year in which the revocation was effective. The Stacking Rule was enacted in 2004 and affects the manner in which an individual calculates his or her income tax liability when excluding a portion of his or her income under the FEIE. In essence, the Stacking Rule is an "exemption with progression" technique—income excluded from an individual's return comes off the lowest tax brackets, not the highest. For example, an individual with a FEIE of $80,000 and $20,000 in other income (after deductions) will be subject to the tax rates on taxable income in the $80,000 - $100,000 range rather than the $0 - $20,000 range. As a result, the Stacking Rule masks some of the benefit of the FEIE and can create relatively high tax liabilities on non-excluded income.

The FEIE is claimed on Form 2555 for each year. There are many more specific provisions and limitations to the FEIE that are not discussed here; for this reason, it is important that an individual understands all the relevant rules and regulations that govern the availability of this exclusion.

The Foreign Tax Credit

The Foreign Tax Credit ("FTC") is another means to alleviate double taxation for U.S. citizens working abroad. Not surprisingly, the FTC permits an individual to claim a non-refundable credit for foreign income taxes paid to a foreign country or a possession of the U.S. An individual may choose to claim an itemized deduction or a credit for such foreign income taxes ; though, the credit is generally preferable, as it acts as a dollar-for-dollar reduction of income tax liability.

The FTC is claimed on Form 1116. The allowable credit for a given year is a function of several variables and may be limited in certain circumstances. Some factors affecting the allowable FTC include the amount of foreign source income, character of said income, U.S. tax liability before FTC, and income excluded under the FEIE. IRS rules specifically disallow claiming a FTC on income that has been excluded under the FEIE ; if this were permitted, an individual would gain a double benefit for the same foreign income. If the allowable FTC exceeds the individual's U.S. tax liability for a given year, then such excess is carried back one year and carried forward 10 years. Although conceptually straightforward, the FTC on a U.S. tax return becomes complicated due to rules relating to allocation and apportionment of deductions, separation of foreign taxes into different "buckets," foreign currency translation rules, and different accounting methods available for claiming the credit.

In general, claiming the FTC is less stringent than claiming the FEIE. As a result, an individual who is not eligible to claim the FEIE may still be eligible for the FTC as a means to reduce double taxation. The complex interactions that govern the calculation of an individual's U.S. income tax liability sometimes yield unexpected results. Although some individuals may consider the FEIE preferable, as it is an exclusion from income, there are instances where claiming the FTC only is preferable to claiming the FEIE (or a combination of the FEIE and FTC). A common example is in high-tax jurisdictions—although the current year tax benefit of the FTC and FEIE may be equal, claiming the FTC only may yield a higher FTC carryover, which can reduce tax in future years. Further, claiming the FEIE is more administratively burdensome as compared to claiming the FTC; it may be easier to simply claim the FTC when the tax benefit under both scenarios is relatively equal. For this reason, it is suggested that an individual or tax preparer perform a foreign tax optimization calculation each year to determine which method or combination of methods produces the best result.

The FEIE and the FTC are the primary drivers of reducing double taxation for U.S. citizens working abroad. Certain situations also permit invoking specific provisions within an income tax treaty between the U.S. and a foreign country. Such provisions may provide a means of reducing double taxation in the event the domestic laws of both countries do not resolve the matter on their own. The language in these treaties varies by country; as a result, it is critical to interpret each article individually to ensure it applies to an individual's specific facts and circumstances.

Expatriation Tax

The expatriation tax applies to U.S. citizens who renounce their citizenship and U.S. long-term green card holders who surrender their green cards. This tax should not be confused with the FEIE and FTC discussed in the preceding sections, which deals with U.S. individuals who are working abroad and who retain their citizenship or green cards. The expatriation tax is an alternative tax regime that is imposed under I.R.C. §§ 877 or 877A, depending on the date of renunciation. The specifics of this tax are well beyond the scope of this article, but it generally aims to tax U.S.-source income of individuals for a defined period after renouncement of citizenship. The rationale for such a tax is that an individual could avoid U.S. income tax on appreciated assets—such as securities or real property—by renouncing citizenship prior to recognizing the gains on such assets.

