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If you have any technical questions, feel free to email us at support@myccp.com. Happy Learning and thank you for choosing my C CPE one, Where we're gonna talk about the, uh, K twos and the K threes. It's comprehensive guidance as much as it can be within, you know, a, a, a 50 minute realm of discussion. But it's one of these issues where, again, I, I think partnerships, mainly the IRS is like, has totally changed how we report partnerships.

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And they're just saying, Hey, there's been no uniform standards. There's been no uniform way to do things, and now we need to make things uniform. Same thing on the international realm. Before most of this stuff was not standardized. All the stuff was required to be reported, but since there's no form, most of it never got reported. Think of it as like escort basis. How many people that were just regular day-to-day people

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were ever reporting their basis until the 72 0 3 came up, right? The same thing here with the international stuff. People weren't reporting it even though they were supposed to. And then when you did get firms that were reporting it correctly and, and reporting it, it was never done in a uniform manner. Each firm had their own way of doing things. So, you know, as we do the individual returns

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and we get these K ones from all these different firms that doing things their own different way, it's hard for us as practitioners to kind of pick that up and be like, oh yeah, this is how we're gonna do this. This is how we're gonna file. So it's definitely one of the things that I, I think we need to kind of focus on and we need to make sure that we, we've done correctly, um, in power picking this stuff how we need to. So our quick little agenda here, um, you know, overview,

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K twos, K threes, whatever they, all that stuff. Who's gonna file? We're gonna look at the K twos, K threes together, the reporting requirements. Some, maybe some common scenarios, penalties, compliance risk. Honestly, to tackle this quick here. Um, incomplete returns. Incomplete returns. We'll follow the same incomplete return, uh, per, per month, per shareholder penalties or per partner penalties that we face. If the IRS picks up on it.

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I haven't had the IRS pick up on these in an audit yet, um, where they weren't done. Uh, I do a lot of tax controversy work, and we have clients come to us asking for help. And, and in all the audits that I've done where it's probably at issue, the auditor hasn't picked it up yet, might just be, you know, an IRS training issue or whatnot. But that, that's what I've seen personally. All right, so 2021 was when these were introduced and when you look at it, I mean, it's daunting.

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I think the, the original 2021 version was like 31 pages, 32 pages, uh, for the K three and a little bit shorter for the K two. And there's just so much stuff and the IRS is like, fill out all of this, do this now. And eventually practitioners, you know, practitioners almost revolted. They were like, what are you talking about? There's no way we can do this. This is crazy. This's gonna add so much cost to our compliance

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for these clients that have international stuff going on. So IRS kind of backtracked a little bit. They limited who's gonna have to do it. They limited some of the stuff that would get reported and things like that. Um, but overall, you know, 99% of it's stuck. Um, that first year, I would say software integration was horrible. Um, most software didn't do it. You had actually hard keyed most of the stuff.

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And I, I talk about the ars. Uh, same thing with the ars. Still to this day, you have to hard key things more than one time, um, when hopefully the software would pick up. That just has to have to flow through to things. K twos, K threes more like that. We are seeing it do that a little bit better now. Um, at least in like the software deck that I've been using where it's picking that stuff up. But overall, I think the software even, you know, um,

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testing out other software, I, I think it's kind of lacking what it needs to do in order for us to have good software to say the K 2K three is correct and being done right and being done in an efficient manner too. Right now, the K 2K three there, there's two different things. K two is gonna provide detailed breakdown for the entity and then the K three gives the partner shareholders with our information with the K one. So kind of think of it, um, you know,

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when we actually have like a partnership escort return, we have to schedule K right as part of the main filing. And that generates a K one, the K two is what's done with the main filing and that generates the K three. Same thing here where we're putting all the main information. The K three is then what breaks it up and goes to the individual, uh, people with the ownership. All right, so who's generally gonna file these? It's gonna be our pastor entities partnerships, scorps,

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if they have foreign income or deduction foreign partners, um, US partner shareholders claiming the F-T-C-F-T-C is foreign tax credit. Um, hopefully I don't use too many acronyms and if I do, I will try to define them as best as I can. Uh, foreign tax credit and, and honestly, you know, if we're actually looking at this, um, from, I think the, the standpoint of most US prepares the foreign tax credit stuff is probably

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where it's going to get picked up in and where we have it, right? Um, entities without foreign activities may still need to file if the partners or shareholders require the FTC. So we can actually have partners or shareholders and request the K two, K three from us. And if they do that, then we're gonna need to file. There is a whole long complex kind of scenarios where that happens and I used to actually talk about that a little bit more.

