



# Reporting Indian Income on US Tax Returns.

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# Agenda

- Who is it applicable to?
- Various different Incomes.
- Differences in taxation in India & US.
- Foreign tax credit.



# Who is it applicable to?

- US resident or US citizen or Green Card holder.
  - NRI, PIO or OCI
- What and when should I do?
  - File Income Tax (due date: Apr 15)
    - Remember: Check Schedule B Part 3 on Foreign Accounts.
  - File FBAR (due date: June 30)
    - Reporting highest balance in overseas accounts.
  - File Form 8938 (due date: Apr 15)
    - Reporting highest balance along with US tax return.
  - Pay taxes in the US
    - on your global income.
    - not just US Income.



# So who is called a US resident?

- Meets the following 2 tests.
- Green card test.
  - If you are a green card holder (or a US citizen), you are considered a US resident for tax purposes irrespective of where you actually live.
- Substantial presence test.
  - Physically present in the United States on at least 31 days during the current year.
  - & 183 days during the 3 year period that includes the current year
  - and the two years immediately before.



# Common sources of income.

- Salary.
- Contracts/Consulting Income.
- Rent.
- Capital Gains.
- Interest and dividends.
- Agricultural Income.
- and more...



# Where Salary Income is taxed?

- If US Resident but earned a part of your salary in India
  - Pay tax on your India salary in US.
  - Check if qualify for foreign earned income exclusion.
- Is the payer in India subject to deduct tax at source in India?
  - Not really.
- Salaries earned by a person who resides and works in country A (US),
  - Taxed 'only' in the country of residence, i.e., US.



## Salary (contd.)

- E.g.. US Resident working in the US.
  - Pay tax on your India salary in the US.
  - Caution: In India, various components of the salary package are taxed differently.
  - For instance, reimbursements and certain allowances are tax-free.
  - In US, there is no such distinction.
  - Any payment received from your employer is taxable.





# Contracts/Consulting Income.

- A consultant working in the US but receiving income from an Indian company
  - Pay tax on that income in the US.
  - Irrespective of whether you receive the income in a bank account in the US or in India.
  - If you work in the US and receive income from a source in India, you would owe taxes only in the US.
  - You pay taxes in the country you are resident for that year.





# Rent

- Own a property in India and have given it out on rent
  - the income from rent will be taxed in the US.
  - Rent from immovable property 'maybe' taxed in the country in which the property is situated.
  - Country property located - has first right.
- A US Resident Taxpayer
  - Pay tax on rental income in India.
  - Then declare that income while filing your US tax returns
  - Get a credit for taxes paid in India.



# Capital Gains.

- Gains you make on sale of assests
  - Investment/Physical assests - Property, Land
    - India = Long term capital ( $\geq 3$  Years). @20%
    - US = Long term capital ( $> 1$  Years) @(15% - 20%).
  - Financial Assets - Shares, Mutual Funds, ...
    - India = sold after 1 year are tax free.
    - US = if sold after 1 year tax @(15% to 20%).
  - Short term gain.
    - US - Ordinary bracket.



# Interest and Dividends.

- Interest
  - India = Taxed at ordinary tax rate.
  - US = Taxed at ordinary tax rate.
- Dividends.
  - India = Tax Free.
  - US = Taxed @(15% to 20%).



# Agricultural Income.

- Whether revenue income/ capital gain from sale of agricultural land.
  - India = Tax Free.
  - US = Taxed at US taxable income.



## Foreign tax Credit

- While foreign tax credit can be claimed in the US, there are certain limits.
- The IRS prescribes a formula in form 1116
  - which effectively indicates that foreign tax credit should be in the same proportion to the total US tax liability as foreign income is to total income.
- Please consult your CPA for details on these calculations.



# Questions?