Not all individuals who renounce citizenship are subject to the expatriation tax; certain thresholds must be met for an individual to be considered a "covered expatriate." Nonetheless, individuals who renounce citizenship and who surrender their green card should complete Form 8854 for the relevant tax year.

Taxpayer Compliance and Other Issues

The issues discussed above are just the tip of the iceberg in terms of compliance for individuals who file a U.S. tax return while working abroad. Other issues arise that contribute to the cost of compliance; examples include difficulty in obtaining official documentation from foreign institutions or governments, and difficulty in accessing records that are located in an individual's home country. Standardized reporting of information exists for many U.S. tax records (Form W-2, 1099s, etc.) but such reporting does not exist for many non-U.S. institutions. As a result, there is a belief that some individuals with investments outside the U.S. are hiding or not reporting income from these investments. The IRS has implemented several measures to try to curb or remedy this activity, such as mandatory reporting of foreign bank accounts and assets and expansion of its offshore voluntary disclosure program.

All of the issues discussed thus far pertain to U.S. citizens working abroad. However, as the global economy expands and workforces become increasingly mobile, it would not be surprising to see other countries enact similar measures or to shift from a territorial tax system to a worldwide tax system for its citizens. Further, nations that are mired in economic recession or stagnation may seek additional ways to raise revenue to support domestic operations or reverse budget deficits. Although convergence of tax information reporting among countries is unlikely in the near future, today's global economic factors may begin to create a shift in that direction. εα

CITATIONS

[1] http://www.irs.gov/pub/tas/08_tas_arc_msp_1.pdf. The number of words referenced in this study only considers the Internal Revenue Code and does not consider the number of words in income tax regulations, rulings, and so on.

[2] Treas. Reg. §1.1-1(b). For example, under a worldwide tax system all of the following are considered income to a U.S. citizen, residing outside the US: wages earned in the country of residence, interest income earned from a bank in France, gains from sale of a call option in Switzerland, or rents earned from a property held in Australia.

[3] Note this is procedurally different from exempt income (such as municipal bond interest), which is not reported on an individual's income tax return.

[45] The actual definition of foreign earned income with respect to this section is considerably more complex. In addition, separate rules apply to income earned from U.S. territories, such as Puerto Rico or Guam.

[6] This amount is indexed for inflation annually.

[7] Internal Revenue Code (I.R.C.) §§ 911(d)(1), 911(d)(1)(A), and 911(d)(1)(B)

[8] The term "tax home" is an important concept in U.S. tax law that can be difficult to define. However, it is generally interpreted as an individual's regular or principal place of business.

[9] I.R.C. §§ 911(a) and 911(e)(1) The FEIE can be involuntarily revoked by the IRS, though it's most commonly a voluntary revocation by the individual.

[10] I.R.C. § 911(e)(2)

[11] Example provided from the Conference Report to the Tax Increase Prevention and Reconciliation Act of 2005 (S. Conf. Rep. 109-455).

[12] I.R.C. § 901(b). A possession of the U.S. for this purpose is one of the unincorporated, organized territories (Guam, Puerto Rico, etc.)

[13] I.R.C. § 164(a)(3)

[14] I.R.C. § 911(d)(6)

[15] I.R.C. § 904(c)

[16] A current list of treaties can be found here: http://www.irs.gov/Businesses/International-Businesses/United-States-Income-Tax-Treaties---A-to-Z

[17] These thresholds are provided in I.R.C. §§ 877 and 877A.

[18] Certain individuals are now required to disclose their non-U.S. financial holdings on both Form TDF 90-22.1 ("FBAR") and Form 8938 ("FATCA") provided they meet certain requirements.

Faculty Profile: William 'bill' Ramirez

by Isaac Park

William "Bill" Ramirez is a professor at Portland State University who teaches Fundamentals of Financial Accounting, Introduction to Taxation, and Advanced Taxation. He acquired his LLM in Taxation at De Paul University, his JD (with distinction) at the University of Iowa, and his BBA (with honors) as an accounting major at Texas Tech University. After several years of working domestically, Ramirez worked with Levi Strauss and later joined Philip Morris.