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Um, but now that we get into actual practice, I've never had a par a partner, um, request a K two, K three from me. So I, I don't think it's as relevant as we we thought it might be. Now what I wanna do is I'm gonna switch over to my instructions And like I said, most people are going to need to file, but we have this domestic filing exception, um, paging down and is losing my place, which is right here.

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Um, so generally if we have a domestic partnership, and we're probably don't need to do it again if, if we don't have any foreign activity, if we have limited foreign activity, we might also be able to do it. Limited though is very limited. Not more than $300 of foreign income taxes. Allowable as a credit is the main limit that we have there. Um, the amounts also have to be on a pay e statements typically gonna be a 10 99 B,

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so makes it even more limited as well. Uh, it does have to be US citizen resident alien partners. If we have a non-resident alien partner, it will not qualify. We need to notify the partner as well because they can ask us for the K 2K threes. And if they do, then we do need to apply it. Um, no 2023 K three requests by the one month date DR a month, no requests are made, then we don't need to worry about it.

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Um, that's the general exception that we have here for filing these that I want you to kind of keep in mind and why we don't need to do it for all of them. When it first came out, the IRS was requiring every single partnership s corp to file these. Didn't matter if they were foreign or not, anything like that, they had to file IRS. Again, practitioners have some sway in these things. Um, after we threw a big old hissy fit, IRS said, okay,

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okay, not everyone's gonna need to file these. And it, I think it worked out good because honestly what has to get filed now is a little bit, you know, easier to see a little bit, you know, more compliance friendly. Um, just be weary about that. 'cause again, when we kinda look at it, um, if you don't do it and you're supposed to, it's considered a non-complete return

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and then it will be a penalty of 2 45 in 20 25, 240 $5, um, times the owners times the months. This is, I'll do ow because that looks like a zero zero. That makes a lot easier. So it can really add up, especially if you have like 10 owners, you know, it is gonna be a very large penalty. So be careful about that because if the IRS does pick up on it, it will be,

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it'll be something that's there. Now we're gonna go through it quick, but I wanna again, kind of transition at some neat stuff that we have, um, with chat GPT. So let me switch over to our chat GPT and let's just say, we'll, we'll we'll stick with an S corp this time. Um, I have an S corp, it has eight, $900 of foreign in tax paid.

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What do I need to do on the K three K two and what additional information am I need? And so I think this is again, a really cool use for chat GPT 'cause how does this happen, right? Um, our client's gonna come in, we're gonna get their books and records, hope, hopefully they're good. And we might see something like, oh hey, you know, I have $900 of foreign tax paid. When we talk about ethics, uh, circular two third and everything, we do need competency when

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before we, we take on where before we complete an engagement. So good way to kind of get, get that basic start to competency, right? Hey, you know, I have this, I haven't seen this, what do I need to do? And so we're gonna complete our K two. It's, it's gonna tell us what we're gonna fill out. We're gonna have to complete part two of it. I i, I did this first because I wanna transition to the, uh,

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forms and, and kind of look at the forms with that. Um, the pastor reporting, you know, all that other things. What other stuff are we gonna need? Country that the taxes were paid, type of foreign income that we have, source or income corresponding tax paid. Uh, whether the tax is paid or recruited or documentation, uh, what do you want a detailed walkthrough of it and be like, let's just ask. Yeah. Um, actually

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before we do that, let's switch over to the K two for an 1120 s so we can kind of see what that looks like. And then we're gonna talk about that detailed walkthrough. So here's the K two, um, 1120 s. The 1120 s and the 10 65 1 are pretty similar. Um, there is a whole bunch of complex international tax stuff that goes into this. So I'm really gonna focus more mainly on our foreign tax credit stuff. 'cause that's 99% of our clients that we're gonna see.

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So if we do have a foreign tax credit, we have our part one. It is just kind of like a checklist almost. If you kind of think of like the nine nineties, it's like, hey, what part applies, what part doesn't apply? Um, part one then is gonna be, this is the type of foreign stuff that we have going on. And again, that's gonna kind of highlight what we're probably gonna need to fill out in K 2K three. Then we get down to our foreign tax limit. So this is one that we're probably gonna have

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to be pretty well versed in. And we are gonna have, you know, we, we basically take our income statement, we figure out what is our sales from us sources, what's our, what's our income stuff from us sources, what is it from our foreign sources? We have to list out what country they're from and and whatnot. And then we kinda get our total. And that's gonna correspond then

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to our page one on the 1120 s, right? Because this is all our income expenses. We haven't gotten to the expense part yet, but trust me, expenses are coming. Um, and, and kind of boil down to there, right? And so then here's our expense part, part two, um, section two so we can kind of see this all laid out. Um, same as section one, two, where we want our US source, we want our foreign source. Our foreign source is always broken out into basically,

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uh, four categories. Foreign branch income, which probably you won't see too much. Passive category, income general, and then other. And after that we get into our limitations with the deductions. And that's mainly the stuff that we have to report. Hey, this is our income, this is our expenses and this is sourcing it to the right area. Part three is where we look at the 1116

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and 1116 is our foreign tax credit form and the information we need there. Um, if we have RD expenses, we kind of have to put out those. I I've seen a couple of clients with this, but again, probably not one that you're gonna touch much. But here, um, section two of this part is one that you will have to where you need to actually take your total average value of assets, break it out between us and foreign and source.

