

Tax Resident Workshop for MIT Students and Scholars

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Presenter

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Disclaimer

- ▶ The content of this presentation is only intended to convey general information. It is not intended to provide legal, business, accounting, or tax advice and/or opinions.
- ▶ This presentation is intended for educational purposes only and does not replace independent professional judgment.
- ▶ Please keep this in mind during Q&A.

Agenda

- ▶ Residency Status
- ▶ Filing Requirements
- ▶ Tax Return Basics
- ▶ FICA Reportable Income
- ▶ Tax Treaties
- ▶ MIT Distributed Tax Forms
- ▶ State Filings
- ▶ Tax Scams
- ▶ Tax Preparation
- ▶ Q&A



Residency Status

- ▶ Resident for U.S. income tax purposes is determined by 2 tests:
 1. Green Card Test
 2. Substantial Presence Test - Present in the U.S. for at least 183 days in a calendar year or in U.S. for a total of 183 days in a 3-year period using a special formula
- ▶ If 1) neither test is met and 2) not a U.S. citizen → then nonresident for tax purposes
- ▶ Nonresident spouse of resident may elect resident treatment
- ▶ Note:
 - Prior visa and U.S. visit history must be considered
 - Tax residency is separate from immigration residency

Substantial Presence Exemptions

- ▶ Definition of Student - Includes individuals enrolled in an MIT degree and non-degree (Visiting, Special, or Exchange) program
- ▶ Definition of Scholar - Postdocs, Lecturers, Visiting Professors, Scientists, Scholars and Engineers, and others that have graduated and are now working at MIT
- ▶ Student 5-year exemption and Scholar 2 year exemption
 - ▶ Students on a F, J, M, or Q visa → Exempt for 5 calendar years
 - ▶ Scholars on a J or Q visa → Exempt for 2 calendar years
 - ▶ Exemption allows students and scholars to remain nonresidents for this period of years, thus “exempt” from the substantial presence test
 - ▶ Exemption period is by calendar year, even if only in U.S. 1 day during a calendar year, it counts toward total years exempt
 - ▶ Closer Connection Exception → Students Only
 - ▶ Use Form 8843 for assistance in understanding the exemption period

Form 8843

Part II Teachers and Trainees

- 5 For teachers, enter the name, address, and telephone number of the academic institution where you taught in 2023: _____
- 6 For trainees, enter the name, address, and telephone number of the director of the academic or other specialized program you participated in during 2023: _____
- 7 Enter the type of U.S. visa (J or Q) you held during: 2017 _____ 2018 _____
2019 _____ 2020 _____ 2021 _____ 2022 _____. If the type of visa you held during any of these years changed, attach a statement showing the new visa type and the date it was acquired.
- 8 Were you exempt as a teacher, trainee, or student for any part of 2 of the preceding 6 calendar years (2017 through 2022)? Yes No
If you checked the "Yes" box on line 8, you cannot exclude days of presence as a teacher or trainee unless you meet the *Exception* explained in the instructions.

Part III Students

- 9 Enter the name, address, and telephone number of the academic institution you attended during 2023: _____
- 10 Enter the name, address, and telephone number of the director of the academic or other specialized program you participated in during 2023: _____
- 11 Enter the type of U.S. visa (F, J, M, or Q) you held during: 2017 _____ 2018 _____
2019 _____ 2020 _____ 2021 _____ 2022 _____. If the type of visa you held during any of these years changed, attach a statement showing the new visa type and the date it was acquired.
- 12 Were you exempt as a teacher, trainee, or student for any part of more than 5 calendar years? Yes No
If you checked the "Yes" box on line 12, you must provide sufficient facts on an attached statement to establish that you do not intend to reside permanently in the United States.
- 13 During 2023, did you apply for, or take other affirmative steps to apply for, lawful permanent resident status in the United States or have an application pending to change your status to that of a lawful permanent resident of the United States? Yes No
- 14 If you checked the "Yes" box on line 13, explain: _____

