WEBVTT

00:00:02.895 --> 00:00:03.765

Hello everyone.

00:00:04.115 --> 00:00:05.885

Welcome to your self-study course.

00:00:06.415 --> 00:00:09.085

Thank you for choosing my CPE one as your partner

00:00:09.185 --> 00:00:10.525

for continuing education.

00:00:11.105 --> 00:00:13.925

To avail your credit certificate, it is required for you

00:00:13.945 --> 00:00:15.325

to complete the entire video.

00:00:15.705 --> 00:00:17.565

Please do not fast forward the video,

00:00:18.035 --> 00:00:20.205

otherwise the system won't be able

00:00:20.205 --> 00:00:21.485

to capture your watch time.

00:00:21.945 --> 00:00:24.525

If you cannot go through the entire video in one go,

00:00:24.865 --> 00:00:26.245

you can always come back later

00:00:26.265 --> 00:00:27.845

and pick up from where you left off.

00:00:29.265 --> 00:00:31.405

Please note that you must answer all the

00:00:31.405 --> 00:00:32.765

review questions correctly.

00:00:34.145 --> 00:00:35.965

To access the final quiz, you'll need

00:00:35.965 --> 00:00:37.245

to watch the entire video.

00:00:38.565 --> 00:00:42.325

A minimum score of 70% on the final quiz is required

00:00:42.325 --> 00:00:43.565

to earn your certificate.

00:00:43.985 --> 00:00:45.685

The handout material is available

00:00:45.825 --> 00:00:47.845

for download in the designated section.

00:00:48.505 --> 00:00:51.085

If you have any technical questions, feel free

00:00:51.085 --> 00:00:53.925

to email us at support@myccp.com. Happy

00:00:54.165 --> 00:00:56.725

Learning and thank you for choosing my C CPE one,

00:01:02.415 --> 00:01:05.205

Where we're gonna talk about the, uh, K twos

00:01:05.865 --> 00:01:07.365

and the K threes.

00:01:07.995 --> 00:01:11.365

It's comprehensive guidance as much as it can be within,

00:01:11.905 --> 00:01:15.125

you know, a, a, a 50 minute realm of discussion.

00:01:15.625 --> 00:01:18.405

But it's one of these issues where,

00:01:20.355 --> 00:01:24.745

again, I, I think partnerships, mainly the IRS is like,

00:01:25.085 --> 00:01:26.945

has totally changed how we report partnerships.

00:01:27.685 --> 00:01:28.905

And they're just saying, Hey,

00:01:28.905 --> 00:01:32.145

there's been no uniform standards.

00:01:32.695 --> 00:01:36.785

There's been no uniform way to do things,

00:01:37.325 --> 00:01:39.105

and now we need to make things uniform.

00:01:40.155 --> 00:01:41.845

Same thing on the international realm.

00:01:42.385 --> 00:01:45.365

Before most of this stuff was not standardized.

00:01:45.825 --> 00:01:47.605

All the stuff was required to be reported,

00:01:47.665 --> 00:01:49.805

but since there's no form, most of it never got reported.

00:01:49.815 --> 00:01:51.365

Think of it as like escort basis.

00:01:52.105 --> 00:01:54.965

How many people that were just regular day-to-day people

00:01:54.995 --> 00:01:56.285

were ever reporting their basis

00:01:56.495 --> 00:01:58.605

until the 72 0 3 came up, right?

00:01:59.525 --> 00:02:01.545

The same thing here with the international stuff.

00:02:01.545 --> 00:02:02.505

People weren't reporting

00:02:02.505 --> 00:02:03.585

it even though they were supposed to.

00:02:04.085 --> 00:02:05.305

And then when you did get firms

00:02:05.305 --> 00:02:07.145

that were reporting it correctly and,

00:02:07.145 --> 00:02:11.385

and reporting it, it was never done in a uniform manner.

00:02:11.815 --> 00:02:14.425

Each firm had their own way of doing things.

00:02:15.325 --> 00:02:17.825

So, you know, as we do the individual returns

00:02:17.885 --> 00:02:20.545

and we get these K ones from all these different firms

00:02:20.615 --> 00:02:23.585

that doing things their own different way, it's hard for us

00:02:23.605 --> 00:02:25.465

as practitioners to kind of pick that up

00:02:25.465 --> 00:02:27.825

and be like, oh yeah, this is how we're gonna do this.

00:02:27.825 --> 00:02:29.025

This is how we're gonna file.

00:02:29.725 --> 00:02:33.825

So it's definitely one of the things that I, I think we need

00:02:33.825 --> 00:02:34.825

to kind of focus on

00:02:35.525 --> 00:02:40.225

and we need to make sure that we, we've done correctly, um,

00:02:41.125 --> 00:02:43.305

in power picking this stuff how we need to.

00:02:44.165 --> 00:02:48.705

So our quick little agenda here, um, you know, overview,

00:02:48.985 --> 00:02:51.545

K twos, K threes, whatever they, all that stuff.

00:02:52.075 --> 00:02:55.265

Who's gonna file? We're gonna look at the K twos,

00:02:55.345 --> 00:02:58.025

K threes together, the reporting requirements.

00:02:58.215 --> 00:02:59.925

Some, maybe some common scenarios,

00:03:00.885 --> 00:03:02.005

penalties, compliance risk.

00:03:02.365 --> 00:03:05.325

Honestly, to tackle this quick here. Um, incomplete returns.

00:03:05.325 --> 00:03:08.085

Incomplete returns. We'll follow the same incomplete return,

00:03:08.305 --> 00:03:11.125

uh, per, per month, per shareholder penalties

00:03:11.125 --> 00:03:12.685

or per partner penalties that we face.

00:03:13.145 --> 00:03:14.525

If the IRS picks up on it.

00:03:15.735 --> 00:03:18.095

I haven't had the IRS pick up on these in an audit yet,

00:03:18.555 --> 00:03:19.935

um, where they weren't done.

00:03:20.115 --> 00:03:22.455

Uh, I do a lot of tax controversy work,

00:03:22.455 --> 00:03:24.855

and we have clients come to us asking for help.

00:03:24.875 --> 00:03:27.735

And, and in all the audits that I've done where

00:03:28.405 --> 00:03:31.415

it's probably at issue, the auditor hasn't picked it up yet,

00:03:31.785 --> 00:03:35.335

might just be, you know, an IRS training issue or whatnot.

00:03:35.675 --> 00:03:37.535

But that, that's what I've seen personally.

00:03:42.705 --> 00:03:45.765

All right, so 2021 was when these were introduced

00:03:46.735 --> 00:03:50.075

and when you look at it, I mean, it's daunting.

00:03:50.155 --> 00:03:53.595

I think the, the original 2021 version was like 31 pages,

00:03:53.595 --> 00:03:56.195

32 pages, uh, for the K three

00:03:56.195 --> 00:03:57.675

and a little bit shorter for the K two.

00:03:59.265 --> 00:04:00.685

And there's just so much stuff

00:04:01.265 --> 00:04:04.445

and the IRS is like, fill out all of this, do this now.

00:04:04.825 --> 00:04:07.045

And eventually practitioners, you know,

00:04:07.045 --> 00:04:08.805

practitioners almost revolted.

00:04:08.955 --> 00:04:10.645

They were like, what are you talking about?

00:04:10.645 --> 00:04:12.405

There's no way we can do this. This is crazy.

00:04:12.425 --> 00:04:16.405

This's gonna add so much cost to our compliance

00:04:16.705 --> 00:04:19.725

for these clients that have international stuff going on.

00:04:21.365 --> 00:04:25.035

So IRS kind of backtracked a little bit.

00:04:25.225 --> 00:04:27.035

They limited who's gonna have to do it.

00:04:27.265 --> 00:04:29.355

They limited some of the stuff

00:04:29.355 --> 00:04:30.995

that would get reported and things like that.

00:04:31.295 --> 00:04:33.955

Um, but overall, you know, 99% of it's stuck.

00:04:34.735 --> 00:04:36.955

Um, that first year, I would say

00:04:37.515 --> 00:04:39.475

software integration was horrible.

00:04:39.975 --> 00:04:41.755

Um, most software didn't do it.

00:04:41.755 --> 00:04:43.475

You had actually hard keyed most of the stuff.

00:04:44.055 --> 00:04:47.035

And I, I talk about the ars. Uh, same thing with the ars.

00:04:47.085 --> 00:04:48.355

Still to this day, you have

00:04:48.355 --> 00:04:50.835

to hard key things more than one time, um,

00:04:50.835 --> 00:04:52.555

when hopefully the software would pick up.

00:04:52.555 --> 00:04:54.155

That just has to have to flow through to things.

00:04:54.715 --> 00:04:56.155

K twos, K threes more like that.

00:04:56.215 --> 00:04:58.635

We are seeing it do that a little bit better now.

00:04:59.015 --> 00:05:01.355

Um, at least in like the software deck that I've been using

00:05:01.525 --> 00:05:02.875

where it's picking that stuff up.

00:05:03.535 --> 00:05:07.755

But overall, I think the software even, you know, um,

00:05:07.755 --> 00:05:10.235

testing out other software, I, I think it's kind of lacking

00:05:10.665 --> 00:05:14.515

what it needs to do in order for us to have good software

00:05:14.515 --> 00:05:17.595

to say the K 2K three is correct and being done right

00:05:17.855 --> 00:05:19.555

and being done in an efficient manner too.

00:05:19.555 --> 00:05:21.145

Right now,

00:05:21.165 --> 00:05:23.265

the K 2K three there, there's two different things.

00:05:23.505 --> 00:05:26.905

K two is gonna provide detailed breakdown for the entity

00:05:27.165 --> 00:05:30.545

and then the K three gives the partner shareholders

00:05:30.545 --> 00:05:32.345

with our information with the K one.

00:05:32.805 --> 00:05:34.505

So kind of think of it, um, you know,

00:05:34.505 --> 00:05:36.905

when we actually have like a partnership escort return,

00:05:36.905 --> 00:05:39.665

we have to schedule K right as part of the main filing.

00:05:40.245 --> 00:05:45.105

And that generates a K one, the K two is what's done

00:05:45.105 --> 00:05:47.145

with the main filing and that generates the K three.

00:05:47.375 --> 00:05:48.745

Same thing here where we're

00:05:48.745 --> 00:05:49.825

putting all the main information.

00:05:50.405 --> 00:05:52.265

The K three is then what breaks it up

00:05:52.265 --> 00:05:55.505

and goes to the individual, uh, people with the ownership.

00:05:58.095 --> 00:05:59.995

All right, so who's generally gonna file these?

00:06:00.065 --> 00:06:02.515

It's gonna be our pastor entities partnerships, scorps,

00:06:03.015 --> 00:06:04.355

if they have foreign income

00:06:04.355 --> 00:06:06.995

or deduction foreign partners, um,

00:06:07.215 --> 00:06:10.355

US partner shareholders claiming the F-T-C-F-T-C

00:06:10.355 --> 00:06:11.395

is foreign tax credit.

00:06:11.855 --> 00:06:14.835

Um, hopefully I don't use too many acronyms

00:06:14.855 --> 00:06:17.795

and if I do, I will try to define them as best as I can.

00:06:18.215 --> 00:06:19.755

Uh, foreign tax credit and,

00:06:19.815 --> 00:06:22.515

and honestly, you know, if we're actually looking at this,

00:06:22.575 --> 00:06:24.395

um, from, I think the, the standpoint

00:06:24.395 --> 00:06:28.595

of most US prepares the foreign tax credit stuff is probably

00:06:28.595 --> 00:06:30.875

where it's going to get picked up in

00:06:31.415 --> 00:06:33.475

and where we have it, right?

