

BASIC INFORMATION ABOUT INCOME TAX
for
INTERNATIONAL STUDENTS AND SCHOLARS
at
THE UNIVERSITY OF TENNESSEE, KNOXVILLE

Overview: There are several different kinds of tax in the U.S.:

Sales Tax: In Knoxville, this is approximately 9.25 % (less on groceries); maybe slightly higher in Oak Ridge and some other towns; international students and scholars are not exempt from sales tax; it will not be refunded!

State Income Tax: Most people do not have to pay in Tennessee (only on income from stock dividends, most mutual funds, etc.).

Social Security Tax (FICA and Medicare): Approximately 7.5% ; automatically deducted from salary. **Non-resident** F-1/J-1 students & scholars do not have to pay; most others, such as H-1B workers and J-2 dependents, must pay. When you become a tax resident, you will pay Social Security Tax unless exempt under another rule. [Full time students are sometimes exempt from paying these taxes, even when tax residents.]

U.S. Income Tax: This must normally be paid by any international student or scholar who has income from a U.S. source. Students/scholars who are considered "Residents for Tax Purposes" (see below) will also be taxed on income that comes from outside the U.S. In 2015, \$4000 of income will be exempt from tax. (This "exemption" usually increases each year) "Income" normally includes salary, scholarship, income from mutual funds, etc. For Tax Non-residents, it does not include bank interest or money received from outside the U.S. A tax treaty may reduce or eliminate the amount of income tax owed (See below)

Tax Resident or Non-resident? Most F-1 and J-1 international students (and their dependents) are considered "Non-residents for Tax Purposes" for the first 4-5 years in the U.S. Most J-1 scholars and interns (and their dependents) are considered "Non-residents" for the first 1-2 years in the U.S. (See information on the CIE website or an advisor at the Center for International Education to determine whether you are a Tax Resident or Non-resident.)

- Non-residents pay tax only on income that comes from U.S. sources.
- Non-residents usually may not claim "exemptions" for dependents (except persons from Canada, Mexico, and Korea, and some students from India). [An "exemption" reduces the amount of your income that is taxed.]
- In most cases, non-residents are allowed fewer **deductions** than residents, and may not take the "Standard Deduction". [A "deduction", different from an "exemption", also reduces the taxable income. "Standard Deduction" for 2015 is \$6300 for a single person.]
- Non-residents do not pay tax on bank interest, but they may pay up to 30% tax on other "unearned income" (such as mutual funds or stock dividends).
- Residents may claim an exemption for each dependent (if the dependent is also a tax resident) and must normally pay tax on all (world-wide) income.
- Residents must also pay Social Security Tax (FICA and Medicare), unless exempt under another provision of tax law.
- If you work for UT, the UT Payroll Office should calculate whether you are a Tax Resident or Non-resident before you are paid. If you believe they have calculated this wrong, contact the Payroll Office in P115 Andy Holt Tower or contact CIE. If you believe you are a Tax Resident, you should complete a Form W-9 and submit to the Payroll Office.

Tax treaties: Students/Scholars may be exempt from all or part of U.S. Income Tax based on a tax treaty. See the last page of this handout for a list of countries which have signed tax treaties with the U.S. For a summary of the tax treaty, see the IRS Publication 901 at www.irs.gov . Portions of the actual tax treaties are available on the following website: <http://www.windstar.com>.

Or go to <http://www.irs.gov/Businesses/International-Businesses/United-States-Income-Tax-Treaties---A-to-Z> for the full text of a treaty. It is important to verify the details of a tax treaty carefully before claiming any benefits. Treaties are all different, and you may not qualify for the benefits of a treaty. Warning: Some treaties are retroactively invalid if you stay too long in the U.S. (That is, you must pay tax for *entire* visit)

Important: The tax treaty you may use is based on your last country of residence, and not your citizenship. You must have been living in that country for one year immediately before obtaining your current immigration status.

If you wish to have no money or less money withheld from your salary because you are eligible for tax treaty benefits, you must complete a Form 8233 when you begin employment and again, once a year. If you are a UT employee, this form may be obtained in the Payroll Office at P115 Andy Holt Tower; it may also be available in the department where you are working or from the IRS website. [Note: You must have a Social Security Number or ITIN before you complete a Form 8233.] If you do not fill out Form 8233, but are still eligible for treaty benefits, you may claim these benefits when you file your Tax Return. To complete Form 8233, you will need to know the article number of the treaty you are using; this information is available in IRS Pub. 901. Note: Tax residents who are still claiming treaty benefits will be asked to complete a different form, available in the UT Payroll Office.