Residency Start Date

The residency start date is the **earlier** of the dates determined below:

- ▶ Substantial Presence Test - the first day you are present in the U.S. during the calendar year
- ▶ Green Card Test - the date you become a lawful permanent resident

Example: A student on a J-1 visa since September 2019:

- ▶ Five calendar years have passed (2019, 2020, 2021, 2022, 2023) that are exempt from the substantial presence test
- ▶ Year 2024 is not exempt. On the 183rd day of 2024, the student met the substantial presence test and is a U.S. tax resident.
- ▶ Under the substantial presence test, the residency start date is the first date of the year the student was in the U.S.

Dual-Status Residency

In rare circumstances, an individual can claim dual-status residency, meaning he/she was a U.S. tax resident for part of the year, and a nonresident for the other part of the year. This typically occurs when:

- ▶ Entering the U.S. after January 1 during the year the substantial presence is met.
 - ▶ Since the start date of residency status is the first day of the calendar year a person is present in the U.S., that person can claim to be a nonresident for the days before they entered the U.S. and a resident for the period after.
- ▶ Any individual who becomes a lawful permanent resident during the year may claim to be a nonresident prior to that date.

Why claim dual-status?

- ▶ Exemption on income earned outside the U.S. during nonresident period
- ▶ Tax Treaty Benefits

Filing Requirements

Tax year 2023 filing thresholds by filing status

Filing status	Age at the end of 2023	A person must file a return if their gross income was at least:
Single	Under 65	\$13,850
Single	65 or older	\$15,700
Head of household	Under 65	\$20,800
Head of household	65 or older	\$22,650
Married filing jointly	Under 65 (both spouses)	\$27,700
Married filing jointly	65 or older (one spouse)	\$29,200
Married filing jointly	65 or older (both spouses)	\$30,700
Married filing separately	Any age	\$5
Qualifying surviving spouse	Under 65	\$27,700
Qualifying surviving spouse	65 or older	\$29,200

Filing Requirements

Who is required to file?

- ▶ You may be entitled to a tax refund if you overpaid federal income taxes throughout the year or qualify for a refundable credit (e.g., earned income credit, additional child tax credit, American opportunity credit)
- ▶ IRS Interactive Tax Assistant:
www.irs.gov/help/ita/do-i-need-to-file-a-tax-return
- ▶ Form 1040 - Federal tax return for individuals
- ▶ Filing Options: Residents can file electronic or paper tax returns
- ▶ Tax year follows calendar year (January 1, 2023 - December 31, 2023)
- ▶ Federal Deadline: April 15, 2024
- ▶ Massachusetts: April 17, 2024
- ▶ States: See respective state website

FICA Taxes - Residents

- ▶ FICA (Federal Insurance Contributions Act) - A federal payroll tax that funds Social Security and Medicare.
- ▶ Tax paid by both employees and employers.
 - ▶ The employee and employer each pay 6.2% for Social Security and 1.45% for Medicare, for a total of 7.65% each.
- ▶ Tax applies to all remuneration for employment
- ▶ Residents - generally have the same liability for Social Security and Medicare Taxes as U.S. Citizens
 - ▶ Student FICA Exception - No FICA tax for services performed by students employed by a school, college, or university where student is enrolled at least half-time.
 - ▶ On-campus employment must be incidental to and for the purpose of pursuing a course of study.
 - ▶ Foreign student who becomes a resident may be eligible for exemption if qualified. Off-campus jobs or working for other employers do not qualify

FICA Taxes - Chart

Appointment	Tax Status	Registration Status	Visa Type	FICA Withheld
Grad Student	n/a	n/a	n/a	NO
Undergrad Student	Nonresident	n/a	n/a	NO
Undergrad Student	Resident	Registered student	n/a	NO
Undergrad Student	Resident	Student ineligible to register	n/a	YES
Employee/Hourly	Nonresident	n/a	J1, F1, M1, Q1	NO
Employee/Hourly	Nonresident	n/a	All other	YES
Employee/Hourly	Resident	n/a	All visa types	YES