00:06:34.135 --> 00:06:36.755

Um, entities without foreign activities may still need

00:06:36.755 --> 00:06:41.275

to file if the partners or shareholders require the FTC.

00:06:41.775 --> 00:06:43.875

So we can actually have partners or shareholders

00:06:43.935 --> 00:06:46.475

and request the K two, K three from us.

00:06:47.055 --> 00:06:49.155

And if they do that, then we're gonna need to file.

00:06:49.245 --> 00:06:53.475

There is a whole long complex kind of scenarios where

00:06:53.745 --> 00:06:57.095

that happens and I used to actually talk about

00:06:57.095 --> 00:06:58.215

that a little bit more.

00:06:58.835 --> 00:07:01.535

Um, but now that we get into actual practice,

00:07:01.765 --> 00:07:04.575

I've never had a par a partner, um,

00:07:06.675 --> 00:07:09.285

request a K two, K three from me.

00:07:10.025 --> 00:07:12.125

So I, I don't think it's as relevant

00:07:12.145 --> 00:07:13.805

as we we thought it might be.

00:07:15.765 --> 00:07:18.825

Now what I wanna do is I'm gonna switch over to

00:07:20.965 --> 00:07:22.065

my instructions

00:07:28.065 --> 00:07:31.125

And like I said, most people are going to need to file,

00:07:31.825 --> 00:07:35.945

but we have this domestic filing exception, um,

00:07:38.145 --> 00:07:40.965

paging down and is losing my place, which is right here.

00:07:41.265 --> 00:07:44.085

Um, so generally if we have a domestic partnership,

00:07:44.745 --> 00:07:48.285

and we're probably don't need to do it again if,

00:07:48.305 --> 00:07:50.165

if we don't have any foreign activity,

00:07:50.825 --> 00:07:53.285

if we have limited foreign activity,

00:07:53.505 --> 00:07:55.845

we might also be able to do it.

00:07:55.955 --> 00:07:57.885

Limited though is very limited.

00:07:58.585 --> 00:08:00.885

Not more than $300 of foreign income taxes.

00:08:00.915 --> 00:08:04.285

Allowable as a credit is the main limit that we have there.

00:08:05.105 --> 00:08:08.185

Um, the amounts also have

00:08:08.185 --> 00:08:10.585

to be on a pay e statements typically gonna be a 10 99 B,

00:08:11.005 --> 00:08:13.465

so makes it even more limited as well.

00:08:16.125 --> 00:08:19.985

Uh, it does have to be US citizen resident alien partners.

00:08:19.985 --> 00:08:21.545

If we have a non-resident alien partner,

00:08:21.685 --> 00:08:22.745

it will not qualify.

00:08:23.645 --> 00:08:25.865

We need to notify the partner as well

00:08:25.865 --> 00:08:28.745

because they can ask us for the K 2K threes.

00:08:29.125 --> 00:08:31.145

And if they do, then we do need to apply it.

00:08:31.565 --> 00:08:35.345

Um, no 2023 K three requests by the one month date

00:08:38.265 --> 00:08:40.845

DR a month, no requests are made, then we don't need

00:08:40.845 --> 00:08:41.925

to worry about it.

00:08:42.465 --> 00:08:45.525

Um, that's the general exception that we have here

00:08:45.545 --> 00:08:48.365

for filing these that I want you to kind of keep in mind

00:08:48.505 --> 00:08:50.405

and why we don't need to do it for all of them.

00:08:51.505 --> 00:08:52.915

When it first came out,

00:08:53.375 --> 00:08:55.805

the IRS was requiring every single

00:08:56.115 --> 00:08:58.205

partnership s corp to file these.

00:08:58.465 --> 00:09:00.045

Didn't matter if they were foreign

00:09:00.145 --> 00:09:04.045

or not, anything like that, they had to file IRS.

00:09:04.045 --> 00:09:06.565

Again, practitioners have some sway in these things.

00:09:07.145 --> 00:09:11.775

Um, after we threw a big old hissy fit, IRS said, okay,

00:09:12.085 --> 00:09:14.855

okay, not everyone's gonna need to file these.

00:09:15.155 --> 00:09:16.615

And it, I think it worked out good

00:09:16.615 --> 00:09:21.375

because honestly what has to get filed now is a little bit,

00:09:21.795 --> 00:09:24.775

you know, easier to see a little bit, you know,

00:09:24.845 --> 00:09:26.335

more compliance friendly.

00:09:27.275 --> 00:09:29.415

Um, just be weary about that.

00:09:29.735 --> 00:09:32.175

'cause again, when we kinda look at it, um,

00:09:34.145 --> 00:09:35.205

if you don't do it

00:09:36.075 --> 00:09:37.215

and you're supposed to,

00:09:37.845 --> 00:09:40.055

it's considered a non-complete return

00:09:40.995 --> 00:09:44.055

and then it will be a penalty

00:09:44.555 --> 00:09:49.375

of 2 45 in 20 25, 240

00:09:49.375 --> 00:09:51.475

$5, um,

00:09:52.405 --> 00:09:57.405

times the owners times the months.

00:09:59.535 --> 00:10:03.815

This is, I'll do ow because that looks like a zero zero.

00:10:03.845 --> 00:10:06.495

That makes a lot easier. So it can really add up,

00:10:06.495 --> 00:10:08.855

especially if you have like 10 owners, you know,

00:10:09.115 --> 00:10:10.775

it is gonna be a very large penalty.

00:10:10.915 --> 00:10:12.175

So be careful about that

00:10:12.485 --> 00:10:15.695

because if the IRS does pick up on it, it will be,

00:10:16.675 --> 00:10:17.865

it'll be something that's there.

00:10:18.645 --> 00:10:21.345

Now we're gonna go through it quick,

00:10:21.485 --> 00:10:24.505

but I wanna again, kind of transition at some neat stuff

00:10:24.505 --> 00:10:28.425

that we have, um, with chat GPT.

00:10:28.685 --> 00:10:31.905

So let me switch over to our chat GPT

00:10:32.915 --> 00:10:35.055

and let's just say, we'll, we'll we'll stick

00:10:35.055 --> 00:10:36.095

with an S corp this time.

00:10:36.675 --> 00:10:41.465

Um, I have an S corp, it has

00:10:43.455 --> 00:10:46.085

eight, $900 of

00:10:47.185 --> 00:10:49.315

foreign in tax paid.

00:10:50.635 --> 00:10:54.845

What do I need to do on the K three K two

00:10:55.585 --> 00:10:58.795

and what additional information am I need?

00:11:02.045 --> 00:11:05.545

And so I think this is again, a really cool use for chat GPT

00:11:05.785 --> 00:11:06.985

'cause how does this happen, right?

00:11:07.405 --> 00:11:11.125

Um, our client's gonna come in, we're gonna get their books

00:11:11.125 --> 00:11:12.685

and records, hope, hopefully they're good.

00:11:13.185 --> 00:11:15.565

And we might see something like, oh hey, you know,

00:11:15.645 --> 00:11:17.965

I have $900 of foreign tax paid.

00:11:18.275 --> 00:11:20.765

When we talk about ethics, uh, circular two third

00:11:20.765 --> 00:11:23.245

and everything, we do need competency when

00:11:23.245 --> 00:11:25.605

before we, we take on where

00:11:25.985 --> 00:11:27.525

before we complete an engagement.

00:11:28.275 --> 00:11:32.295

So good way to kind of get, get that basic

00:11:33.305 --> 00:11:34.775

start to competency, right?

00:11:35.035 --> 00:11:37.135

Hey, you know, I have this, I haven't seen this,

00:11:37.135 --> 00:11:38.175

what do I need to do?

00:11:39.115 --> 00:11:41.015

And so we're gonna complete our K two.

00:11:41.045 --> 00:11:43.575

It's, it's gonna tell us what we're gonna fill out.

00:11:43.585 --> 00:11:45.455

We're gonna have to complete part two of it.

00:11:45.855 --> 00:11:48.855

I i, I did this first because I wanna transition to the, uh,

00:11:48.945 --> 00:11:51.895

forms and, and kind of look at the forms with that.

00:11:52.715 --> 00:11:55.205

Um, the pastor reporting, you know, all that other things.

00:11:55.275 --> 00:11:56.725

What other stuff are we gonna need?

00:11:56.725 --> 00:11:59.925

Country that the taxes were paid, type of foreign income

00:11:59.925 --> 00:12:02.765

that we have, source or income corresponding tax paid.

00:12:03.345 --> 00:12:05.245

Uh, whether the tax is paid or recruited

00:12:05.245 --> 00:12:07.045

or documentation, uh,

00:12:07.075 --> 00:12:09.605

what do you want a detailed walkthrough of it

00:12:09.945 --> 00:12:11.205

and be like, let's just ask.

00:12:11.315 --> 00:12:13.565

Yeah. Um, actually

00:12:13.565 --> 00:12:15.925

before we do that, let's switch over to the K two

00:12:15.985 --> 00:12:20.245

for an 1120 s so we can kind of see what that looks like.

00:12:20.265 --> 00:12:22.845

And then we're gonna talk about that detailed walkthrough.

00:12:23.585 --> 00:12:26.405

So here's the K two, um, 1120 s.

00:12:26.405 --> 00:12:28.965

The 1120 s and the 10 65 1 are pretty similar.

00:12:29.705 --> 00:12:31.645

Um, there is a whole bunch

00:12:31.645 --> 00:12:34.885

of complex international tax stuff that goes into this.

00:12:35.545 --> 00:12:38.485

So I'm really gonna focus more mainly on our

00:12:38.555 --> 00:12:39.925

foreign tax credit stuff.

00:12:40.165 --> 00:12:42.525

'cause that's 99% of our clients that we're gonna see.

00:12:43.185 --> 00:12:45.765

So if we do have a foreign tax credit, we have our part one.

00:12:45.905 --> 00:12:47.845

It is just kind of like a checklist almost.

00:12:47.905 --> 00:12:50.205

If you kind of think of like the nine nineties, it's like,

00:12:50.205 --> 00:12:52.405

hey, what part applies, what part doesn't apply?

00:12:53.065 --> 00:12:55.685

Um, part one then is gonna be, this is the type

00:12:55.685 --> 00:12:57.485

of foreign stuff that we have going on.

00:12:57.585 --> 00:12:59.165

And again, that's gonna kind of highlight

00:12:59.195 --> 00:13:01.805

what we're probably gonna need to fill out in K 2K three.

00:13:03.555 --> 00:13:06.605

Then we get down to our foreign tax limit.

00:13:06.665 --> 00:13:08.325

So this is one that we're probably gonna have

00:13:08.325 --> 00:13:09.565

to be pretty well versed in.

00:13:10.225 --> 00:13:12.005

And we are gonna have, you know, we,

00:13:12.065 --> 00:13:14.285

we basically take our income statement, we figure out

00:13:14.795 --> 00:13:17.525

what is our sales from us sources, what's our,

00:13:17.785 --> 00:13:20.005

what's our income stuff from us sources,

00:13:20.355 --> 00:13:22.045

what is it from our foreign sources?

00:13:22.745 --> 00:13:24.485

We have to list out what country they're

00:13:24.485 --> 00:13:25.685

from and and whatnot.

00:13:25.865 --> 00:13:27.325

And then we kinda get our total.

00:13:27.385 --> 00:13:29.285

And that's gonna correspond then

00:13:29.345 --> 00:13:31.805

to our page one on the 1120 s, right?

00:13:31.955 --> 00:13:34.685

Because this is all our income expenses.

00:13:35.225 --> 00:13:36.525

We haven't gotten to the expense part yet,

00:13:36.525 --> 00:13:37.885

but trust me, expenses are coming.