Completing the W-4 form: When a person is first hired, he/she is asked to complete a **W-4 Form**. This is used to calculate how much income will be taken out of each paycheck for U.S. income tax. (This is called "**withholding**"). On the W-4, one must indicate how many "exemptions" one is claiming. International students/scholars who are considered "non-residents for tax purposes" should normally claim **one exemption**. They should also write "**NRA**" on the W-4 (for "Non-resident Alien") Students [*not scholars*] from India should write "**NRA-India**". [Residents of Canada, Mexico, and Korea may claim an exemption for each eligible dependent. Students (not scholars) from **India** may normally claim an exemption for a spouse, if the spouse has no U.S. income, plus an exemption for any U.S. Citizen child.] Non-residents should all check "single" on the W-4, even if they are married. **See separate handout on the W-4.**

Form W-2 or 1042-S: In late January, UT Payroll and any other U.S. employer will send you a Form W-2 and/or Form 1042-S to report your total income for the previous year, as well as the total tax that has been withheld. Keep these forms in a safe place, as they must be submitted with your Tax Return.

Filing the Annual Tax return: If you are a tax non-resident, and your total U.S. salary for a calendar year is more than the personal exemption (\$4000 for 2015), or if you have any non-salary income (not bank interest) you must file a "Tax Return" between Jan. 1 and April 15 of the following year*. This tax return is a report of all income received in the previous calendar year (January - December). **[Note: even if you are exempt from paying tax based on a treaty, you must still file a tax return if you had U.S. source income as described above.]** At that time, the exact income tax owed will be calculated. If too much tax has been paid, the difference is refunded; if not enough, it is paid with the Tax Return. [Note: if your income was less than the exemption amount, you must still file a tax return if you want to get a refund of tax which was withheld.] Those persons who are considered "Non-residents" must use different forms from those used by Residents. IRS forms are available from the IRS website (www.irs.gov). Non-residents should NOT use the tax forms available for U.S. residents. **All [or most] Tax Non-residents with F and J status, including dependents, must also file a Form 8843 with the IRS each year, even if they had no U.S. income.** (*If you have no salary, you must file before June 15)

Software program: Unfortunately, CIE advisors are not able to do personal tax advising, but information materials are available on the CIE website at <http://international.utk.edu/tax-information/> (Look for "Handouts"). **It may also be possible for Tax Non-residents to use a software program ["GLACIER TAX PREP" or "GTP"] to file your tax return.** Inquire with the Center for International Education during tax filing season to see if this program is available for UT students and scholars. Tax Residents may use other software programs, but they will probably not calculate tax treaty benefits.

If you've gone home: After you go home, you will probably need to file a U.S. tax return for the previous year. Before you leave the U.S., notify UT Payroll Office (and any other employer you had in the U.S.) of your address in your home country so they can mail your W-2/1042-S. You can download IRS forms from the IRS website listed below. Or use the software program mentioned above. (You can e-mail a CIE Advisor to get a password for the software program, if you have left UT and no longer have access to your e-mail account). If you were a Tax Resident before you leave, see IRS Publication 519 for information about a "Dual-status Tax Year".

Contacting the IRS: The Internal Revenue Service (IRS) is responsible for collecting U.S. taxes. They have an office in the Duncan Federal Building at 710 Locust St., Knoxville. The IRS toll-free number for tax information is **(800) 829-1040**. (Ask to speak to the non-resident specialist). If you have unusual problems with the IRS, contact the Taxpayer Advocate at **(877) 777-4778**.

IRS Website: General information is available at www.irs.gov. Tax forms and IRS publications are available at <http://www.irs.gov/formspubs>. You can also check on the status of your tax refund on the IRS website.