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And then we look at how the interest is kind of calculated, what's eligible to it, you know, interest generating stuff, what is going to be here. Um, and you can go through that as well. And then part three is where we actually list out our foreign taxes. We do it by country that we get it in paid or accrued. Do we pay it or are we just accruing it like we would, you know, a, a journal entry entry transaction. Um, then we're uh, reduction of taxes, any kind

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of re uh, tax reductions that we had. Um, honestly most of the rest of this here probably aren't going to see too much when we're just looking at plain foreign tax credit things and e extra kind of spots there that we have. Then we get into our, again, areas that we're not gonna cover in depth because these are really gonna focus more on um, like things like f guilty, stuff like that that are gonna pop up.

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Um, so distributions from foreign corps to S corps. Uh, 9 51 a inclusions. Our PFI stuff PFI are always ones. We talked about the K ones before and how they have those just like laundry list of notes and some can be like a hundred pages of notes. Usually if it's a hundred pages of notes, they probably have PFI in there which require their own filings and with their pfi, QE F elections. And you know, again,

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interest in foreign corporations if we have any of that S corp standpoint too. The partnership, again, there's a couple little differences in the partnership that things get reported, like FI and stuff like that. But honestly most of it, especially when it comes to the 1116 for tax credit stuff is going to all be the same all in here. So now that we kind of see that, we can look at what it told us to fill out basically part one, which is

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that general information part two, right? So part one was our general part two goes through the foreign tax credit and then part three is other information for the 1116. So we can ask like, what about part three that's says for the 11 and here gives it more further. So it will give us a little bit more information and let it generate. So let's kind of take this, you know, one step further.

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Um, we said there's $900 of foreign tax credits. So let's just say $500 of what's producing four tax credits. I have $10,000 of US source income and 20,000 source to rent. Um, what's a deduction? We'll just say rent. Oh yeah, rental expenses. Uh, no lose short-term capital losses.

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$5,000 of short-term capital losses on the account. Uh, fill out the K two part two and three for me. So here what we can do is it will go through and it will take what we have. So let's kind of reconcile this to here. 'cause again, we can't always trust chat g PT and it's not always accurate. But if we go to part one, what's part one asking us?

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It's basically looking at what kind of things do we have? So do we have any foreign tax transactions here that we can check? And that's what we're gonna look at. We're gonna list as well, um, our foreign taxes paid or recruited when we get to part two, section one. So our first line is income. So we have our general category income is what we're calling it.

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We have our country, which will be France. And then when we get into our paid or recruited, which you can already see they have an issue because the paid or recruited part is going to get dropped into the lower section that we get into down here in part three, section three. But at least that gives us that part that we fill out. Um, but now we'll get into section again, this should be, I wonder if it's using the 10 65 1 off the top of my head.

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Um, summary income by category. So we have how the categories are broken out that we can kind of put into the form and transfer it straight into the form. It does our allocations that we need to as well and gives it away. Now again, you can kind of teach it a little bit to be like, Hey, do this, this, and this. But it it is a start, right? It's a start when we don't know what we're doing totally

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and we can kind of start figuring things out from there. So that is the general K two that we have. So if we switch it over to the K three, that was in the K three recently, which is why it didn't start on page one, but what does it look like? It looks a lot like what we had except here now it's the shareholder share. So we're just kind of taking it and allocating it based on the shareholders.

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All the stuff from the K 2K three is gonna get allocated over to from the K two was getting allocated over to the K three based on ownership percentage. And you know, S-corps, they don't have issues with partnerships where things can be specially allocated. So most of this should be basically done by the ownership percentage that we have in the S-corp, if that makes sense. Um, but you can kinda see all these sections aligned exactly with what we just talked about

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and just kinda looked at, Uh, back. So I think that's, you know, really the main one that we wanted looked at the most is that foreign income sourcing. 'cause that's what's gonna help us generate and calculate out our, um, foreign tax credits when we get to the individual return. So it is really important that we know what is the US source, what's the foreign source.

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Now a lot of times when our clients get these, you know, pieces of information that we have, a lot of that is going to get tossed in on a brokerage statement and that's what generates a foreign tax credit. That brokerage statement should provide the breakout of where that income came from if there's a foreign tax credit and then we can kind of take that there. Um, we are able to use it's GEN, we have brokerage statements as a where did it come from number and we can look at that.