00:13:38.505 --> 00:13:41.685

Um, and, and kind of boil down to there, right?

00:13:42.425 --> 00:13:46.045

And so then here's our expense part, part two, um,

00:13:46.045 --> 00:13:48.845

section two so we can kind of see this all laid out.

00:13:49.695 --> 00:13:52.315

Um, same as section one, two, where we want our US source,

00:13:52.495 --> 00:13:53.795

we want our foreign source.

00:13:53.935 --> 00:13:56.675

Our foreign source is always broken out into basically,

00:13:57.255 --> 00:13:58.435

uh, four categories.

00:13:58.435 --> 00:13:59.555

Foreign branch income,

00:13:59.555 --> 00:14:01.275

which probably you won't see too much.

00:14:01.345 --> 00:14:05.075

Passive category, income general, and then other.

00:14:05.975 --> 00:14:09.595

And after that we get into our limitations

00:14:09.595 --> 00:14:10.715

with the deductions.

00:14:11.575 --> 00:14:14.395

And that's mainly the stuff that we have to report.

00:14:14.535 --> 00:14:16.475

Hey, this is our income, this is our expenses

00:14:16.735 --> 00:14:18.595

and this is sourcing it to the right area.

00:14:19.935 --> 00:14:23.585

Part three is where we look at the 1116

00:14:23.885 --> 00:14:26.065

and 1116 is our foreign tax credit form

00:14:26.165 --> 00:14:27.545

and the information we need there.

00:14:28.125 --> 00:14:31.065

Um, if we have RD expenses, we kind of have

00:14:31.065 --> 00:14:32.385

to put out those.

00:14:32.745 --> 00:14:34.465

I I've seen a couple of clients with this,

00:14:34.465 --> 00:14:36.385

but again, probably not one that you're gonna touch much.

00:14:38.465 --> 00:14:41.445

But here, um, section two of this part is one

00:14:41.445 --> 00:14:43.805

that you will have to where you need

00:14:43.805 --> 00:14:46.125

to actually take your total average value of assets,

00:14:46.255 --> 00:14:48.445

break it out between us and foreign and source.

00:14:49.505 --> 00:14:53.085

And then we look at how the interest is kind of calculated,

00:14:53.305 --> 00:14:56.685

what's eligible to it, you know, interest generating stuff,

00:14:57.315 --> 00:14:58.685

what is going to be here.

00:14:59.025 --> 00:15:01.565

Um, and you can go through that as well.

00:15:05.245 --> 00:15:06.385

And then part three is

00:15:06.385 --> 00:15:08.025

where we actually list out our foreign taxes.

00:15:11.145 --> 00:15:14.605

We do it by country that we get it in paid or accrued.

00:15:14.605 --> 00:15:16.725

Do we pay it or are we just accruing it like we would,

00:15:16.785 --> 00:15:18.885

you know, a, a journal entry entry transaction.

00:15:19.505 --> 00:15:24.155

Um, then we're uh, reduction of taxes, any kind

00:15:24.155 --> 00:15:26.195

of re uh, tax reductions that we had.

00:15:27.015 --> 00:15:28.915

Um, honestly most of the rest of this here

00:15:29.555 --> 00:15:31.875

probably aren't going to see too much when we're just

00:15:31.875 --> 00:15:33.835

looking at plain foreign tax credit things

00:15:35.415 --> 00:15:38.275

and e extra kind of spots there that we have.

00:15:39.305 --> 00:15:41.835

Then we get into our, again, areas

00:15:41.835 --> 00:15:43.835

that we're not gonna cover in depth

00:15:43.835 --> 00:15:46.955

because these are really gonna focus more on um,

00:15:49.325 --> 00:15:52.055

like things like f guilty, stuff like

00:15:52.055 --> 00:15:53.295

that that are gonna pop up.

00:15:53.355 --> 00:15:55.975

Um, so distributions from foreign corps to S corps.

00:15:56.595 --> 00:15:58.855

Uh, 9 51 a inclusions.

00:16:01.135 --> 00:16:03.715

Our PFI stuff PFI are always ones.

00:16:03.895 --> 00:16:05.355

We talked about the K ones before

00:16:05.535 --> 00:16:08.035

and how they have those just like laundry list of notes

00:16:08.175 --> 00:16:09.915

and some can be like a hundred pages of notes.

00:16:10.265 --> 00:16:12.115

Usually if it's a hundred pages of notes,

00:16:12.115 --> 00:16:14.595

they probably have PFI in there which require their own

00:16:14.785 --> 00:16:19.185

filings and with their pfi, QE F elections.

00:16:21.285 --> 00:16:22.465

And you know, again,

00:16:22.785 --> 00:16:25.265

interest in foreign corporations if we have any of

00:16:25.295 --> 00:16:26.745

that S corp standpoint too.

00:16:27.325 --> 00:16:28.545

The partnership, again,

00:16:28.545 --> 00:16:30.465

there's a couple little differences in the partnership

00:16:30.465 --> 00:16:33.665

that things get reported, like FI and stuff like that.

00:16:34.085 --> 00:16:36.105

But honestly most of it, especially when it comes

00:16:36.125 --> 00:16:39.545

to the 1116 for tax credit stuff is going

00:16:39.605 --> 00:16:42.305

to all be the same all in here.

00:16:42.725 --> 00:16:46.225

So now that we kind of see that, we can look at

00:16:46.225 --> 00:16:50.675

what it told us to fill out basically part one, which is

00:16:50.675 --> 00:16:52.635

that general information part two, right?

00:16:53.495 --> 00:16:57.475

So part one was our general part two goes

00:16:57.475 --> 00:16:58.835

through the foreign tax credit

00:17:00.135 --> 00:17:04.835

and then part three is other information for the 1116.

00:17:04.935 --> 00:17:09.105

So we can ask like, what about part

00:17:09.715 --> 00:17:13.185

three that's says for the 11

00:17:20.365 --> 00:17:21.585

and here gives it more further.

00:17:22.405 --> 00:17:25.385

So it will give us a little bit more information

00:17:30.785 --> 00:17:31.765

and let it generate.

00:17:32.705 --> 00:17:36.125

So let's kind of take this, you know, one step further.

00:17:36.905 --> 00:17:39.405

Um, we said there's $900 of foreign tax credits.

00:17:40.025 --> 00:17:43.875

So let's just say $500

00:17:44.335 --> 00:17:47.115

of what's producing four tax credits.

00:17:49.715 --> 00:17:54.105

I have $10,000 of US source income

00:17:54.565 --> 00:17:57.185

and 20,000 source

00:17:57.725 --> 00:17:59.625

to rent.

00:18:01.245 --> 00:18:03.505

Um, what's a deduction? We'll just say

00:18:09.805 --> 00:18:10.095

rent.

00:18:10.275 --> 00:18:12.735

Oh yeah, rental expenses. Uh, no

00:18:16.335 --> 00:18:17.585

lose short-term capital losses.

00:18:20.835 --> 00:18:25.645

$5,000 of short-term capital losses

00:18:27.475 --> 00:18:28.615

on the account.

00:18:29.635 --> 00:18:33.255

Uh, fill out the K two part two

00:18:33.675 --> 00:18:34.695

and three for me.

00:18:36.985 --> 00:18:39.485

So here what we can do is it will go through

00:18:39.665 --> 00:18:41.285

and it will take what we have.

00:18:45.115 --> 00:18:48.015

So let's kind of reconcile this to here.

00:18:48.135 --> 00:18:49.935

'cause again, we can't always trust chat g PT

00:18:49.935 --> 00:18:51.655

and it's not always accurate.

00:18:52.235 --> 00:18:54.655

But if we go to part one, what's part one asking us?

00:18:55.205 --> 00:18:59.495

It's basically looking at what kind of things do we have?

00:18:59.595 --> 00:19:02.095

So do we have any foreign tax

00:19:02.855 --> 00:19:04.935

transactions here that we can check?

00:19:05.515 --> 00:19:06.775

And that's what we're gonna look at.

00:19:06.945 --> 00:19:10.815

We're gonna list as well, um, our foreign taxes paid

00:19:10.815 --> 00:19:13.575

or recruited when we get to part

00:19:15.975 --> 00:19:17.355

two, section one.

00:19:19.205 --> 00:19:23.215

So our first line is income.

00:19:23.355 --> 00:19:24.895

So we have our general category

00:19:24.895 --> 00:19:26.135

income is what we're calling it.

00:19:27.085 --> 00:19:28.825

We have our country, which will be France.

00:19:29.005 --> 00:19:30.505

And then when we get into our paid

00:19:30.525 --> 00:19:32.665

or recruited, which you can already see they have an issue

00:19:32.665 --> 00:19:33.705

because the paid

00:19:33.705 --> 00:19:35.545

or recruited part is going

00:19:35.545 --> 00:19:37.745

to get dropped into the lower section

00:19:37.745 --> 00:19:41.585

that we get into down here in part three, section three.

00:19:43.395 --> 00:19:46.095

But at least that gives us that part that we fill out.

00:19:46.755 --> 00:19:49.695

Um, but now we'll get into section again, this should be,

00:19:49.775 --> 00:19:52.855

I wonder if it's using the 10 65 1 off the top of my head.

00:19:53.195 --> 00:19:54.855

Um, summary income by category.

00:19:54.995 --> 00:19:57.975

So we have how the categories are broken out

00:19:58.005 --> 00:19:59.935

that we can kind of put into the form

00:20:00.635 --> 00:20:02.375

and transfer it straight into the form.

00:20:02.475 --> 00:20:04.535

It does our allocations that we need to

00:20:04.715 --> 00:20:06.575

as well and gives it away.

00:20:06.675 --> 00:20:09.495

Now again, you can kind of teach it a little bit to be like,

00:20:09.495 --> 00:20:10.655

Hey, do this, this, and this.

00:20:10.755 --> 00:20:12.135

But it it is a start, right?

00:20:12.135 --> 00:20:14.175

It's a start when we don't know what we're doing totally

00:20:14.835 --> 00:20:18.335

and we can kind of start figuring things out from there.

00:20:19.315 --> 00:20:23.495

So that is the general K two that we have.

00:20:23.595 --> 00:20:25.655

So if we switch it over to the K three,

00:20:27.675 --> 00:20:28.965

that was in the K three recently,

00:20:28.965 --> 00:20:30.085

which is why it didn't start on page

00:20:30.085 --> 00:20:31.725

one, but what does it look like?

00:20:31.825 --> 00:20:32.965

It looks a lot like

00:20:34.815 --> 00:20:39.105

what we had except here now it's the shareholder share.

00:20:39.105 --> 00:20:40.865

So we're just kind of taking it

00:20:40.925 --> 00:20:42.865

and allocating it based on the shareholders.

00:20:43.005 --> 00:20:45.625

All the stuff from the K 2K three is gonna get allocated

00:20:45.655 --> 00:20:48.245

over to from the K two was getting allocated over

00:20:48.245 --> 00:20:51.205

to the K three based on ownership percentage.

00:20:51.345 --> 00:20:52.965

And you know, S-corps, they don't have issues

00:20:52.965 --> 00:20:55.245

with partnerships where things can be specially allocated.

00:20:55.825 --> 00:20:57.725

So most of this should be basically done

00:20:57.785 --> 00:20:59.965

by the ownership percentage

00:21:00.355 --> 00:21:03.085

that we have in the S-corp, if that makes sense.

00:21:05.245 --> 00:21:08.665

Um, but you can kinda see all these sections aligned exactly

00:21:08.815 --> 00:21:10.385

with what we just talked about

00:21:10.445 --> 00:21:11.545

and just kinda looked at,

00:21:15.185 --> 00:21:17.245

Uh, back.