Social Security Number/ITIN: All persons who will be employed in the U.S. must apply for a **Social Security Number (SSN)**. Any person not eligible to work (such as F-2 dependents) may not obtain an SSN. (Students must normally have a job offer to be eligible for an SSN) If you are not eligible for an SSN, but will still file a tax return, you should apply for an **Individual Taxpayer Identification Number (ITIN)** when you file your first tax return. CIE will provide information about this procedure at Tax Return time (If you are able to claim your dependents on your tax return, you should also have them apply for an ITIN when you file the first tax return that includes them.) Remember your SSN or ITIN, as it may be used for any year in the future.

Questions? If you still have tax questions after reading this handout, we suggest that you read IRS Publication 519. If you have questions about Form 8233, tax treaties or about the amount of tax withheld from your UT paycheck, **contact Laura Tavassoli in the UT Payroll Office at P115, Andy Holt Tower (974-5251)**. Although Advisors in the Center for International Education are not able to give individual tax assistance, we can help you calculate your tax residency status if you have a complicated immigration history.

COUNTRIES WHICH HAVE SIGNED TAX TREATIES WITH THE U.S.

NOTE: See IRS Publication 901 for details on Tax Treaties

Australia	Iceland	Poland
Austria	India	Portugal
Bangladesh	Indonesia	Romania
Barbados	Ireland	Russia
Belgium	Israel	Slovak Republic
Bulgaria	Italy	Slovenia
Canada	Jamaica	South Africa
China (PRC)	Japan	South Korea
Commonwealth of Independent States (former USSR residents)*	Kazakhstan	Spain
Cyprus	Latvia	Sri Lanka
Czech Republic	Lithuania	Sweden
Denmark	Luxembourg	Switzerland
Egypt	Malta	Thailand
Estonia	Mexico	Trinidad & Tobago
Finland	Morocco	Tunisia
France	Netherlands	Turkey
Germany	New Zealand	Ukraine
Greece	Norway	United Kingdom
Hungary	Pakistan	Venezuela
	Philippines	

*Persons from the Commonwealth of Independent States (former USSR) may use the Soviet Union treaty until a new treaty has been signed for their countries. As there are treaties with Russia, Kazakhstan, Estonia, Latvia, Lithuania, and Ukraine, residents of those countries may not use the USSR (CIS) treaty.

SUMMARY OF TAX FORMS COMPLETED OR RECEIVED BY TAX NON-RESIDENTS (TAX RESIDENTS WILL COMPLETE DIFFERENT FORMS)

<u>Time</u>	<u>Form(s)</u>
When you first arrive in the U.S.	Complete or SS-5 (if eligible for Social Security Number) Note: Normally, only persons eligible to work in the U.S. may apply for Social Security Numbers. F-1 students must have a job offer and a letter from CIE before applying. J-1 students require a work permission letter from the sponsor.
When you begin a new job	Complete Form W-4 Provided by your employer; helps the employer calculate how much tax to withhold from your salary; give back to your employer Complete Form 8233 (only if you are using a tax treaty) Give to your employer; employer will send form to IRS for permission to claim treaty benefits; new form must be completed each year ; requires Social Security Number or ITIN
Late January/early February	Receive Form W-2 or 1042-S Employer gives you this form to give you a record of the total amount earned and total tax withheld in previous year; keep form until you do your tax return. Before leaving Knoxville or the U.S., give your employer your new address so you will receive this form.
Before April 15	Complete Form 1040NR (or 1040NR-EZ) ("Tax Return") Report your income to the IRS and calculate your correct tax; pay additional tax if necessary; mail to IRS; must be completed by any person with U.S. source income over the amount of the personal exemption; exception: If your only U.S. income is salary below the personal exemption amount, a tax return is not required; may use GLACIER TAX PREP software to complete Complete Form 8843 Must be completed by [almost] all F and J non-residents to report non-resident status; send to IRS with Tax Return or (if no U.S. income) by itself (Must be completed by [almost] all non-resident F-2 and J-2 dependents, <i>including children</i>) Complete Form W-7 If you (or any dependents claimed on your tax return) are not eligible for a Social Security Number, you must apply for an Individual Taxpayer Identification Number (ITIN) at the time you file a tax return. Complete your tax return and consult CIE for current application procedure.

(Persons with no earned U.S. income must file Tax Returns before June 15 rather than April 15, if tax return is required.)

REMEMBER!!!! IRS Forms and publications are all available from the IRS website at www.irs.gov.]