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I'll talk about it more after we get through the next polling, uh, section. Um, K two key key sections. We kinda looked at core relevance for filers with international activities. Part four, this is when we had the 10 65. There's c section which partnerships with corporate partners and base erosion and anti-abuse, which is the beat tax. Those get their own separate sections as well on the K two for the 10 65.

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So lemme switch over to that and you can kind of see what that looks like. Um, again, what did it look like as the 1120 s foreign tax credit, foreign tax credit in limit. So we're all pretty good there. R and e expenses, again, all the same, all the same information for the 1116. We're still the same. Here is where we get into the, the differences is starting with part four.

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Um, part four for our 10 65 is where we're gonna disclose fitty and what's going on with fitty. Our distributions from Corp Forum Corps to partnerships is gonna go on part five. Uh, again, 9 51 exclusions are the same as the scorp, our pfi same as the S corp. Um, interest in foreign corporation section nine 60. Again, just more information that's really disclosed. Our base erosion beat tax is part nine

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so much longer one too when we get into our, our 10 65 versus the 1120 s. Um, and the other one I wanna point out too because this one, you know, we talked about the, um, for tax credit as a major filing one, we often have, uh, partnerships with the one partners when that happens, we do have to file part 10 as well. So keep that in mind when we have it. And so, you know, we kind of already hit all this, but that K three is really just a version

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of the K two, but it's gonna focus on that partner shareholder level reporting. It's organized by category, again, foreign source income. How we allocate out the four tax credit is the main thing that we want to, and distributions to the partner shareholders complete their returns so they cannot file these returns, especially when they have the more complex filings with the foreign tax credit, uh, without it because that's gonna calculate all their stuff.

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And really when we talk about foreign tax credit, the reason why we care, um, the FTC really deals with like baskets and the credits are calculated in these baskets. So all these like breakouts, all these different um, allocations, stuff like that that we've looked at here, that helps us figure out the different baskets that we need for our foreign tax credit and kinda see when we have our foreign tax credit and, and how it, uh, functions on the 1116.

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You know, we're gonna first create what basket is this gonna be? 9 51 a passive category general. And I think most of us have passive category income. We talked about foreign tax credit, break it out into the foreign country and that's one of the baskets that we have. We calculate out the tax based on that basket. So that's why we really need these breakouts. 'cause when you look at these things,

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what's our gross income? Where's the source from? What's the expenses? What's the source from that's really taking all the stuff that we need to fill out this 1116, it's tossing it in a, in a more complete form really then what we have there. Because sometimes if we don't have enough income, uh, that we can show that we need the foreign tax credit, we're not able to claim that foreign tax credit. Um, that's why a lot of people are just like not doing the 1116.

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If we have $300 or less than FTC where you don't need to, Um, our reporting requirements, again, generally it's gonna get filed unless we can show that it's not needed to be filed because we don't have any foreign issues going on and no foreign partners, as soon as we hit kick into a foreign partner or foreign issues, we're most likely gonna have to file something and we need to pay attention to that. Um, we wanna make sure

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that people are getting it every now and then. You know, you might get a partner request it and if they request it within a month, you do have to file it. Um, you can often just provide the schedules and stuff if it's after that month, but you still should, you know, know, put up the K 2K three so that way they know exactly what they have. Uh, another thing I wanted to point out to you. Generally, if, if we can't figure out the source of income

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or the client might not know it, we are able to use country code xx. It's usually as a code that we determine being like, oh, it's foreign, but we're not a hundred percent sure where it's foreign. Uh, a lot of times if we have a brokerage statement, um, we'll end up using the code XX because that's, you know, we can't figure out exactly where that's from or it just doesn't make sense to break it out. We're able to do that.

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Uh, so that's a a I think another key issue that we have when we're looking at this K 2K three, I just wanted to highlight. All right, so the common scenarios that we have, um, that I just wanted to highlight to make sure you're aware of. When, when you're doing your return prep and you're starting to figure out, oh do I need to do this? Do I not need to do this? Always default, you know, if we were gonna flow chart it,

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it would do f yes, probably need to file. No, don't need to file. That's the most common thing, right? Do we have any foreign stuff in here? Yes, probably need to file. No, we don't need to and we're good to go. So any business that is completely domestic doesn't get foreign tax credits, doesn't do anything overseas, anything like that. We don't worry about the K 2K three, we are able

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to skip right over it and move on to the next session and not worry. Um, but we do have it. We are gonna trip it up. So commonwealth that we have partnership with foreign investments and a corporate partner. So again, if we have our foreign investments here in a partnership, it is generating forward income. It's gonna be our um, typically gonna be that passive category.