00:21:23.845 --> 00:21:25.785

So I think that's, you know, really the main one

00:21:25.895 --> 00:21:28.025

that we wanted looked at the most is

00:21:28.025 --> 00:21:29.105

that foreign income sourcing.

00:21:29.345 --> 00:21:30.545

'cause that's what's gonna help us generate

00:21:30.605 --> 00:21:33.745

and calculate out our, um, foreign tax credits when we get

00:21:33.745 --> 00:21:34.745

to the individual return.

00:21:35.365 --> 00:21:37.385

So it is really important that we know

00:21:37.535 --> 00:21:39.905

what is the US source, what's the foreign source.

00:21:40.975 --> 00:21:44.235

Now a lot of times when our clients get these, you know,

00:21:44.235 --> 00:21:47.155

pieces of information that we have, a lot of that is going

00:21:47.155 --> 00:21:49.875

to get tossed in on a brokerage statement

00:21:49.935 --> 00:21:51.995

and that's what generates a foreign tax credit.

00:21:52.345 --> 00:21:55.315

That brokerage statement should provide the breakout of

00:21:55.645 --> 00:21:59.155

where that income came from if there's a foreign tax credit

00:21:59.255 --> 00:22:00.835

and then we can kind of take that there.

00:22:01.455 --> 00:22:04.715

Um, we are able to use it's GEN,

00:22:04.815 --> 00:22:09.555

we have brokerage statements as a where did it come from

00:22:10.255 --> 00:22:12.035

number and we can look at that.

00:22:12.265 --> 00:22:13.595

I'll talk about it more after we get

00:22:13.595 --> 00:22:15.115

through the next polling, uh, section.

00:22:16.575 --> 00:22:18.435

Um, K two key key sections.

00:22:18.455 --> 00:22:21.405

We kinda looked at core relevance for filers

00:22:21.405 --> 00:22:23.005

with international activities.

00:22:23.935 --> 00:22:25.945

Part four, this is when we had the 10 65.

00:22:25.945 --> 00:22:29.265

There's c section which partnerships with corporate partners

00:22:29.325 --> 00:22:32.105

and base erosion and anti-abuse, which is the beat tax.

00:22:32.635 --> 00:22:37.265

Those get their own separate sections as well on the K two

00:22:37.285 --> 00:22:38.465

for the 10 65.

00:22:39.085 --> 00:22:40.985

So lemme switch over to that

00:22:41.125 --> 00:22:42.665

and you can kind of see what that looks like.

00:22:43.635 --> 00:22:45.335

Um, again, what did it look like

00:22:45.335 --> 00:22:47.935

as the 1120 s foreign tax credit,

00:22:47.935 --> 00:22:49.615

foreign tax credit in limit.

00:22:50.405 --> 00:22:51.905

So we're all pretty good there.

00:22:52.345 --> 00:22:54.305

R and e expenses, again, all the same,

00:22:54.485 --> 00:22:57.025

all the same information for the 1116.

00:22:57.155 --> 00:23:00.385

We're still the same. Here is where we get into the,

00:23:00.485 --> 00:23:02.825

the differences is starting with part four.

00:23:03.605 --> 00:23:06.585

Um, part four for our 10 65 is

00:23:06.585 --> 00:23:08.385

where we're gonna disclose fitty

00:23:08.925 --> 00:23:10.625

and what's going on with fitty.

00:23:11.245 --> 00:23:13.185

Our distributions from Corp Forum Corps

00:23:13.245 --> 00:23:15.505

to partnerships is gonna go on part five.

00:23:17.345 --> 00:23:20.925

Uh, again, 9 51 exclusions are the same as the scorp,

00:23:21.185 --> 00:23:22.845

our pfi same as the S corp.

00:23:25.975 --> 00:23:28.555

Um, interest in foreign corporation section nine 60.

00:23:28.565 --> 00:23:30.635

Again, just more information that's really disclosed.

00:23:30.655 --> 00:23:33.355

Our base erosion beat tax is part nine

00:23:33.895 --> 00:23:35.915

so much longer one too when we get into our,

00:23:35.935 --> 00:23:38.235

our 10 65 versus the 1120 s.

00:23:38.945 --> 00:23:40.965

Um, and the other one I wanna point out too

00:23:40.965 --> 00:23:43.285

because this one, you know, we talked about the, um,

00:23:49.415 --> 00:23:54.035

for tax credit as a major filing one, we often have, uh,

00:23:54.035 --> 00:23:56.835

partnerships with the one partners when that happens,

00:23:57.335 --> 00:23:59.995

we do have to file part 10 as well.

00:24:00.175 --> 00:24:01.915

So keep that in mind when we have it.

00:24:08.625 --> 00:24:10.845

And so, you know, we kind of already hit all this,

00:24:10.845 --> 00:24:13.925

but that K three is really just a version

00:24:14.915 --> 00:24:17.735

of the K two, but it's gonna focus on

00:24:17.765 --> 00:24:20.495

that partner shareholder level reporting.

00:24:21.085 --> 00:24:24.095

It's organized by category, again, foreign source income.

00:24:24.155 --> 00:24:26.535

How we allocate out the four tax credit is the main thing

00:24:26.535 --> 00:24:28.295

that we want to, and distributions

00:24:28.315 --> 00:24:30.775

to the partner shareholders complete their returns

00:24:31.235 --> 00:24:34.055

so they cannot file these returns,

00:24:34.055 --> 00:24:36.255

especially when they have the more complex filings

00:24:36.485 --> 00:24:39.535

with the foreign tax credit, uh, without it

00:24:39.535 --> 00:24:42.015

because that's gonna calculate all their stuff.

00:24:42.235 --> 00:24:44.295

And really when we talk about foreign tax credit,

00:24:44.315 --> 00:24:48.935

the reason why we care, um, the FTC really deals

00:24:48.935 --> 00:24:50.295

with like baskets

00:24:51.155 --> 00:24:54.135

and the credits are calculated in these baskets.

00:24:54.355 --> 00:24:58.215

So all these like breakouts, all these different um,

00:25:01.115 --> 00:25:03.485

allocations, stuff like that that we've looked at here,

00:25:03.875 --> 00:25:06.565

that helps us figure out the different baskets that we need

00:25:06.705 --> 00:25:07.925

for our foreign tax credit

00:25:08.795 --> 00:25:12.175

and kinda see when we have our foreign tax credit and,

00:25:12.235 --> 00:25:14.535

and how it, uh, functions on the 1116.

00:25:15.315 --> 00:25:17.255

You know, we're gonna first create

00:25:17.365 --> 00:25:18.695

what basket is this gonna be?

00:25:18.725 --> 00:25:21.255

9 51 a passive category general.

00:25:21.595 --> 00:25:23.895

And I think most of us have passive category income.

00:25:23.895 --> 00:25:25.335

We talked about foreign tax credit,

00:25:25.965 --> 00:25:27.715

break it out into the foreign country

00:25:28.055 --> 00:25:29.915

and that's one of the baskets that we have.

00:25:30.095 --> 00:25:32.355

We calculate out the tax based on that basket.

00:25:33.125 --> 00:25:35.305

So that's why we really need these breakouts.

00:25:35.465 --> 00:25:36.345

'cause when you look at these things,

00:25:36.365 --> 00:25:37.505

what's our gross income?

00:25:37.505 --> 00:25:39.345

Where's the source from? What's the expenses?

00:25:39.485 --> 00:25:42.705

What's the source from that's really taking all the stuff

00:25:42.705 --> 00:25:45.585

that we need to fill out this 1116, it's tossing it in a,

00:25:45.585 --> 00:25:48.825

in a more complete form really then what we have there.

00:25:48.825 --> 00:25:51.625

Because sometimes if we don't have enough income, uh,

00:25:51.655 --> 00:25:54.345

that we can show that we need the foreign tax credit,

00:25:54.345 --> 00:25:56.385

we're not able to claim that foreign tax credit.

00:25:57.085 --> 00:25:58.105

Um, that's why a lot

00:25:58.105 --> 00:25:59.985

of people are just like not doing the 1116.

00:26:00.045 --> 00:26:03.025

If we have $300 or less than FTC where you don't need to,

00:26:08.025 --> 00:26:11.705

Um, our reporting requirements, again,

00:26:11.705 --> 00:26:12.865

generally it's gonna get filed

00:26:12.925 --> 00:26:15.385

unless we can show that it's not needed to be filed

00:26:15.385 --> 00:26:17.985

because we don't have any foreign issues going on

00:26:18.365 --> 00:26:20.585

and no foreign partners, as soon

00:26:20.585 --> 00:26:22.265

as we hit kick into a foreign partner

00:26:22.925 --> 00:26:25.265

or foreign issues, we're most likely gonna have

00:26:25.265 --> 00:26:27.785

to file something and we need to pay attention to that.

00:26:28.565 --> 00:26:30.645

Um, we wanna make sure

00:26:30.645 --> 00:26:32.965

that people are getting it every now and then.

00:26:32.965 --> 00:26:35.005

You know, you might get a partner request it

00:26:35.025 --> 00:26:36.405

and if they request it within a month,

00:26:36.465 --> 00:26:37.645

you do have to file it.

00:26:38.145 --> 00:26:40.645

Um, you can often just provide the schedules

00:26:40.645 --> 00:26:41.885

and stuff if it's after that month,

00:26:41.885 --> 00:26:44.765

but you still should, you know, know, put up the K 2K three

00:26:44.765 --> 00:26:47.285

so that way they know exactly what they have.

00:26:48.105 --> 00:26:49.725

Uh, another thing I wanted to point out to you.

00:26:49.875 --> 00:26:54.405

Generally, if, if we can't figure out the source of income

00:26:54.465 --> 00:26:56.765

or the client might not know it, we are able

00:26:56.765 --> 00:26:58.165

to use country code xx.

00:26:58.195 --> 00:27:01.525

It's usually as a code that we determine being like, oh,

00:27:02.155 --> 00:27:03.925

it's foreign, but we're not a hundred percent

00:27:03.925 --> 00:27:04.965

sure where it's foreign.

00:27:05.585 --> 00:27:09.605

Uh, a lot of times if we have a brokerage statement, um,

00:27:10.375 --> 00:27:11.965

we'll end up using the code XX

00:27:11.965 --> 00:27:15.365

because that's, you know, we can't figure out exactly where

00:27:15.365 --> 00:27:17.645

that's from or it just doesn't make sense to break it out.

00:27:17.645 --> 00:27:19.245

We're able to do that.

00:27:20.185 --> 00:27:23.005

Uh, so that's a a I think another key issue

00:27:23.005 --> 00:27:25.485

that we have when we're looking at this K 2K three,

00:27:25.565 --> 00:27:26.685

I just wanted to highlight.

00:27:28.145 --> 00:27:31.605

All right, so the common scenarios that we have, um,

00:27:33.085 --> 00:27:33.895

that I just wanted to

00:27:33.895 --> 00:27:35.015

highlight to make sure you're aware of.

00:27:35.015 --> 00:27:37.095

When, when you're doing your return prep

00:27:37.155 --> 00:27:39.215

and you're starting to figure out, oh do I need to do this?

00:27:39.235 --> 00:27:40.335

Do I not need to do this?

00:27:40.995 --> 00:27:44.255

Always default, you know, if we were gonna flow chart it,

00:27:46.365 --> 00:27:47.225

it would do f

00:27:49.545 --> 00:27:51.785

yes, probably need to file.

00:27:52.525 --> 00:27:55.845

No, don't need to file. That's the most common thing, right?

00:27:56.025 --> 00:27:57.405

Do we have any foreign stuff in here?

00:27:57.985 --> 00:27:59.325

Yes, probably need to file.