Reportable income

- ▶ Residents - taxed on worldwide income i.e. income from any location (U.S. and foreign)
- ▶ Examples of income
 - Salaries (W-2)
 - Taxable fellowships, scholarships (covering costs other than tuition and tuition related expenses), and grants (1042-S or none)
 - Interest and dividends (1099)
 - Royalties, prizes, and awards (1099)
 - Real estate rentals and sale proceeds (none)

Scholarships, Fellowships, and Grants

- ▶ Non-Taxable “Qualified” Fellowship and Scholarship Amounts:
 - ▶ degree candidate, *and*
 - ▶ amounts received are used to pay tuition and fees for enrollment, or for books, supplies, and equipment required for courses
- ▶ Taxable:
 - ▶ all other amounts, such as amounts used for room and board, travel, research, and equipment not required for a course, or providing services to MIT
 - ▶ amounts received for services that are required as a condition of receiving the otherwise qualified amount (e.g., research assistant stipend amount, postdoctoral fellowship)
 - ▶ Residents = not subject to tax withholding, but must still report taxable portion on tax return
 - ▶ Nonresidents = subject to tax withholding
- ▶ IRS Interactive Tax Assistant -<https://www.irs.gov/help/ita/do-i-include-my-scholarship-fellowship-or-education-grant-as-income-on-my-tax-return>

Scholarships, Fellowships and Grants

- ▶ No MIT withholding on taxable scholarships, fellowships, and grants to residents
- ▶ Not the same as income on Form W-2 (received from payroll) where a service provided (e.g., working as a teaching assistant or research assistant)
- ▶ If a “non-qualified” taxable payment (covering non-tuition related expenses), then report on tax return
- ▶ Estimated tax may be required for these payments
- ▶ Since no MIT withholding, responsibility is on recipient to obtain documentation to substantiate income inclusion or exclusion
 - ▶ E.g. letter confirming payment amount and purpose of funds which determines taxability of the payment
- ▶ Reach out to DLC if documentation is needed


Determine Amounts of Taxable Scholarships & Fellowships

Methods to Assist in Determining Amount of Taxable Scholarships & Fellowships:

- 1. IRS Interactive Tax Assistant - online interview to determine how much of your scholarship, fellowship, or education grant to include as income:

<https://www.irs.gov/help/ita/do-i-include-my-scholarship-fellowship-or-education-grant-as-income-on-my-tax-return>

- 2. IRS Publication 970, Worksheet 1-1:

Worksheet 1-1. **Taxable Scholarship and Fellowship Grant Income** *Keep for Your Records* 

1. Enter the total amount of any scholarship or fellowship grant for 2019. See <i>Amount of scholarship or fellowship grant</i> , earlier. <ul style="list-style-type: none">If you are a degree candidate at an eligible educational institution, go to line 2.If you aren't a degree candidate at an eligible educational institution, stop here. The entire amount is taxable. For information on how to report this amount on your tax return, see <i>Reporting Scholarships and Fellowship Grants</i>, earlier.	1. _____
2. Enter the amount from line 1 that was for teaching, research, or any other services required as a condition for receiving the scholarship. Don't include amounts received for these items under the National Health Service Corps Scholarship Program, the Armed Forces Health Professions Scholarship and Financial Assistance Program, or a comprehensive student work-learning-service program (as defined in section 448(e) of the Higher Education Act of 1965) operated by a work college (as defined in that section)	2. _____
3. Subtract line 2 from line 1	3. _____
4. Enter the amount from line 3 that your scholarship or fellowship grant required you to use for other than qualified education expenses	4. _____
5. Subtract line 4 from line 3	5. _____
6. Enter the amount of your qualified education expenses	6. _____
7. Enter the smaller of line 5 or line 6. This amount is the most you can exclude from your gross income (the tax-free part of the scholarship or fellowship grant)	7. _____
8. Subtract line 7 from line 5	8. _____
9. Taxable part. Add lines 2, 4, and 8. See <i>Reporting Scholarships and Fellowship Grants</i> , earlier, for how to report this amount on your tax return	9. _____