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If it's gonna be passive investments that is generating and that's gonna have to get reported income expenses, all that we do report the US income. So we know the allocation between the two. Uh, the second one I have is escort by a shareholder claiming FTC for foreign taxes paid on mutual funds. So this is an interesting one too, right? Let's just say that our client is um, a random individual and

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and they have their own brokerage account. That brokerage account generates $20,000 of foreign tax credit. Our 1120 s for the S corp doesn't have any foreign issues. That partner still might go to the S corp and ask for a K 2K three in order to give the US you know, breakout, which should be a hundred percent and hopefully that partner knows that, but it's still something they can do. They can still go to the preparer, ask

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for the K 2K three even if there is no foreign income. Um, generally we'll go back and be like, there's no requirement here, we don't wanna do that 'cause it costs too much money and they're okay with that. Um, but it is one where if the partner needs it because they're claiming the FTC at the individual level, even though it has nothing to do with the S-corp, it still helps 'em prepare that still looks at the overall allocation of all their um,

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income and you would know foreign income but partners needing that FTC details again, if we don't have any foreign income, um, kind of like the example I just talked about, I was trying to highlight the same thing I guess, uh, really what we wanna say is, look, I need this 'cause it's gonna do our foreign tax 1116 figuring out the US sourced income, how the allocations for like rent and all that are breaking down. Um, 'cause when we saw it

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before we had a K 2K three up, you, you kinda see especially the expense, our expenses get broken out by anything directly related, anything not def uh, definitely related. And then we have our itemized deductions, other deductions, general foreign source income. Um, we can break out our expenses into different areas, different groups and those are going to, especially when we get into the mortgage and how the mortgage or not the mortgage, sorry, interest

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and how that gets allocated, that is going to change things as well. Um, but yeah, that's generally re the reason why is figure out the deductions and losses section. Um, for this is really how we kind of get roped into filing these when we might not have to. Um, generally from that partnership. Um, no again, penalties. Usually what we have is going to be

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the per partner per month. Um, penalties the first year this came out there was a penalty waiver where if you didn't write do it right, the nf um, the IRS would say, Hey, we're not going to assess any penalty on this so you don't need to worry. Um, so they would actually grant relief up to $10,000 per entity, uh, for this as well. So that was one and my research, I don't know where I found in my research to two,

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I don't think this 2 7, 6 annually applies. Um, I did this late. I I don't know why I toss it there. So let's, let's kind of ignore that. Um, K three distribution, maybe that's where I got it from. Uh, two 90 per perform up to 3.426 million annually. So that is definitely one thing that you need to kind of, you know, function with and understand that it could be a very large penalty that you can add up quick. Um, that's, that's one reason too, you know,

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if if you're not really into the foreign stuff and you haven't dealt with them that much, I always try avoiding, uh, doing the parts that I don't deal with. I don't deal with very much. Uh, guilty. We actually do a lot more guilty now than we used to. Um, so we do see that more. But the penalty's add up quick. We, we had one client who, um, had an issue. I think it's an interesting one to talk about. Lemme see. Oops, Maria. Uh, so we had a client to kind of give an idea

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of the issues that get involved. Uh, he is a US citizen, so we're gonna draw him here, individual US and then he had a property in TC Turks and Caicos. Now when we have this, and I think it's relevant as well, when we get into this partnerships with foreign, um, real property 'cause we gotta be worried about that too, is a lot of countries don't like foreigners

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owning land in that country. And Turks and Caicos is one of them. We, we had this issue too with another client in Portugal. Uh, Portugal doesn't like you owning property in there if you're not a Portuguese resident. And so what you do is you form a corporation under the laws of that country. 'cause then you are considered a resident, you know, a person of that country, the corporation, not you. And that corporation then is what buys the land

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now doing that. And you know, if, if you didn't know about that, um, we had the corporations, you have like the 54 71 penalty, um, filings, 54, 70 twos, uh, possibly, but usually, um, you know, one of the twos that is gonna kick in there, that's $10,000 penalty. Well, corporations, we have this 9 26 penalty and the 9 26 penalty is based on the fair market value, what you put into that corporation. And for the search and Caicos one,

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the guy put in a couple million dollars and IS ended obsessing, it was $1.2 million of penalties on this guy because he filed, he didn't do the 9 26, he didn't do the 54 71 because he didn't know he owned a foreign corporation. No one ever told him. His attorneys, you know, did all this stuff to form the corporation, bought the property, all that. And no one was like, Hey, you have a foreign

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corporation, all you need to file. And so with that, I don't know how many people's malpractices gonna cover up to that much money. Um, and penalties, we were able to get him out of it. Uh, we, we picked it up from another preparer, but it, it just, you know, again, it gives a show. When we have these more complex international situations, the penalties escalate so fast and so quickly that we do really want to avoid them,

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you know, at all costs as much as possible. Um, just due to the risk exposure. That's another reason why, you know, when we look at billing and stuff with this international, especially when you get in the K 2K threes, I would charge at least, you know, a thousand, $2,000 extra just to even do a basic K 2K three just due to risk with it. Um, anytime we do have international clients, we wanna charge more.