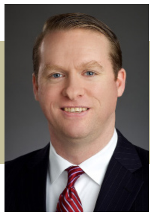
His time with these two companies add up to 20 years of working internationally. His time abroad was spent coordinating tax strategy, educating foreign tax authorities on western tax practices, being a founder of the European and Asian chapters of Tax Executives Institute, and accumulating experience and new perspectives on how to do business. Ramirez worked in 8 cities, 4 countries, and 3 continents during his time with Levi Strauss and Philip Morris. His projects included acquisition and expansion strategies for tobacco monopolies in Portugal, facilitating advance pricing agreements between Japan and Switzerland, and serving as a business liaison to various governments and tax authorities.

Ramirez first worked abroad with Levi Strauss in Brussels, Belgium as a tax director. It was during this time that he won an award for tax-motivated restructuring that resulted in substantial savings. He further showcased his value with his work to eliminate transfer pricing exposure between the U.S. and Belgium, his coordinating of tax strategy for expansion into Eastern Europe and Turkey, and his managing of tax audits of European affiliates to make the application of pricing policies more consistent. Ramirez started working with Philip Morris International on their European Tax Counsel, directing their tax strategy in Central and Eastern Europe. His work integrating direct tax considerations into a customs driven project in the Middle East won him the Philip Morris International President's award for increasing revenues without increasing duties.

Ramirez was also involved with international business through the Tax Executives Institute (TEI), an organization that emphasizes the sharing of expertise between its members. When a colleague approached Ramirez saying that they had many associates in Europe and no TEI branch, Ramirez took the initiative and became a founding member, board chairman, and recruitment executive. Ramirez spent a year emailing tax lawyers, going to functions, and finding companies to host their meetings. As membership chair, the European chapter increased from 45 members to over 200 members. The value of this network of tax professionals was realized when instead of hiring a corporate tax professional to provide input (at a per hour fee), a member could instead reach out to a fellow member for their input in exchange for being available when the same was needed of them. The benefits were not limited to TEI and the tax professionals; firms also benefitted from having more potential clients gather regularly before them. Ramirez repeated this process (with similar success) when he lived in Hong Kong.

In addition to the time spent teaching, Ramirez volunteers at the Oregon Zoo and the Oregon Humane Society. He maintains membership in TEI, the International Fiscal Association, the American Bar Association Section of Taxation, and a Rotary club based in Lake Oswego. Ramirez continues to keep in touch with associates around the world; he still holds great interest in the economic future of China, Singapore, India and Brazil and would continue to pursue involvement in China's development if given the opportunity.

Ramirez stresses the importance of considering the global influences and, for tax professionals, stressed the importance of the Organization for Economic Co-operation and Development (OECD). Based in Paris and composed of the leading industrial nations, the OECD is responding to aggressive tax planning by updating international tax concepts, e.g. the rules surrounding transfer pricing and inversions. Ramirez pointed out that these changes should be on the minds of every tax professional; international laws are becoming more complex, and one must be continually learning. Learning, then, is a process that doesn't end with Ramirez's classroom, but continues throughout one's professional life. εα



Foreign Artists and US Taxation

by Conor Ferguson *Professional Review by Angela Woodward, CPA and Glenn Frank, CPA*

What do Bjork, Coldplay, and Nick Cave have in common? They are all musical artists who have extensively toured the United States, but are originally from other countries. While recording artists have seen their income from record sales decline, performing is an important aspect of their careers which has remained relatively lucrative. As an article in Forbes points out, "Performers frequently moan about never seeing a royalty check from their record label, no matter how many discs they sell. But a top concert draw can take home 35 percent of the night's gate and up to 50 percent of the dollar flow from merchandise sold at the show."[1] However, before making the trek to the U.S., artists from abroad should consider the multiple facets of foreign artist taxation.

It may seem like an obscure topic, but knowledge of foreign artist taxation actually served a practical purpose for me. Six months ago, I received a Facebook message from a musician I have seen in concert many times. Since I have not yet received his consent to be mentioned by name in this article as of publication time, I will refer to him simply as Mike. Mike's trouble was that while he had been touring the United States, playing music from coast to coast, his booking agent was withholding a significant share of the proceeds in order to satisfy his expected tax liability. After the tour was finished, Mike returned to his home in Germany without any idea on what steps he needed to take to retrieve least part of what was owed to him.