Reporting Taxable Fellowships & Scholarships

► Amounts to Report:

- W-2 (only for services in relation to fellowship/scholarship)
- Grant/Fellowship/Scholarship Letter
- Personal Bank Account or Student Account

► Where to Report:

- Form 1040, Line 1 - include the taxable portion in the “Wages, salaries, tips” line of the return. If not included on a W-2 or 1042-S enter “SCH” along the line.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	SCH	1	10,000 00
2a	Tax-exempt interest	2a	b Taxable interest	2b

- Form 1040NR - report on “Scholarship and fellowship grants” line

Income Effectively Connected With U.S. Trade or Business	1a	Wages, salaries, tips, etc. Attach Form(s) W-2	1a	
	b	Scholarship and fellowship grants. Attach Form(s) 1042-S or required statement. See instructions	1b	10,000
	c	Total income exempt by a treaty from Schedule OI (Form 1040-NR), Item L, line 1(e)	1c	
	2a	Tax-exempt interest	2a	
	3a	Qualified dividends	3a	
	4a	IRA distributions	4a	
			b Taxable interest	2b
			b Ordinary dividends	3b
			b Taxable amount	4b

Foreign Income and Assets

Resident taxpayers are subject to income from all sources, even income fully earned and sourced to another country, including:

- ▶ Investment Income - royalties, interest
- ▶ Real Estate Income, including:
 - Rental income from non-U.S. property
 - Capital gains from the sale of property inside or outside of the U.S.
- ▶ May be offset by the Foreign Tax Credit - Form 1116 - [Topic no. 856, Foreign tax credit | Internal Revenue Service \(irs.gov\)](#)
- ▶ Foreign Assets - Form 8938 - \$50,000 or more
- ▶ Foreign Bank Accounts - FinCEN Form 114 (“FBAR”) Threshold - \$10,000 in all bank/financial accounts over which you have signature authority

Estimated Tax Payments

If you expect to owe taxes on income received that was not subject to tax withholding, you should pay quarterly estimated taxes with the IRS and to any state in which you are required to file to avoid penalties.

- ▶ Examples of when you want to pay estimated taxes:
 - received taxable scholarship/fellowship income (U.S. or foreign)
 - significant foreign-sourced income
 - you are self-employed
 - investment income
 - part-time work outside of MIT
- ▶ www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes

Tax Treaties

A resident does not typically receive the benefit of a tax treaty because the treaty only covers a number of years, which is the same as the substantial presence visa exemption period.

- ▶ Treaty Saving Clause - saves the right of a country to tax its own residents as if no treaty existed. Once a person becomes a US resident, tax treaty benefits can no longer be claimed
- ▶ Exceptions to Saving Clauses - allows continuation of treaty benefits even after becoming a US resident e.g.
 - UK treaty allows treaty for students without limit
 - Exception clauses are in all but two treaties (Greece and Pakistan)

Contact VPF HR/Payroll (nratax-payroll@mit.edu) for instructions on how to employ a treaty savings clause.

Tax Treaties, Continued

Example of Savings Clause and Exception - may be hard to locate in the treaty.
Check the miscellaneous provisions.

U.S. - UK Tax Treaty

Article 1, General Scope

4. Notwithstanding any provision of this Convention except paragraph 5 of this Article, the [U.S] may tax its residents... and... its citizens, as if the Convention had not come into effect.

5. The provisions of paragraph 4 of this Article shall not affect:

(b) The benefits conferred... under paragraph... 20 (Students), 20A (Teachers), 21 (Students and Trainees)... upon individuals who are neither citizens of, nor have been admitted for permanent residence in, [the U.S.].