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It just makes sense. We had one client, honestly it was a, a pretty basic C corporation and we were charging 'em 15,000 a year just due to some of the complex international transactions that he had. He ended up giving up his us too. Um, but it adds up really quickly and unless we're billing for risk on the international stuff, we're prone to lose money. So always keep that in mind as an aside onto these forms that we do need to worry about risk

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and risk associated with it and bill accordingly. 'cause the worst thing that you want to happen is you mess up one of these large penalty is gonna kick in and it wipes out all your profit from any other thing that you did as associated with this. So always bill higher for risk. 'cause that's always gonna help you kind of mitigate it in the end of the day. All. So best practices for compliance here, and,

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and I think this is probably gonna be like we talked about all of five minutes ago, is, um, risk assessment and penalty mitigation. We need to figure things out early with the clients. Um, and a lot of it's gonna come from just looking through, you know, having that first sit down with our client during, um, onboarding. You know, hey, what are you doing? What do you do? Do you operate in other countries? 'cause that's gonna give us the idea of where that happens.

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And anytime I say, yeah, we operate in other countries, that's when our ears need to perk up and we need to start looking at things like these K 2K threes and the other issues that are gonna be involved. It's always going to be, you know, the a a big tell as soon as they tell us, yes, we, we have operations in other countries, we sell to other countries, have foreign contractors, stuff like that because that's when we have these more complex situations come in.

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So my onboarding process, I have a, a spreadsheet that I fill out and they ask specific questions that I need to know about my client before I will take them on it and do their work. And it's a great way to kind of, again, limit risk because we're asking the questions, we're documenting real time with the client, what their answers are. So if the client ever comes back and is like, oh, I told you about this

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and you didn't do anything, well we have the contemporaneous written documentation showing that they didn't. Which if it goes into court for any kind of malpractice issues is huge. It, it's what's gonna win the day at, at the end of the day. So identify early now that, oh, it doesn't happen. Sometimes the clients forget. I I have a, um, a partnership and the partnership is this past year had

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$700 million in gross receipts. And just out of happenstance, you know, we ask 'em all these questions that we normally do and I was like looking through the GL because I wanted to find something and all of a sudden I noticed a lot of weirder, you know, not weird, but non-US looking names and, and they were all Arabic names and I was like, what is this exactly? And so, you know, reached out to the client

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and said, what kind of transactions are you doing with like, um, United Era of Emirates Air and stuff like that. And they were like, oh yeah, we are actually dealing with the, their government. We're dealing with companies there. And that creates this, I'm trying to pull it up as I talk. Um, filing requirement for this 57 13, um, this international boycott form where if you do anything in one of the boycott country list, um, which I can give you is Iraq, Kuwait, Lebanon, Libya,

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Qatar, Saudi Arabia, uh, Syria or Yemen. It was, uh, sorry, I said United Arab Emirate. It was Qatar. 'cause we were talking, it was, uh, during the year of the World Cup and we were like, oh yeah, the World Cup is there. And I was like, that goes like, wait, hold a second. You're doing stuff in Qatar. And that meant they had to file the 57 13. They didn't, they never told us about it in the past. And the penalty for this, I believe it's $25,000

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and up to two years in prison for not doing it. It again, large penalties, especially when someone has to do jail time as a worst case scenario. Uh, but the 57 13 again is just one that we, we kind of report, oh hey, yeah, this is a country that we're doing business with that's listed on the US boycott countries. Um, you know, I have on my other screen too, they, the list is always kept in the, um, federal registrar, but it's mainly just middle Eastern countries right

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now that are in there. Um, if you ever had that problem pop up. So always identify early as best as we can, uh, what kind of foreign activities are going on, uh, what kind of issues they have going on. And I think you also need to realize the, the entity structures and stuff. We have these foreign entities to make sure that we're reporting correctly. 'cause if you remember, we had to check the box rules for,

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uh, domestic companies, right? If we are a multi-member, LLC, we're a partnership single member, LLC, we are a sole prop. Uh, if we're a corporation, we're a corporation. Well, with the multi-member or with the foreign entities, they don't do that. It's actually different where first they have this list of, um, company countries and then companies in those countries.