Withholding Requirement & the Central Withholding Agreement

In general, anyone earning income by playing music in the United States must pay tax on that income. In order to ensure that nonresident artists pay this tax, the venues, promoters, and anyone else who pays the foreign artist for their services (also known as withholding agents), are required to withhold 30% of the gross income paid to that artist so that it may be put toward the artist's tax liability.[2] For example, if the artist's portion of the ticket revenue came to $100,000, the withholding agent would be required to withhold $30,000.

As an alternative to this 30% withholding requirement, foreign artists have the option to enter into a Central Withholding Agreement (CWA) with the IRS. Under a CWA, the artist, the withholding agent (frequently a CPA), and the IRS work together to determine an estimate of the actual taxes the artist will owe after the U.S. tour is complete. This estimate is based on contracts and other agreements the artist has established with promoters, venues, and sponsors, as well as estimated expense budgets. Once the IRS is satisfied with the agreement, the artist and withholding agent sign it, and the figure becomes the new basis for withholding.[3]

The CWA has an advantage for the artists in that it does not require large amounts of money to be tied up in withholding. For example, if Mike's estimated actual tax for the tour is estimated to be 25% of the gross receipts, then only that 25% would be withheld by the withholding agent after every engagement, leaving an extra 5%, or $5,000, in Mike's pocket at the end of the tour. Another advantage of the CWA is that all of the information required to file the taxes for the artist is at the fingertips of the withholding agent. Instead of having to go through intermediaries to gather information about how much was withheld, all of the numbers are at one centralized location, making it easier to file Mike's return in a timely manner.[4]

While the Central Withholding Agreement is advantageous in that it can free up extra cash for the artist while they are on tour, there are also two important factors to consider before deciding to enter into one. The first is a matter of timing; CWA requests must be received by the IRS no fewer than 45 days before the first scheduled engagement covered. If this deadline is not met, then the artist will be subject to the standard 30% withholding.[3] The other factor is that the artist must pay the withholding agent, normally a CPA, to meet with the IRS in order to establish the CWA. Unless an artist earns enough so that the benefit of hiring the withholding agent outweighs the cost, he or she will want to forgo the CWA and stick with the standard 30% withholding requirement.

Residency

While it may seem that an artist would want to establish residency in the United States in order to avoid having to deal with withholdings all together, in fact the opposite is true. Establishing residency would not be desirable since the U.S. taxes its residents on their worldwide income, meaning that a musician would be required to report any income earned outside of the United States as well as that which is earned within its borders.[5] On the other hand, these nonresident artists are taxed only on the income they earn while performing within the U.S. For someone like Mike, who can tour extensively in Europe and Canada, establishing residency in the States would increase the complexity of his U.S. tax return, and the amount of taxes owed to the IRS.

In order to qualify as a United States resident, an individual must pass one of two tests for the calendar year. The first of these is the green card test, which specifies, "If at any time during the calendar year you were a lawful permanent resident of the United States according to the immigration laws, and this status has not been rescinded or administratively or judicially determined to have been abandoned, you are considered to have met the green card test." The second test, referred to as the substantial presence test, requires a bit more calculating. Generally, an individual satisfies the substantial presence test if they have been physically present in the United States for 31 days during the current year and for 183 days during the three-year period that includes the current year and the two years immediately before. According to the IRS, in order to satisfy the 183 days requirement, the individual must count:

- *All of the days they were present in the current year, and*
- *One-third of the days they were present in the first year before the current year, and*
- *One-sixth of the days they were present in the second year before the current year.*[5]

For example, if the artist had spent 32 days in the United States this year, 120 last year, and 180 the year before, they would not meet the second requirement. This is due to the substantial presence test, because they would have only been in the U.S. for 102 days in the previous three years (32 days during the current year, 40 days the previous year, and 30 days the year before that). Consequently, in order to avoid the unattractive possibility of owing a greater tax liability by becoming a U.S. resident, Mike would want to keep track of how many days he spends in the United States, in order to avoid an unwanted resident alien status.