00:27:59.745 --> 00:28:01.485

No, we don't need to and we're good to go.

00:28:02.065 --> 00:28:03.125

So any business

00:28:03.125 --> 00:28:06.725

that is completely domestic doesn't get foreign tax credits,

00:28:06.725 --> 00:28:08.605

doesn't do anything overseas, anything like that.

00:28:08.945 --> 00:28:11.885

We don't worry about the K 2K three, we are able

00:28:11.885 --> 00:28:14.885

to skip right over it and move on to the next session

00:28:15.585 --> 00:28:16.845

and not worry.

00:28:17.145 --> 00:28:19.925

Um, but we do have it. We are gonna trip it up.

00:28:19.945 --> 00:28:21.605

So commonwealth that we have partnership

00:28:21.605 --> 00:28:23.925

with foreign investments and a corporate partner.

00:28:24.585 --> 00:28:26.525

So again, if we have our foreign

00:28:27.035 --> 00:28:29.245

investments here in a partnership,

00:28:30.155 --> 00:28:31.495

it is generating forward income.

00:28:31.495 --> 00:28:34.215

It's gonna be our um, typically gonna be

00:28:34.215 --> 00:28:35.335

that passive category.

00:28:35.335 --> 00:28:37.535

If it's gonna be passive investments that is generating

00:28:37.995 --> 00:28:40.775

and that's gonna have to get reported income expenses, all

00:28:40.775 --> 00:28:42.415

that we do report the US income.

00:28:42.415 --> 00:28:44.215

So we know the allocation between the two.

00:28:45.325 --> 00:28:46.985

Uh, the second one I have is escort

00:28:46.985 --> 00:28:48.625

by a shareholder claiming FTC

00:28:48.625 --> 00:28:50.505

for foreign taxes paid on mutual funds.

00:28:51.045 --> 00:28:52.665

So this is an interesting one too, right?

00:28:52.835 --> 00:28:57.225

Let's just say that our client is um,

00:28:57.825 --> 00:28:59.065

a random individual and

00:28:59.085 --> 00:29:00.585

and they have their own brokerage account.

00:29:00.615 --> 00:29:03.185

That brokerage account generates $20,000

00:29:03.405 --> 00:29:04.585

of foreign tax credit.

00:29:05.635 --> 00:29:10.375

Our 1120 s for the S corp doesn't have any foreign issues.

00:29:11.005 --> 00:29:13.295

That partner still might go to the S corp

00:29:13.435 --> 00:29:18.255

and ask for a K 2K three in order to give the US you know,

00:29:18.775 --> 00:29:20.215

breakout, which should be a hundred percent

00:29:20.635 --> 00:29:22.015

and hopefully that partner knows that,

00:29:22.875 --> 00:29:23.935

but it's still something they can do.

00:29:23.935 --> 00:29:26.015

They can still go to the preparer, ask

00:29:26.015 --> 00:29:29.095

for the K 2K three even if there is no foreign income.

00:29:29.195 --> 00:29:30.575

Um, generally we'll go back

00:29:30.575 --> 00:29:32.735

and be like, there's no requirement here, we don't wanna do

00:29:32.735 --> 00:29:34.095

that 'cause it costs too much money

00:29:34.675 --> 00:29:35.935

and they're okay with that.

00:29:36.275 --> 00:29:38.855

Um, but it is one where if the partner needs it

00:29:38.855 --> 00:29:42.445

because they're claiming the FTC at the individual level,

00:29:42.595 --> 00:29:44.565

even though it has nothing to do with the S-corp,

00:29:45.425 --> 00:29:46.885

it still helps 'em prepare

00:29:46.885 --> 00:29:49.565

that still looks at the overall allocation of all their um,

00:29:49.585 --> 00:29:52.445

income and you would know foreign income

00:29:52.465 --> 00:29:55.125

but partners needing that FTC details again,

00:29:55.125 --> 00:29:57.605

if we don't have any foreign income, um, kind

00:29:57.605 --> 00:29:59.565

of like the example I just talked about, I was trying

00:29:59.565 --> 00:30:02.085

to highlight the same thing I guess, uh, really

00:30:02.085 --> 00:30:05.455

what we wanna say is, look, I need this

00:30:05.735 --> 00:30:09.735

'cause it's gonna do our foreign tax 1116 figuring out the

00:30:09.755 --> 00:30:13.535

US sourced income, how the allocations for like rent

00:30:13.715 --> 00:30:15.095

and all that are breaking down.

00:30:15.355 --> 00:30:17.135

Um, 'cause when we saw it

00:30:17.135 --> 00:30:19.735

before we had a K 2K three up, you,

00:30:19.735 --> 00:30:21.295

you kinda see especially the expense,

00:30:25.765 --> 00:30:29.305

our expenses get broken out by anything directly related,

00:30:30.305 --> 00:30:32.865

anything not def uh, definitely related.

00:30:33.445 --> 00:30:36.745

And then we have our itemized deductions, other deductions,

00:30:37.135 --> 00:30:38.705

general foreign source income.

00:30:39.205 --> 00:30:43.585

Um, we can break out our expenses into different areas,

00:30:43.585 --> 00:30:45.585

different groups and those are going to,

00:30:45.585 --> 00:30:46.785

especially when we get into the mortgage

00:30:46.785 --> 00:30:48.785

and how the mortgage or not the mortgage, sorry, interest

00:30:49.005 --> 00:30:51.065

and how that gets allocated, that is going

00:30:51.065 --> 00:30:52.465

to change things as well.

00:30:53.245 --> 00:30:55.255

Um, but yeah,

00:30:55.255 --> 00:30:57.935

that's generally re the reason why is figure out the

00:30:57.935 --> 00:30:59.655

deductions and losses section.

00:31:00.475 --> 00:31:03.635

Um, for this is really how we kind

00:31:03.635 --> 00:31:07.355

of get roped into filing these when we might not have to.

00:31:07.735 --> 00:31:09.475

Um, generally from that partnership.

00:31:12.775 --> 00:31:16.845

Um, no again, penalties.

00:31:17.035 --> 00:31:19.645

Usually what we have is going to be

00:31:21.065 --> 00:31:23.165

the per partner per month.

00:31:23.345 --> 00:31:28.005

Um, penalties the first year this came out there was a

00:31:28.005 --> 00:31:31.085

penalty waiver where if you didn't write do it right,

00:31:31.585 --> 00:31:34.525

the nf um, the IRS would say, Hey,

00:31:36.755 --> 00:31:39.905

we're not going to assess any penalty on this

00:31:40.285 --> 00:31:41.665

so you don't need to worry.

00:31:42.365 --> 00:31:46.105

Um, so they would actually grant relief up

00:31:46.105 --> 00:31:50.505

to $10,000 per entity, uh, for this as well.

00:31:51.005 --> 00:31:54.605

So that was one and my research, I don't know

00:31:54.605 --> 00:31:55.685

where I found in my research to two,

00:31:55.725 --> 00:31:57.725

I don't think this 2 7, 6 annually applies.

00:31:58.705 --> 00:32:03.445

Um, I did this late. I I don't know why I toss it there.

00:32:03.625 --> 00:32:05.085

So let's, let's kind of ignore that.

00:32:05.345 --> 00:32:07.725

Um, K three distribution, maybe that's where I got it from.

00:32:08.105 --> 00:32:11.965

Uh, two 90 per perform up to 3.426 million annually.

00:32:12.505 --> 00:32:14.845

So that is definitely one thing that you need to kind of,

00:32:15.505 --> 00:32:16.845

you know, function with

00:32:17.185 --> 00:32:20.645

and understand that it could be a very large penalty

00:32:20.795 --> 00:32:22.405

that you can add up quick.

00:32:22.585 --> 00:32:24.445

Um, that's, that's one reason too, you know,

00:32:24.445 --> 00:32:26.045

if if you're not really into the foreign stuff

00:32:26.045 --> 00:32:27.405

and you haven't dealt with them that much,

00:32:28.245 --> 00:32:31.845

I always try avoiding, uh, doing the parts

00:32:31.845 --> 00:32:32.885

that I don't deal with.

00:32:32.885 --> 00:32:35.685

I don't deal with very much. Uh, guilty.

00:32:36.025 --> 00:32:38.285

We actually do a lot more guilty now than we used to.

00:32:38.465 --> 00:32:41.845

Um, so we do see that more. But the penalty's add up quick.

00:32:41.945 --> 00:32:44.965

We, we had one client who, um, had an issue.

00:32:45.605 --> 00:32:48.245

I think it's an interesting one to talk about. Lemme see.

00:32:50.395 --> 00:32:55.245

Oops, Maria. Uh, so we had a client to kind of give an idea

00:32:55.865 --> 00:32:57.645

of the issues that get involved.

00:32:58.225 --> 00:33:01.805

Uh, he is a US citizen, so we're gonna draw him here,

00:33:01.975 --> 00:33:03.285

individual US

00:33:04.965 --> 00:33:06.465

and then he had a

00:33:08.515 --> 00:33:10.875

property in TC Turks and Caicos.

00:33:12.365 --> 00:33:13.625

Now when we have this,

00:33:13.625 --> 00:33:14.945

and I think it's relevant as well,

00:33:14.945 --> 00:33:17.625

when we get into this partnerships with foreign, um,

00:33:18.255 --> 00:33:21.825

real property 'cause we gotta be worried about that too, is

00:33:22.935 --> 00:33:24.615

a lot of countries don't like foreigners

00:33:24.615 --> 00:33:25.855

owning land in that country.

00:33:29.415 --> 00:33:30.995

And Turks and Caicos is one of them.

00:33:31.015 --> 00:33:33.275

We, we had this issue too with another client in Portugal.

00:33:33.335 --> 00:33:35.755

Uh, Portugal doesn't like you owning property in there if

00:33:35.755 --> 00:33:37.475

you're not a Portuguese resident.

00:33:38.255 --> 00:33:42.275

And so what you do is you form a corporation under

00:33:42.275 --> 00:33:43.315

the laws of that country.

00:33:43.995 --> 00:33:46.155

'cause then you are considered a resident, you know,

00:33:46.195 --> 00:33:48.275

a person of that country, the corporation, not you.

00:33:48.815 --> 00:33:51.915

And that corporation then is what buys the land

00:33:53.345 --> 00:33:55.045

now doing that.

00:33:55.625 --> 00:33:57.885

And you know, if, if you didn't know about that, um,

00:33:57.985 --> 00:34:00.405

we had the corporations, you have like the 54 71 penalty,

00:34:00.545 --> 00:34:04.045

um, filings, 54, 70 twos, uh, possibly,

00:34:04.305 --> 00:34:06.445

but usually, um, you know, one of the twos

00:34:06.445 --> 00:34:08.845

that is gonna kick in there, that's $10,000 penalty.

00:34:09.275 --> 00:34:11.645

Well, corporations, we have this 9 26 penalty

00:34:11.705 --> 00:34:14.445

and the 9 26 penalty is based on the fair market value,

00:34:14.445 --> 00:34:16.245

what you put into that corporation.

00:34:16.865 --> 00:34:18.285

And for the search and Caicos one,

00:34:18.285 --> 00:34:19.845

the guy put in a couple million dollars

00:34:20.265 --> 00:34:23.805

and IS ended obsessing, it was $1.2 million

00:34:23.905 --> 00:34:25.165

of penalties on this guy

00:34:25.165 --> 00:34:28.165

because he filed, he didn't do the 9 26,

00:34:28.165 --> 00:34:29.485

he didn't do the 54 71

00:34:29.485 --> 00:34:31.685

because he didn't know he owned a foreign corporation.