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And if they are specifically listed there, they are going to be considered, uh, corporations. So it's Reg 3 0 1 dash 7 7 0 1 dash two where we actually have a full list of these corporations. You know, El Salvador solicited, I don't know. That's a corporation. It defaults to a corporation. It is always gonna be a corporation. Um, and that's our per se corporations. Then with our check the box rules.

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If we're not this per se corporation, instead of looking, do we have one member? Do we have two members? We look at limited liability. If any member has basically, um, limited liability, we're gonna default usually to a corporation if there is unlimited liability where you default over to a partnership and then that makes a huge difference because you know, it's gonna trigger different filings on the international side if we have a partnership versus a corporation.

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So all these early identification things, especially in this international realm, are things that's gonna help us mitigate as many possible penalties as we can. Uh, we wanna talk with a partner or shareholders sometimes, you know, when we bring them on, we, we will hopefully do all the returns of the owners. If not, we might wanna talk to whoever our client contact is and be like, Hey, just a heads up you can, you let us know if you guys are gonna want the K 2K threes

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historically, have your other partners needed them. That's stuff that we wanna know. 'cause again, when we're doing our billing, we wanna be able to bill for the work that we do. If we have a client come in and they say, Hey, I'll do your partnership for $2,000, they're like, okay, I agree to that. And then all of a sudden they come back like, oh, we need K 2K three as well. And you're like, oh, okay,

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well I can't charge you $2,000 anymore because that's a little hot board work for me to do. We really need to be upfront and honest about that pricing. Um, because their clients can get mad if all of a sudden we charge 'em $4,000. We told them two. So figuring that out early, figuring it out like right off the bat is really gonna help us price what we need to for these engagements a lot easier. Then if we're doing it, all of a sudden we get blindsided by having to do the filing

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and we need to go back to the client, oh, here's another bill for $3,000 to do these filings. It, it, it's not a good look for any of us and it doesn't really help client satisfaction. So always gotta be careful about that. You always kind of keep that in mind as well. Um, use updated IRS resources and FAQs to, you know, make sure that things are accurate. International, again, a lot of constantly moving parts, a lot of changing things.

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It, it kind of reminds me of the, like the FAQs for digital assets. If you remember on the 10 40 page one, there is a checkbox a couple years ago it started, do you have digital assets, yes or no? And then it, the, the question morphed and stuff. And unless you actually read the FAQ, the way they define things was totally different than the way that you read the sentence. That happens sometimes in the international realm too,

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where you're gonna read something but it might be defined differently elsewhere by the IRS Uh, worst case scenario, there was actually a, a tax, I think it was tax court, it might have been a district court, but I'm pretty sure it was tax court case where a person had this complex international transaction and they went to the publications, figured everything out perfectly to the dot using the publications IRS you know, audits, the return says you're on.

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But if you actually track through and they talk about this in the case, if you track through all of the things in the publications, how they did it, they did it perfect, not a single thing wrong. And then the IRS in the case had to be like, well, publications aren't authoritative and I'm sorry, but we made a mistake with the publication. Not the, not the best look for the IRS. Definitely not. Uh, but I think for

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us in the international world when we're doing this stuff, it's a big eye-opener that you need to make sure you're picking and choosing what you can and cannot rely on because this practitioner, you know, uh, client I taxpayer alone, you know, they were trying to rely specifically on these, um, one set of publications and they thought they could, but we know publications aren't authoritative and therefore the court said, Hey, no, you are wrong

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and these penalties apply against you. Um, some ti tips and tricks I have here, start early getting the information early. Uh, use software effectively. Make sure you're, I mean, if, if you're in your how of K 2K threes, I would definitely look for software that handles the K 2K threes in a a, a good manner. Um, especially if you branch out your international stuff, that means they're probably also good

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with the other international stuff. Talk to the shareholders and the partners. Make sure you know if they're gonna need things. Document, document, document. And that's gonna protect you the most from any kind of, uh, malpractice issues that you have. Check IRS resources. Always we will see. Make sure you're following the guidance. Leverage election options. See if we can actually elect out

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of the 1116 if we have less than $300 of foreign tax credit. Makes things look so much easier. Um, double check what you have. I like using chat GPT as a way to kind of check me first and you know, I'll do the work chat. GPT will check or I'll use chat GPT to do the initial work. And then I'll check, look through the instructions and be like, is this right? Is this right? Is this right? Um, just keep in mind when you use things like chat GPT,

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don't put actual client identifying information in, uh, or things that you know, a client wouldn't want a third party to know because you're disclosing it to a third party. So keep that in mind too. Um, extensions, you know, always if we can't get the information on time, always extend we can. So, um, can we share live session? And now we have a quick q

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and a session that we wanna hit as well. Uh, a couple questions came in past, uh, the, we were talking, so just wanna hit those, make sure we cover what that I have. Um, when are the K two and K threes due? So basically K 2K threes get filed with the return. Um, so they're gonna go with the 10 65 11 20 s. So usually March 15th if we extend they're due, you know, the extended deadline, nine 15, uh, if they have a different due date

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or same partnerships I guess too, then it'll be whatever that due date is so it with the return and they're gonna go with there. Another question that we had is, what if I don't do it? You know, what if I just don't feel like doing these and I'm supposed to and I don't want to? Well, the IRS has come out and said they can charge penalties. Penalties are up to, uh, $210 per partner or shareholder per month.