After status as a nonresident has been confirmed, the artist, along with the withholding agent, should research any applicable tax treaties that may exist between the United States and the artist's country of residence. The United States has tax treaties with many different countries, which could cause the artist to be taxed at a lower rate or to be entirely exempt from tax on certain items of income they earn while in the United States.

Using Germany as an example, IRS Publication 901 specifies that "Income residents of Germany receive as public entertainers (such as theater, motion picture, radio, or television artists, or musicians) or athletes is subject to U.S. tax if their gross receipts, including reimbursed expenses, from their entertainment activities in the United States are more than $20,000 during the calendar year."[6] With Mike a German resident, he would not have to pay tax on any income earned for performing in the U.S., as long as it did not exceed this $20,000 threshold. The effects of tax treaties vary from country to country, so artists would be wise to investigate if any exist for their own country of residence.

Filing & The Refund Process

Regardless if any treaties exist or not, all foreign artists need to fulfill two requirements in order to obtain their refund: obtain a Social Security number (SSN) or individual tax identification number (ITIN) and complete a form 1040NR with attached Schedule C. The process of obtaining a Social Security number is simpler than one might think and is necessary in order for a foreign artist to file their U.S. tax return. To apply, the artist makes a personal visit to a Social Security Administration (SSA) office, of which there are 1,230 nationwide. If, for whatever reason, the artist is denied an SSN, he or she may then apply for an ITIN through the IRS.

After the artist has obtained an SSN or ITIN, and received documentation from their withholding agent(s) specifying how much federal income tax has been withheld, he or she may file their federal tax return. Because Mike is considered a nonresident alien, he must fill out a form 1040NR, which is the U.S. Nonresident Alien Income Tax Return. Completing the 1040NR is similar to the 1040 U.S. Individual Income Tax Return, with a line for "Business income or (loss)" that should be accompanied by a Schedule C form.

Going back to the Mike's example, let us say he performed for 10 nights and earned $10,000 each night for a total of $100,000. After filling in all of his identifying information (including his SSN/ITIN), his filing status, and exemptions, Mike would begin his return by filling out section C. For the sake of simplicity, we will assume that Mike's only source of income is generated by ticket revenue, so in Part 1, Line 1, he would enter his $100,000. As there are no costs of goods sold, the $100,000 can be brought directly down to "Gross Income" on line 7.

Mike should then enter his expenses in Part 2 of his Schedule C, which will most likely include travel, meals, the fees paid to his booking agent, and possibly other costs. Once he has finished entering in all of these expenses, the total should be summed up on line 28. This amount should be deducted from line 7 to arrive at the "tentative profit" on line 29. We can also move this amount from line 29 straight down to line 31 "Net profit or (loss)," which is the amount that should be recorded in line 13 of the form 1040NR for "Business income or (loss)."

The withholding agent should provide the artist with information regarding the amount of withheld for tax purposes for the year. In the case of Mike, this will most likely be supplied in box 9 of the form 1042-S. This amount should be recorded in the "Payments" section of the 1040NR on line 61(d). If no other federal income tax was withheld, this amount can be transferred directly to line 69 for "Total payments." Should the total amount of federal tax withheld be greater than the total tax owed, Mike would be entitled to a refund for the difference. Assuming that Mike had a total tax liability of $25,000, but had $30,000 (30% of $100,000) withheld, he would be entitled to a refund of $5,000.

Tax treatment of foreign artists is highly specific and dependent on a multitude of different factors including, but not limited to, the artist's residence status, any treaties that exist between the U.S. and the artist's country of residence, and whether or not the artist has a Central Withholding Agreement with the IRS. Thus, Bono will have different considerations than Elton John. As for Mike, he is still touring relentlessly and ever mindful of spending too many days per year in the States. And thanks to the assistance of the two tax professionals that helped me write this article, he will now know how to file his return when he gets back to Germany. εα

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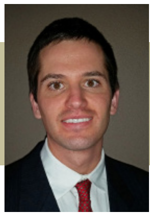

The Income Tax: A History

by Eric McInnis

Every year, we file our taxes whether we like to or not. A lot of people think that taxes are too high, while others think that they're low. From a historical perspective, both sides would be right. The United States has experienced tax rates throughout its history between 1 and 94% . How does the rest of the world compare?