00:34:31.785 --> 00:34:34.005

No one ever told him. His attorneys, you know,

00:34:34.065 --> 00:34:35.965

did all this stuff to form the corporation,

00:34:35.965 --> 00:34:37.325

bought the property, all that.

00:34:37.345 --> 00:34:38.805

And no one was like, Hey, you have a foreign

00:34:38.805 --> 00:34:40.205

corporation, all you need to file.

00:34:40.985 --> 00:34:42.765

And so with that, I don't know

00:34:42.765 --> 00:34:44.005

how many people's malpractices

00:34:44.005 --> 00:34:45.205

gonna cover up to that much money.

00:34:45.785 --> 00:34:48.285

Um, and penalties, we were able to get him out of it.

00:34:49.465 --> 00:34:51.285

Uh, we, we picked it up from another preparer,

00:34:51.545 --> 00:34:53.525

but it, it just, you know, again, it gives a show.

00:34:53.645 --> 00:34:56.365

When we have these more complex international situations,

00:34:56.385 --> 00:34:58.645

the penalties escalate so fast

00:34:58.705 --> 00:35:02.605

and so quickly that we do really want to avoid them,

00:35:02.785 --> 00:35:05.205

you know, at all costs as much as possible.

00:35:05.385 --> 00:35:06.965

Um, just due to the risk exposure.

00:35:07.265 --> 00:35:10.245

That's another reason why, you know, when we look at billing

00:35:10.265 --> 00:35:11.885

and stuff with this international,

00:35:11.885 --> 00:35:13.765

especially when you get in the K 2K threes,

00:35:14.365 --> 00:35:16.245

I would charge at least, you know, a thousand,

00:35:16.245 --> 00:35:17.605

$2,000 extra just

00:35:17.605 --> 00:35:20.685

to even do a basic K 2K three just due to risk with it.

00:35:21.105 --> 00:35:22.885

Um, anytime we do have international clients,

00:35:22.905 --> 00:35:23.925

we wanna charge more.

00:35:24.425 --> 00:35:26.765

It just makes sense. We had one client, honestly it was a,

00:35:26.805 --> 00:35:28.765

a pretty basic C corporation

00:35:29.465 --> 00:35:32.485

and we were charging 'em 15,000 a year just due to some

00:35:32.485 --> 00:35:35.125

of the complex international transactions that he had.

00:35:35.125 --> 00:35:37.205

He ended up giving up his us too.

00:35:37.825 --> 00:35:40.245

Um, but it adds up really quickly and

00:35:40.245 --> 00:35:42.885

unless we're billing for risk on the international stuff,

00:35:43.175 --> 00:35:44.645

we're prone to lose money.

00:35:44.865 --> 00:35:48.605

So always keep that in mind as an aside onto these forms

00:35:48.835 --> 00:35:51.645

that we do need to worry about risk

00:35:51.825 --> 00:35:54.605

and risk associated with it and bill accordingly.

00:35:55.165 --> 00:35:56.205

'cause the worst thing that you want

00:35:56.205 --> 00:35:57.805

to happen is you mess up one of these

00:35:58.655 --> 00:36:00.245

large penalty is gonna kick in

00:36:00.825 --> 00:36:03.565

and it wipes out all your profit from any other thing

00:36:03.565 --> 00:36:05.485

that you did as associated with this.

00:36:05.945 --> 00:36:07.485

So always bill higher for risk.

00:36:07.685 --> 00:36:08.965

'cause that's always gonna help you kind

00:36:08.965 --> 00:36:10.565

of mitigate it in the end of the day.

00:36:11.505 --> 00:36:15.645

All. So best practices for compliance here, and,

00:36:15.665 --> 00:36:17.805

and I think this is probably gonna be like we talked about

00:36:18.675 --> 00:36:22.095

all of five minutes ago, is, um, risk assessment

00:36:22.395 --> 00:36:23.815

and penalty mitigation.

00:36:25.015 --> 00:36:28.195

We need to figure things out early with the clients.

00:36:28.855 --> 00:36:32.235

Um, and a lot of it's gonna come from just looking through,

00:36:33.295 --> 00:36:36.235

you know, having that first sit down with our client

00:36:36.575 --> 00:36:38.115

during, um, onboarding.

00:36:38.215 --> 00:36:40.555

You know, hey, what are you doing? What do you do?

00:36:40.695 --> 00:36:42.235

Do you operate in other countries?

00:36:43.035 --> 00:36:44.715

'cause that's gonna give us the idea of where that happens.

00:36:44.815 --> 00:36:47.155

And anytime I say, yeah, we operate in other countries,

00:36:47.155 --> 00:36:48.515

that's when our ears need to perk up

00:36:48.575 --> 00:36:52.235

and we need to start looking at things like these K 2K

00:36:52.235 --> 00:36:55.155

threes and the other issues that are gonna be involved.

00:36:55.745 --> 00:36:59.635

It's always going to be, you know, the a a big tell as soon

00:36:59.635 --> 00:37:00.715

as they tell us, yes, we,

00:37:00.715 --> 00:37:02.835

we have operations in other countries, we sell

00:37:02.835 --> 00:37:05.715

to other countries, have foreign contractors, stuff like

00:37:05.715 --> 00:37:08.075

that because that's when we have these more complex

00:37:08.125 --> 00:37:09.355

situations come in.

00:37:09.895 --> 00:37:13.235

So my onboarding process, I have a, a spreadsheet

00:37:13.235 --> 00:37:16.715

that I fill out and they ask specific questions that I need

00:37:16.715 --> 00:37:18.835

to know about my client before I will take them

00:37:18.855 --> 00:37:19.995

on it and do their work.

00:37:20.455 --> 00:37:23.755

And it's a great way to kind of, again, limit risk

00:37:23.755 --> 00:37:25.115

because we're asking the questions,

00:37:25.115 --> 00:37:27.155

we're documenting real time with the client,

00:37:27.155 --> 00:37:28.235

what their answers are.

00:37:29.015 --> 00:37:30.515

So if the client ever comes back

00:37:30.615 --> 00:37:32.395

and is like, oh, I told you about this

00:37:32.455 --> 00:37:34.995

and you didn't do anything, well we have the contemporaneous

00:37:35.305 --> 00:37:37.835

written documentation showing that they didn't.

00:37:38.205 --> 00:37:39.835

Which if it goes into court for any kind

00:37:39.835 --> 00:37:41.315

of malpractice issues is huge.

00:37:41.455 --> 00:37:43.995

It, it's what's gonna win the day at, at the end of the day.

00:37:44.615 --> 00:37:48.575

So identify early now

00:37:48.575 --> 00:37:49.735

that, oh, it doesn't happen.

00:37:49.735 --> 00:37:51.495

Sometimes the clients forget.

00:37:51.735 --> 00:37:54.175

I I have a, um, a partnership

00:37:54.835 --> 00:37:58.455

and the partnership is this past year had

00:37:58.455 --> 00:38:00.975

$700 million in gross receipts.

00:38:01.835 --> 00:38:04.095

And just out of happenstance, you know,

00:38:04.675 --> 00:38:07.095

we ask 'em all these questions that we normally do

00:38:07.795 --> 00:38:10.575

and I was like looking through the GL

00:38:10.575 --> 00:38:12.175

because I wanted to find something

00:38:12.555 --> 00:38:17.415

and all of a sudden I noticed a lot of weirder,

00:38:17.795 --> 00:38:20.495

you know, not weird, but non-US looking names and,

00:38:20.495 --> 00:38:21.535

and they were all Arabic names

00:38:22.195 --> 00:38:25.375

and I was like, what is this exactly?

00:38:26.355 --> 00:38:27.895

And so, you know, reached out to the client

00:38:27.895 --> 00:38:30.975

and said, what kind of transactions are you doing with like,

00:38:31.155 --> 00:38:36.045

um, United Era of Emirates Air and stuff like that.

00:38:36.665 --> 00:38:39.045

And they were like, oh yeah, we are actually dealing

00:38:39.045 --> 00:38:40.365

with the, their government.

00:38:40.575 --> 00:38:42.165

We're dealing with companies there.

00:38:43.265 --> 00:38:47.245

And that creates this, I'm trying to pull it up as I talk.

00:38:47.665 --> 00:38:50.325

Um, filing requirement for this 57 13,

00:38:53.055 --> 00:38:55.035

um, this international boycott form

00:38:58.475 --> 00:39:03.025

where if you do anything in one of the boycott country list,

00:39:03.445 --> 00:39:07.745

um, which I can give you is Iraq, Kuwait, Lebanon, Libya,

00:39:08.435 --> 00:39:11.825

Qatar, Saudi Arabia, uh, Syria or Yemen.

00:39:12.485 --> 00:39:15.345

It was, uh, sorry, I said United Arab Emirate. It was Qatar.

00:39:15.585 --> 00:39:17.265

'cause we were talking, it was, uh, during the year

00:39:17.265 --> 00:39:18.585

of the World Cup and we were like,

00:39:18.585 --> 00:39:19.985

oh yeah, the World Cup is there.

00:39:19.985 --> 00:39:21.785

And I was like, that goes like, wait, hold a second.

00:39:21.785 --> 00:39:23.025

You're doing stuff in Qatar.

00:39:23.765 --> 00:39:26.385

And that meant they had to file the 57 13.

00:39:26.415 --> 00:39:28.385

They didn't, they never told us about it in the past.

00:39:29.005 --> 00:39:31.825

And the penalty for this, I believe it's $25,000

00:39:31.925 --> 00:39:34.265

and up to two years in prison for not doing it.

00:39:34.265 --> 00:39:37.345

It again, large penalties, especially when someone has

00:39:37.345 --> 00:39:40.385

to do jail time as a worst case scenario.

00:39:41.085 --> 00:39:44.625

Uh, but the 57 13 again is just one that we, we kind

00:39:44.625 --> 00:39:46.785

of report, oh hey, yeah, this is a country

00:39:46.785 --> 00:39:47.785

that we're doing business with

00:39:47.785 --> 00:39:50.345

that's listed on the US boycott countries.

00:39:52.355 --> 00:39:54.695

Um, you know, I have on my other screen too, they,

00:39:54.795 --> 00:39:58.255

the list is always kept in the, um, federal registrar,

00:39:59.415 --> 00:40:01.515

but it's mainly just middle Eastern countries right

00:40:01.515 --> 00:40:02.555

now that are in there.

00:40:05.675 --> 00:40:07.295

Um, if you ever had that problem pop up.

00:40:07.875 --> 00:40:12.815

So always identify early as best as we can, uh, what kind

00:40:12.815 --> 00:40:16.375

of foreign activities are going on, uh, what kind

00:40:16.375 --> 00:40:18.415

of issues they have going on.

00:40:19.155 --> 00:40:21.615

And I think you also need to realize the,

00:40:21.995 --> 00:40:23.375

the entity structures and stuff.

00:40:23.395 --> 00:40:24.895

We have these foreign entities to make sure

00:40:24.895 --> 00:40:26.095

that we're reporting correctly.

00:40:26.735 --> 00:40:29.175

'cause if you remember, we had to check the box rules for,

00:40:29.635 --> 00:40:30.855

uh, domestic companies, right?

00:40:30.915 --> 00:40:33.975

If we are a multi-member, LLC, we're a partnership

00:40:34.535 --> 00:40:37.035

single member, LLC, we are a sole prop.

00:40:37.495 --> 00:40:39.555

Uh, if we're a corporation, we're a corporation.

00:40:40.465 --> 00:40:43.715

Well, with the multi-member

00:40:43.735 --> 00:40:44.915

or with the foreign

00:40:45.995 --> 00:40:49.325

entities, they don't do that.

00:40:49.475 --> 00:40:54.345

It's actually different where first they have

00:40:54.345 --> 00:40:57.345

this list of, um, company countries

00:40:57.345 --> 00:40:58.825

and then companies in those countries.