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Uh, so keep that in mind. It is a large penalty, uh, that we need to have and we wanna make sure that we're looking for. Um, what documents, you know, should we be asking our clients when we're doing these? Well always, you know, I think getting the, the prior year K ones is, is good to have. Uh, you know, we, we'd be having Sally is is always helpful, but it tells us and gives us a hint at what might be there. We might wanna ask, you know, um,

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specific details on their foreign income, any kind of activities or investments they have, uh, brokerage accounts with 10 90 nines who might need to use their own software to figure out foreign uh, dividends. Stuff like that. And then, you know, if you're, um, software does an organizer, I do recommend doing the, uh, the questionnaires that are attached in those organizers just because the, you know, they're vetted by professionals

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and it helps do a due diligence just to make sure we don't miss anything. Um, 'cause sometimes that is an issue. Uh, another one that I I I, I get this question all the time. I actually is, uh, what about compliance costs? You know, what, what, what do we charge for this? And what if our clients are mad at that? Well, yeah, this is more work that we have to do. Uh, the more work we have to do,

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the more work we have to charge. So, you know, prior to the K 2K three when a lot of the stuff didn't have to get disclosed, we could say, okay, you know, your charge is $2,000 for this tax return. Now all of a sudden we have another hour of work we have to do to get the K 2K three ready. Well, it's another hour of work, so we have to charge, we have to charge that value-based billing. Um, and sometimes it just happens. It's just one of those things you

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gotta bring up with your client. You know, I I think if you're, you say, Hey, you know, blame the IRS really, IRS has this thing, it, it's something that we don't wanna do, we'd prefer not to do if we didn't have to. Um, but at the end of the day, it, it's here, it's something you need to do or you're gonna face penalties. And in order for us to do it, we're gonna have to charge to get it done correctly.

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So that, that's definitely an implication that we need to know. Um, another question that I had too is software and how they work. So I use, um, access, access isn't the best I've found so far. I'm really hoping eventually stuff will flow through a little bit better. I know like the very first year, the K 2K three, nothing flowed through and it was terrible.

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Uh, we are getting more and more stuff kind of flowing through from the return to the K 2K three. So hopefully, you know, each year we're gonna get better results on the K 2K three, um, and, you know, hopefully they will be able to, um, help there. And the next one, what about small partnerships or s-corps? Do they need to do it? And, and the answer is, yeah, you know, un

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unless they absolutely avoid international activities, then they don't, right? If if it's small enough or they don't. But yeah, if they have like any kind of foreign tax credit that's more than say like, you know, $300 threshold, they're gonna have to do it. So there's no, oh, hey, I'm a small corporation. I'm a small partnership. I don't have to do it. It, the answer is you have to do it. If you have enough inter international activity

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that is going to warrant to do it, and you know, sometimes that just might mean we're not, we're not, we're gonna have to get rid of some clients if we don't wanna do this work. If, if we think that work is outside of the scope of our competency, we might have to back off and, you know, not function with it. Um, I like this question too. Uh, why, why are we doing this? Um, well, yeah, so this, this is an interesting one.

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It really kind of stems from, you know, the IRS and the way things were done internationally before, uh, before, you know, all this, this was all required to be disclosed before, let, let's make no mistake of this. The, the IRS isn't coming out and saying, Hey, these are new things that have to get disclosed. No, this is stuff that always had to get disclosed. Now what's happening though is there's a formal process to do it.

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So in the past, practitioners just didn't do it. Uh, they were supposed to, or you know, some of the bigger firms did do these like they were supposed to, but there was no uniform way to use that information. So owners would get these, you know, k ones from multiple firms all closing the same information in different ways. And it made it confusing, made it hard for the IRS made it hard for us practitioners doing the individual returns.

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So, you know, with that, we kind of get this issue pop up where we say, Hey look, yeah, this, this is definitely, um, the problem that we have. We need to focus on it and get something uniform. So this really, the purpose is to create a uniform filing for something that was always due and always had to get done. It just wasn't getting done all. And, and those are the questions I have for this little, uh, post session, um, q and a.