With the diversity of cultures and economies, it is not surprising that there are differences between tax systems around the world. Some countries rely heavily on government services, therefore higher tax rates would be expected, as seen in Europe. Amongst members of the Organization for Economic Co-operation and Development (OECD), most European countries pay more taxes than the U.S. as a percentage of GDP . Japan, Korea, and Australia fall closer to the U.S. side of the spectrum with less than 30% of GDP devoted to taxes .

In the United Kingdom, prior to 1965, businesses were taxed in the same manner as individuals, progressively in different brackets. However, the Finance Act of 1965 segregated businesses from individuals, leaving companies taxed at a flat rate of 15 percent, while leaving individuals on a progressive system . Today, the tax system is still very similar, with the exception that companies are taxed differently depending on the source . Petroleum companies, such as BP and Shell, receive special treatment and are segregated from other corporations and businesses. They have their own rates and are taxed at 50% for operations in fields developed prior to 1993. However, the UK government has stated that it intends to reduce this rate to 20% in future years.

Prior to 1913, there was no permanent income tax in the United States. As sources of revenue, the United States government and each state relied on excise taxes, property taxes, and tariffs . However, there was a temporary income tax to fund the Civil War . Several states and the national government tried to impose income taxes before 1909, yet the Supreme Court found it unconstitutional. The landmark case, Pollock v Farmers' Loan and Trust Co. (1895) confirmed that a direct tax on portfolio income (real estate, stocks, bonds, etc.) violated Article I, Section IX of the Constitution. For a direct tax to be constitutional, the federal government would have to calculate the amount it wanted to raise, apportion a share to each state based on its number of Representatives in the US House, and then leave it to each state to collect its share . By 1913, the 16th Amendment of the Constitution amended the first part of Article I, Section IX to allow an income tax. The marginal rates were divided into seven progressive tax brackets in one tax class ranging between 1% and 7% on income over $500,000 .

US corporate taxes followed a similar history of variation. In 1909, Congress passed the Corporation Tax Act, which imposed a one percent income tax on corporations and led to further acceptance of taxing income. From 1936 to 1949, all corporate income was taxed at four different levels, ranging from 8% to 53%. From 1950 to 1974, there were two different corporate tax rates, which ranged between 12% and 50.2%. From 1975 to today, there have been three to eight different tax brackets for businesses, with rates varying from 15% to 51% .

Things are a little different when you compare taxes of first-world countries and emerging markets. Take India as an example. In the year of its independence from the British Empire, the Indian government enacted its first direct tax on businesses, as it had previously relied on taxes from its citizens as forms of revenue, in addition to excise taxes . This retroactive piece of legislation was a way of the government collecting from the rare profits as a result of World War II. Prior to 1947 the Indian government, under British rule, made shareholders and owners of businesses liable for taxes as high as 50%. This was mainly because of a shortfall of revenue that began in 1916 as a result of World War I . As of today, corporations in India pay a flat tax of 30%, plus an additional 15% if it's an Indian subsidiary of a foreign company.

The Income Tax continued

When comparing taxes throughout the history of the United States, it has varied in percentages for both the individual and for corporations. This historical variation can be found in the United Kingdom, or in developing nations. No matter how taxes grow or shrink throughout history, one thing is certain: we will always be paying taxes no matter where in the world we are. εα

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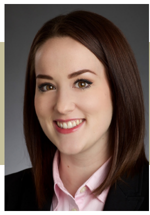

Book Review: *Double-Entry*

by Sarah Dunbar

They say you have to know where you came from to know where you're going. For accounting students, understanding the historical background of how our profession came to be may not sound like the most thrilling use of our free time. However, Jane Gleeson-White makes it worthwhile. In *Double Entry: How the Merchants of Venice Created Modern Finance*, Gleeson-White takes the reader on a journey through time and financial statements. She seamlessly connects the use of writing by ancient civilizations as a means of quantifying the world around them through the lively merchant-filled streets of Venice to the future of accounting for our environmental impact on the world.