00:40:59.005 --> 00:41:01.745

And if they are specifically listed there, they are going

00:41:01.745 --> 00:41:02.585

to be considered,

00:41:04.375 --> 00:41:06.915

uh, corporations.

00:41:07.455 --> 00:41:10.635

So it's Reg 3 0 1 dash 7 7 0 1 dash two

00:41:11.605 --> 00:41:14.715

where we actually have a full list of these corporations.

00:41:14.815 --> 00:41:17.435

You know, El Salvador solicited, I don't know.

00:41:17.455 --> 00:41:19.835

That's a corporation. It defaults to a corporation.

00:41:19.855 --> 00:41:21.555

It is always gonna be a corporation.

00:41:22.295 --> 00:41:24.955

Um, and that's our per se corporations.

00:41:25.905 --> 00:41:27.635

Then with our check the box rules.

00:41:27.635 --> 00:41:30.115

If we're not this per se corporation, instead

00:41:30.115 --> 00:41:31.395

of looking, do we have one member?

00:41:31.415 --> 00:41:34.445

Do we have two members? We look at limited liability.

00:41:34.945 --> 00:41:38.285

If any member has basically, um, limited liability,

00:41:38.285 --> 00:41:40.485

we're gonna default usually to a corporation

00:41:41.065 --> 00:41:43.445

if there is unlimited liability where you default over

00:41:43.465 --> 00:41:47.315

to a partnership and then that makes a huge difference

00:41:47.315 --> 00:41:49.595

because you know, it's gonna trigger different filings

00:41:50.215 --> 00:41:52.515

on the international side if we have a partnership

00:41:52.515 --> 00:41:53.635

versus a corporation.

00:41:54.135 --> 00:41:56.195

So all these early identification things,

00:41:56.195 --> 00:41:58.195

especially in this international realm, are things

00:41:58.195 --> 00:41:59.635

that's gonna help us mitigate

00:41:59.635 --> 00:42:01.955

as many possible penalties as we can.

00:42:02.895 --> 00:42:04.195

Uh, we wanna talk with a partner

00:42:04.215 --> 00:42:06.555

or shareholders sometimes, you know, when we bring them on,

00:42:06.735 --> 00:42:09.555

we, we will hopefully do all the returns of the owners.

00:42:10.575 --> 00:42:14.395

If not, we might wanna talk to whoever our client contact is

00:42:14.395 --> 00:42:16.715

and be like, Hey, just a heads up you can,

00:42:16.715 --> 00:42:19.075

you let us know if you guys are gonna want the K 2K threes

00:42:19.835 --> 00:42:21.915

historically, have your other partners needed them.

00:42:22.415 --> 00:42:23.755

That's stuff that we wanna know.

00:42:24.035 --> 00:42:25.395

'cause again, when we're doing our billing,

00:42:25.655 --> 00:42:27.275

we wanna be able to bill for the work that we do.

00:42:28.095 --> 00:42:29.875

If we have a client come in

00:42:29.895 --> 00:42:33.075

and they say, Hey, I'll do your partnership for $2,000,

00:42:33.075 --> 00:42:34.395

they're like, okay, I agree to that.

00:42:34.895 --> 00:42:37.035

And then all of a sudden they come back like, oh,

00:42:37.035 --> 00:42:38.515

we need K 2K three as well.

00:42:38.655 --> 00:42:40.075

And you're like, oh, okay,

00:42:40.075 --> 00:42:42.315

well I can't charge you $2,000 anymore

00:42:42.315 --> 00:42:44.955

because that's a little hot board work for me to do.

00:42:45.455 --> 00:42:48.395

We really need to be upfront and honest about that pricing.

00:42:48.735 --> 00:42:50.635

Um, because their clients can get mad if all

00:42:50.635 --> 00:42:52.315

of a sudden we charge 'em $4,000.

00:42:52.455 --> 00:42:55.635

We told them two. So figuring that out early,

00:42:56.195 --> 00:42:58.955

figuring it out like right off the bat is really gonna help

00:42:58.955 --> 00:43:02.755

us price what we need to for these engagements a lot easier.

00:43:03.545 --> 00:43:07.235

Then if we're doing it, all of a sudden we get blindsided

00:43:07.255 --> 00:43:08.475

by having to do the filing

00:43:09.215 --> 00:43:10.995

and we need to go back to the client, oh,

00:43:11.255 --> 00:43:14.555

here's another bill for $3,000 to do these filings.

00:43:14.575 --> 00:43:16.475

It, it, it's not a good look for any of us

00:43:16.575 --> 00:43:18.795

and it doesn't really help client satisfaction.

00:43:19.095 --> 00:43:20.315

So always gotta be careful about that.

00:43:20.335 --> 00:43:22.315

You always kind of keep that in mind as well.

00:43:24.205 --> 00:43:26.385

Um, use updated IRS resources

00:43:26.385 --> 00:43:29.545

and FAQs to, you know, make sure that things are accurate.

00:43:30.015 --> 00:43:31.705

International, again, a lot

00:43:31.705 --> 00:43:34.585

of constantly moving parts, a lot of changing things.

00:43:35.245 --> 00:43:37.345

It, it kind of reminds me of the,

00:43:37.345 --> 00:43:38.945

like the FAQs for digital assets.

00:43:39.245 --> 00:43:40.865

If you remember on the 10 40 page one,

00:43:40.865 --> 00:43:43.505

there is a checkbox a couple years ago it started,

00:43:44.005 --> 00:43:46.185

do you have digital assets, yes or no?

00:43:46.245 --> 00:43:48.105

And then it, the, the question morphed and stuff.

00:43:48.565 --> 00:43:50.985

And unless you actually read the FAQ,

00:43:51.365 --> 00:43:53.545

the way they define things was totally different than the

00:43:53.545 --> 00:43:54.585

way that you read the sentence.

00:43:55.135 --> 00:43:58.465

That happens sometimes in the international realm too,

00:43:58.955 --> 00:44:00.385

where you're gonna read something

00:44:00.805 --> 00:44:04.465

but it might be defined differently elsewhere by the IRS Uh,

00:44:04.475 --> 00:44:07.505

worst case scenario, there was actually a, a tax,

00:44:07.665 --> 00:44:09.065

I think it was tax court, it might have been a district

00:44:09.065 --> 00:44:11.345

court, but I'm pretty sure it was tax court case

00:44:11.755 --> 00:44:14.705

where a person had this complex international transaction

00:44:15.945 --> 00:44:17.205

and they went to the publications,

00:44:17.595 --> 00:44:19.445

figured everything out perfectly

00:44:19.825 --> 00:44:24.785

to the dot using the publications IRS you know, audits,

00:44:24.785 --> 00:44:25.985

the return says you're on.

00:44:27.305 --> 00:44:28.685

But if you actually track through

00:44:28.785 --> 00:44:31.125

and they talk about this in the case, if you track

00:44:31.205 --> 00:44:33.525

through all of the things in the publications,

00:44:33.545 --> 00:44:34.685

how they did it, they did it perfect,

00:44:35.105 --> 00:44:36.485

not a single thing wrong.

00:44:37.025 --> 00:44:39.365

And then the IRS in the case had to be like, well,

00:44:39.365 --> 00:44:41.965

publications aren't authoritative and I'm sorry,

00:44:42.105 --> 00:44:44.125

but we made a mistake with the publication.

00:44:45.765 --> 00:44:48.065

Not the, not the best look for the IRS. Definitely not.

00:44:48.325 --> 00:44:49.665

Uh, but I think for

00:44:50.285 --> 00:44:52.625

us in the international world when we're doing this stuff,

00:44:52.655 --> 00:44:55.105

it's a big eye-opener that you need

00:44:55.105 --> 00:44:56.825

to make sure you're picking and choosing what you can

00:44:56.825 --> 00:44:57.825

and cannot rely on

00:44:57.825 --> 00:45:02.465

because this practitioner, you know, uh, client I taxpayer

00:45:03.075 --> 00:45:04.625

alone, you know, they were trying

00:45:04.625 --> 00:45:08.705

to rely specifically on these, um, one set

00:45:08.845 --> 00:45:11.145

of publications and they thought they could,

00:45:11.285 --> 00:45:13.785

but we know publications aren't authoritative and

00:45:13.785 --> 00:45:15.745

therefore the court said, Hey, no, you are wrong

00:45:15.745 --> 00:45:17.385

and these penalties apply against you.

00:45:19.235 --> 00:45:20.295

Um, some ti tips

00:45:20.295 --> 00:45:21.695

and tricks I have here, start early

00:45:21.695 --> 00:45:22.855

getting the information early.

00:45:23.155 --> 00:45:24.735

Uh, use software effectively.

00:45:25.775 --> 00:45:28.465

Make sure you're, I mean, if, if you're in your how

00:45:28.465 --> 00:45:30.465

of K 2K threes, I would definitely look for software

00:45:30.465 --> 00:45:32.985

that handles the K 2K threes in a a, a good manner.

00:45:33.325 --> 00:45:35.385

Um, especially if you branch out your international stuff,

00:45:35.385 --> 00:45:36.545

that means they're probably also good

00:45:36.545 --> 00:45:37.785

with the other international stuff.

00:45:38.335 --> 00:45:40.265

Talk to the shareholders and the partners.

00:45:40.265 --> 00:45:41.785

Make sure you know if they're gonna need things.

00:45:42.745 --> 00:45:43.945

Document, document, document.

00:45:43.945 --> 00:45:47.145

And that's gonna protect you the most from any kind of, uh,

00:45:47.145 --> 00:45:48.705

malpractice issues that you have.

00:45:49.655 --> 00:45:52.885

Check IRS resources. Always we will see.

00:45:52.955 --> 00:45:54.205

Make sure you're following the guidance.

00:45:55.205 --> 00:45:56.485

Leverage election options.

00:45:56.785 --> 00:45:58.365

See if we can actually elect out

00:45:58.365 --> 00:46:01.445

of the 1116 if we have less than $300 of foreign tax credit.

00:46:01.535 --> 00:46:02.925

Makes things look so much easier.

00:46:03.985 --> 00:46:05.485

Um, double check what you have.

00:46:05.845 --> 00:46:08.885

I like using chat GPT as a way to kind of check me first

00:46:09.025 --> 00:46:10.845

and you know, I'll do the work chat.

00:46:10.965 --> 00:46:13.845

GPT will check or I'll use chat GPT to do the initial work.

00:46:13.845 --> 00:46:14.885

And then I'll check, look

00:46:14.885 --> 00:46:16.245

through the instructions and be like, is this right?

00:46:16.265 --> 00:46:17.765

Is this right? Is this right? Um,

00:46:17.835 --> 00:46:19.845

just keep in mind when you use things like chat GPT,

00:46:19.895 --> 00:46:23.965

don't put actual client identifying information in, uh,

00:46:23.965 --> 00:46:25.045

or things that you know,

00:46:25.125 --> 00:46:26.805

a client wouldn't want a third party to know

00:46:26.805 --> 00:46:28.525

because you're disclosing it to a third party.

00:46:28.585 --> 00:46:29.685

So keep that in mind too.

00:46:30.685 --> 00:46:31.865

Um, extensions, you know,

00:46:31.885 --> 00:46:34.105

always if we can't get the information on time,

00:46:34.105 --> 00:46:35.505

always extend we can.

00:46:36.045 --> 00:46:38.945

So, um, can we share live session?

00:46:39.005 --> 00:46:40.625

And now we have a quick q

00:46:40.845 --> 00:46:43.505

and a session that we wanna hit as well.

