



TRAPHAGEN

CPAs & WEALTH ADVISORS



Foreign Bank Account Reporting

Taxpayers often fail to realize that in many circumstances they could be subject to reporting bank or similar types of accounts held in a foreign country to the IRS and other departments within the United States Treasury Department.

If you have business or personal ties to financial assets in bank accounts or other financial accounts located outside the U.S., you may be subject to reporting requirements under the Bank Secrecy Act (BSA) and the Foreign Account Tax Compliance Act (FATCA). Substantial civil and criminal penalties may apply for noncompliance with these reporting requirements.

FBAR Reporting Requirement

FBAR is shorthand for “Foreign Bank and Financial Accounts.” If you are a U.S. person with a financial interest in, or signature or other authority over, one or more financial accounts located outside the U.S., you must file *FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR)*, if the **entire sum** of all the accounts exceeds only \$10,000 at any time during the calendar year.

- U.S. persons include United States citizens or residents of the U.S. (including U.S. territories), entities (including corporations, partnerships, or limited liability companies), and trusts or estates.
- Foreign financial accounts are securities, brokerage, savings, demand, checking, deposit, time deposit, or other accounts maintained with a financial institution, as well as commodity futures or options accounts, an insurance policy or annuity policy with a cash value, and shares in a mutual fund or similar pooled fund. In addition, a debit card account is a financial account, and a credit card account may be treated as a financial account under certain circumstances.
- The FBAR is generally due by April 15 following the calendar year for which it applies. An automatic extension to Oct. 15 each year is provided. It must be filed electronically with the Financial Crimes Enforcement Network (FinCEN) through its E-Filing System. Our office would be able to file this for you along with your tax return.
- The penalties for late or incomplete FBAR filings are very burdensome. IRS may grant reasonable cause relief for non-willful violations. Civil penalties for a non-willful violation apply on a per-Form basis and may not exceed \$10,000, as adjusted for inflation (\$15,611 for penalties assessed on or after Jan. 19, 2023). All penalty amounts will increase again in 2024.
- Civil penalties for a willful violation may not exceed the greater of (i) \$100,000, as adjusted for inflation (\$156,107 for penalties assessed on or after Jan. 19, 2023) or (ii) 50% of the amount in the account at the time of the violation.
- The criminal penalty for willful violations is a fine of not more than \$250,000, or imprisonment for not more than five years, or both.

This alert covers only some of the tax rules related to foreign bank account

reporting that could potentially impact you or your business. The tax rules in this area are complex and there are many issues to consider when reporting foreign bank accounts. Please contact us if you have questions, want more information, or would like us to help you with a specific foreign bank account reporting issue so that by working together, we can deliver the best tax results for you.

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