It is important to note that Gleeson-White never set out to write a book chronicling the history of double-entry accounting and its creator, Luca Pacioli. Coming from a background of economics and art history, she set out to investigate the relationship between the two and "the wealth that made the art possible." Through her research, she fell into the evolution of mercantilism in Northern Italy during the eleventh century, where bookkeeping alla viniziana (the Venetian Method, now known as double-entry accounting) was born. Though this method is attributed to Venice, it is impossible to ignore the immense impact made by the contribution of the Hindu-Arabic numerals (0-9) which enabled mathematicians and merchants to complete complex calculations without the use of the abacus. Gleeson-White also ties the rise of double-entry accounting to the rise of capitalism, as accounting allowed merchants to determine their profit or loss in a systematic way for the first time.

Though conceived by Pacioli, a mathematician and merchant who was at one time more famous than Leonardo da Vinci, the system of double-entry accounting has continued to evolve and grow throughout history. This sometimes comes with negative consequences, as is the case of the infamous Enron/Arthur Anderson scandal. Gleeson-White spends some time discussing the rise of the accounting profession and her assumption that it was declining due to the number of corporate accounting scandals in the last century. Though she may have historical context, I personally can't help but feel protective of our profession during her discussion of how there is "something fundamentally wrong" with the current financial reporting not presenting a "reliable picture of corporate wealth and progress." It is directly after this dismissal of the current state of the profession that she transitions into our critical role going into the new era of sustainability reporting.

After guiding the reader through the history of how our current system came to be, , Gleeson-White uses the last chapter, entitled "How Accounting Could Make or Break the Planet", to discuss the measurement of Gross Domestic Product (GDP) and how the accounting of that number fails to include one of the biggest assets we have: our natural environment. She argues that the recent popularity of corporate social responsibility initiatives and focus on sustainability has failed to bring along with it an accepted set of standards for accounting for the costs of using natural resources as productive assets. Gleeson-White uses this as an opportunity to challenge the profession to find a way to ensure these resources are being accounted for properly in a way that shows the true health of the entity, as we would show the financial health of any organization.

It speaks volumes to me that Gleeson-White, a non-accounting nerd (as I am); found this history to be so impactful thati she felt the need to share it with the world. She outlines four reasons why she now believes the rise and evolution of double-entry accounting is important for everyone to know: First, it "made possible the wealth and cultural efflorescence that was the Renaissance" ; second, it enabled capitalism to develop and thrive internationally; third, it grew from Medieval artefact to a sophisticated system in which the twenty-first century governs the global economy; and fourth, accounting has the potential to affect real change within our environmental issues.

Double Entry continued

There is a quote from the introduction by Guardian Journalist Jonathan Watts that inspires me every day to step out of my Excel spreadsheets and to realize the impact we can have on our world through the work we do:

> *"So it has come to this. The global biodiversity crisis is so severe that brilliant scientists, political leaders, eco-warriors, and religious gurus can no longer save us from ourselves. The military are powerless. But there may be one last hope for life on earth: accountants."*

Through new sustainability reporting frameworks and standards (see sidebar for more details), the accounting profession can once again impact the direction of business and capitalism all over the world – and this time, help save it. εα

Sustainability Reporting Frameworks and Standards

While many countries and companies have specific sustainability and environmental accounting criteria, here is a quick summary of the most popular sustainability reporting frameworks & standards globally.

Global Reporting Initiative (GRI). GRI's mission is to make sustainability reporting standard practice for all companies and organizations. They have created the most popular sustainability reporting framework in the world. GRI also enjoys strategic partnerships with the United Nations Environment Programme, the UN Global Compact, the Organisation for Economic Co-operation and Development, the International Organization for Standardization, and others. See more at https://www.globalreporting.org/

Sustainability Accounting Standards Board (SASB). The mission of SASB is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors. SASB standards are designed for the disclosure of material sustainability issues in mandatory SEC filings, such as the Form 10-K and 20-F. See more at http://www.sasb.org/

International Integrated Reporting Council (IIRC). Created the Integrated Reporting <IR> framework. Business and investors from over 25 countries are pioneers in the work of the IIRC and have contributed to the development of the International <IR> Framework. The <IR> Framework focuses on value creation and measurement by a variety of metrics, including environmental issues. See more at http://www.theiirc.org/

Carbon Disclosure Project (CDP). CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP has a climate change program, water program, supply chain program, forests program, and cities program. See more at https://www.cdp.net/