00:46:44.205 --> 00:46:47.705

Uh, a couple questions came in past, uh, the,

00:46:48.685 --> 00:46:51.505

we were talking, so just wanna hit those, make sure we cover

00:46:51.505 --> 00:46:52.705

what that I have.

00:46:52.885 --> 00:46:55.745

Um, when are the K two and K threes due?

00:46:56.245 --> 00:46:59.665

So basically K 2K threes get filed with the return.

00:47:00.085 --> 00:47:03.785

Um, so they're gonna go with the 10 65 11 20 s.

00:47:03.805 --> 00:47:07.905

So usually March 15th if we extend they're due, you know,

00:47:07.905 --> 00:47:10.185

the extended deadline, nine 15, uh,

00:47:10.965 --> 00:47:12.425

if they have a different due date

00:47:12.485 --> 00:47:14.865

or same partnerships I guess too, then it'll be whatever

00:47:14.865 --> 00:47:16.505

that due date is so it with the return

00:47:16.965 --> 00:47:18.145

and they're gonna go with there.

00:47:19.815 --> 00:47:22.185

Another question that we had is, what if I don't do it?

00:47:22.185 --> 00:47:23.625

You know, what if I just don't feel like doing these

00:47:23.765 --> 00:47:25.945

and I'm supposed to and I don't want to?

00:47:26.135 --> 00:47:28.025

Well, the IRS has come out

00:47:28.025 --> 00:47:29.485

and said they can charge penalties.

00:47:29.845 --> 00:47:33.485

Penalties are up to, uh, $210 per partner

00:47:34.315 --> 00:47:36.015

or shareholder per month.

00:47:36.315 --> 00:47:37.655

Uh, so keep that in mind.

00:47:37.715 --> 00:47:42.015

It is a large penalty, uh, that we need to have

00:47:42.115 --> 00:47:43.735

and we wanna make sure that we're looking for.

00:47:45.995 --> 00:47:47.655

Um, what documents, you know,

00:47:47.655 --> 00:47:51.005

should we be asking our clients when we're doing these?

00:47:51.005 --> 00:47:52.605

Well always, you know, I think getting the,

00:47:52.665 --> 00:47:55.285

the prior year K ones is, is good to have.

00:47:56.105 --> 00:47:59.205

Uh, you know, we, we'd be having Sally is is always helpful,

00:47:59.345 --> 00:48:02.085

but it tells us and gives us a hint at what might be there.

00:48:02.745 --> 00:48:04.605

We might wanna ask, you know, um,

00:48:05.045 --> 00:48:07.405

specific details on their foreign income, any kind

00:48:07.405 --> 00:48:09.405

of activities or investments they have, uh,

00:48:09.405 --> 00:48:12.565

brokerage accounts with 10 90 nines who might need

00:48:12.565 --> 00:48:14.405

to use their own software to figure out foreign

00:48:15.305 --> 00:48:16.325

uh, dividends.

00:48:16.325 --> 00:48:19.805

Stuff like that. And then, you know, if you're, um,

00:48:20.645 --> 00:48:24.085

software does an organizer, I do recommend doing the, uh,

00:48:24.345 --> 00:48:25.645

the questionnaires

00:48:26.235 --> 00:48:28.485

that are attached in those organizers just

00:48:28.485 --> 00:48:30.325

because the, you know, they're vetted by professionals

00:48:30.585 --> 00:48:32.525

and it helps do a due diligence just

00:48:32.525 --> 00:48:33.845

to make sure we don't miss anything.

00:48:34.545 --> 00:48:37.645

Um, 'cause sometimes that is an issue.

00:48:38.335 --> 00:48:39.635

Uh, another one that I I

00:48:39.835 --> 00:48:40.995

I, I get this question all the time.

00:48:40.995 --> 00:48:45.385

I actually is, uh, what about compliance costs?

00:48:46.165 --> 00:48:48.025

You know, what, what, what do we charge for this?

00:48:48.045 --> 00:48:49.985

And what if our clients are mad at that?

00:48:50.095 --> 00:48:53.265

Well, yeah, this is more work that we have to do.

00:48:54.095 --> 00:48:55.395

Uh, the more work we have to do,

00:48:55.395 --> 00:48:56.915

the more work we have to charge.

00:48:58.085 --> 00:49:00.065

So, you know, prior to the K 2K three when a lot

00:49:00.065 --> 00:49:02.145

of the stuff didn't have to get disclosed, we could say,

00:49:02.145 --> 00:49:05.865

okay, you know, your charge is $2,000 for this tax return.

00:49:06.635 --> 00:49:08.975

Now all of a sudden we have another hour of work we have

00:49:08.975 --> 00:49:10.815

to do to get the K 2K three ready.

00:49:10.965 --> 00:49:13.815

Well, it's another hour of work, so we have to charge,

00:49:13.875 --> 00:49:15.535

we have to charge that value-based billing.

00:49:15.755 --> 00:49:18.805

Um, and sometimes it just happens.

00:49:19.115 --> 00:49:20.205

It's just one of those things you

00:49:20.205 --> 00:49:21.325

gotta bring up with your client.

00:49:21.505 --> 00:49:24.815

You know, I I think if you're, you say, Hey, you know,

00:49:24.815 --> 00:49:28.575

blame the IRS really, IRS has this thing, it, it's something

00:49:28.575 --> 00:49:30.575

that we don't wanna do, we'd prefer not

00:49:30.575 --> 00:49:31.695

to do if we didn't have to.

00:49:32.275 --> 00:49:34.615

Um, but at the end of the day, it, it's here,

00:49:34.725 --> 00:49:35.655

it's something you need to do

00:49:35.655 --> 00:49:36.855

or you're gonna face penalties.

00:49:37.035 --> 00:49:39.455

And in order for us to do it, we're gonna have to charge

00:49:39.875 --> 00:49:41.855

to get it done correctly.

00:49:42.595 --> 00:49:44.175

So that, that's definitely an

00:49:44.175 --> 00:49:45.655

implication that we need to know.

00:49:46.235 --> 00:49:47.575

Um, another question

00:49:47.575 --> 00:49:50.495

that I had too is software and how they work.

00:49:51.395 --> 00:49:52.895

So I use, um, access,

00:49:53.715 --> 00:49:55.855

access isn't the best I've found so far.

00:49:56.195 --> 00:49:58.375

I'm really hoping eventually stuff will flow

00:49:58.375 --> 00:49:59.535

through a little bit better.

00:49:59.975 --> 00:50:01.815

I know like the very first year, the K 2K three,

00:50:01.815 --> 00:50:03.375

nothing flowed through and it was terrible.

00:50:04.035 --> 00:50:05.135

Uh, we are getting more

00:50:05.135 --> 00:50:07.415

and more stuff kind of flowing through from the return

00:50:07.435 --> 00:50:08.695

to the K 2K three.

00:50:08.995 --> 00:50:10.095

So hopefully, you know,

00:50:10.095 --> 00:50:12.775

each year we're gonna get better results on the K 2K three,

00:50:13.435 --> 00:50:15.575

um, and, you know, hopefully they will be able to,

00:50:15.995 --> 00:50:18.285

um, help there.

00:50:19.065 --> 00:50:22.205

And the next one, what about small partnerships or s-corps?

00:50:22.205 --> 00:50:23.325

Do they need to do it? And,

00:50:23.345 --> 00:50:24.885

and the answer is, yeah, you know, un

00:50:24.885 --> 00:50:27.125

unless they absolutely avoid international

00:50:27.250 --> 00:50:28.450

activities, then they don't, right?

00:50:28.450 --> 00:50:29.950

If if it's small enough or they don't.

00:50:30.265 --> 00:50:32.645

But yeah, if they have like any kind of foreign tax credit

00:50:32.645 --> 00:50:35.285

that's more than say like, you know, $300 threshold,

00:50:35.285 --> 00:50:36.325

they're gonna have to do it.

00:50:36.825 --> 00:50:39.685

So there's no, oh, hey, I'm a small corporation.

00:50:39.745 --> 00:50:41.405

I'm a small partnership. I don't have to do it.

00:50:41.425 --> 00:50:43.045

It, the answer is you have to do it.

00:50:43.145 --> 00:50:46.525

If you have enough inter international activity

00:50:46.715 --> 00:50:48.325

that is going to warrant to do it,

00:50:49.035 --> 00:50:50.975

and you know, sometimes that just might mean we're not,

00:50:50.975 --> 00:50:52.295

we're not, we're gonna have to get rid of some clients

00:50:52.315 --> 00:50:53.455

if we don't wanna do this work.

00:50:54.075 --> 00:50:56.295

If, if we think that work is outside of the scope

00:50:56.315 --> 00:50:58.375

of our competency, we might have to back off

00:50:58.475 --> 00:51:00.935

and, you know, not function with it.

00:51:03.625 --> 00:51:05.645

Um, I like this question too.

00:51:06.145 --> 00:51:07.725

Uh, why, why are we doing this?

00:51:07.985 --> 00:51:11.005

Um, well, yeah, so this, this is an interesting one.

00:51:11.105 --> 00:51:13.565

It really kind of stems from, you know, the IRS

00:51:13.585 --> 00:51:16.605

and the way things were done internationally before, uh,

00:51:16.625 --> 00:51:18.725

before, you know, all this, this was all required

00:51:18.825 --> 00:51:21.485

to be disclosed before, let, let's make no mistake of this.

00:51:21.505 --> 00:51:23.245

The, the IRS isn't coming out

00:51:23.245 --> 00:51:24.685

and saying, Hey, these are new things

00:51:24.685 --> 00:51:26.045

that have to get disclosed.

00:51:27.045 --> 00:51:29.745

No, this is stuff that always had to get disclosed.

00:51:30.205 --> 00:51:32.545

Now what's happening though is there's a formal

00:51:32.545 --> 00:51:33.825

process to do it.

00:51:34.205 --> 00:51:36.225

So in the past, practitioners just didn't do it.

00:51:36.445 --> 00:51:38.345

Uh, they were supposed to, or you know, some

00:51:38.345 --> 00:51:40.385

of the bigger firms did do these like they were supposed to,

00:51:41.585 --> 00:51:44.965

but there was no uniform way to use that information.

00:51:45.715 --> 00:51:47.415

So owners would get these, you know,

00:51:47.495 --> 00:51:49.975

k ones from multiple firms all closing the same

00:51:49.975 --> 00:51:51.135

information in different ways.

00:51:51.155 --> 00:51:52.695

And it made it confusing, made it hard

00:51:52.755 --> 00:51:54.055

for the IRS made it hard

00:51:54.055 --> 00:51:56.135

for us practitioners doing the individual returns.

00:51:57.055 --> 00:52:01.195

So, you know, with that, we kind of get this issue pop up

00:52:01.245 --> 00:52:05.755

where we say, Hey look, yeah, this, this is definitely,

00:52:06.015 --> 00:52:07.435

um, the problem that we have.

00:52:07.535 --> 00:52:10.795

We need to focus on it and get something uniform.

00:52:10.895 --> 00:52:13.755

So this really, the purpose is to create a uniform filing

00:52:13.855 --> 00:52:15.155

for something that was always due

00:52:15.375 --> 00:52:16.515

and always had to get done.

00:52:17.015 --> 00:52:19.515

It just wasn't getting done all.

00:52:19.635 --> 00:52:22.515

And, and those are the questions I have for this little, uh,

00:52:22.585 --> 00:52:25.395

post session, um, q and a.

00:52:25.455 --> 00:52:26.635

So if you have any other questions,

00:52:26.635 --> 00:52:27.715

you know, feel free to reach out.

00:52:27.725 --> 00:52:28.795

We're happy to answer them.

00:52:28.935 --> 00:52:31.675

And if you need anything, just let me know. Thanks. Bye.