How to Claim Tax Treaty Position on Form 1040

- ▶ Include the treaty-exempt income in the “wages, tips, salaries, etc.” line of the tax return
- ▶ Take the treaty-exempt income out as a negative amount on the “other income” line and handwrite “See Attached 8833” on the dotted line next to the income
- ▶ Complete Form 8833, Treaty-Based Return Position Disclosure:
<https://www.irs.gov/pub/irs-pdf/f8833.pdf>
 - Check the box to indicate you are a U.S. citizen or resident
 - Provide the appropriate treaty info in Section 1
 - In the narrative section include a brief immigration history and substantiation for treaty claim
- ▶ Mail your return, forms, and schedules based on the IRS Form 1040 instructions: <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>

How to Claim Tax Treaty on Form 1040, Continued

Example - Assuming \$10,000 of treaty exempt income

Form 1040, Line 1

1	Wages, salaries, tips, etc. Attach Form(s) W-2	SCH	1	10,000	00
2a	Tax-exempt interest	2a	b Taxable interest	2b	

Form 1040, Schedule 1, Line 8

7	Unemployment compensation	7		
8	Other income. List type and amount ▶ See Attached 8833	8		-10,000
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-PR, line 7a	9		

MIT Distributed Tax Forms

Tax Form	Types of Payments Reported:	Issued by:	How to Access:
W-2	<i>Salary and wage</i> excluding wages that are exempt under a tax treaty	VPF HR/Payroll payroll@mit.edu	Active students - Atlas Inactive students - MyADP.com Paper Copy Mailed (if no electronic consent) Available late January
1042-S (foreign nationals only)	<i>Salary and wage payments</i> to foreign nationals covered by a tax treaty	VPF HR/Payroll payroll@mit.edu	Payroll Paper Copy - Mailed Late February
	<i>Fellowship payments</i> to foreign nationals which had federal income tax withheld		Electronic copy - Sprintax Calculus (if consented provided), HR/Payroll
	Prizes and awards and summer graduate program fellowships	Accounts Payable	AP Paper Copy - Mailed Late February
1098-T	<i>Qualified tuition and related payments</i>	Student Financial Services sfs@mit.edu	Electronic - ECSI (Educational Computer Systems, Inc.) - Available February 1

Form 1098-T

- ▶ Form 1098-T is a tax related tuition statement reporting payments of QTRE (qualified tuition and related expenses), and scholarships and grants disbursed during the calendar year.
 - ▶ Residents use the 1098-T to claim education tax credits
 - ▶ Nonresidents are ineligible to claim education tax credits so the 1098-T is generally not relevant to them
- ▶ MIT only issues Form 1098-T to MIT **resident and nonresident** students whose QTRE (box 1) exceeds scholarships and grants (box 5) for the calendar year.
 - ▶ Nonresidents who don't receive the 1098-T may request it from Student Financial Services if the above condition is met (i.e. amount in box 1 exceeds box 5)

Form 1098-T

- ▶ The following students will **not** receive Form 1098-T:
 - ▶ Students enrolled in courses that do not lead to a post-secondary degree at MIT (e.g. visiting students & executive students)
 - ▶ Students whose QTRE is 100% covered by scholarships and grants during the calendar year
- ▶ Form 1098-T is available electronically via MITPAY at the end of January. <https://vpf.mit.edu/irs-form-1098-t-tuition-statement-faq>

Massachusetts Tax Filings

- ▶ For MA (Massachusetts) state income tax, you are deemed a full-year resident if you maintain a permanent place of abode in MA and you spend more than 183 days of the taxable year in MA
- ▶ If the above tests are not met, you are generally a nonresident for MA income tax purposes
 - If your income is more than \$8,000 and the income is not exempt from taxation under a treaty, file MA Form 1-NR, if you are a nonresident. (Federal tax return may still be required)
 - If your income is less than \$8,000, consider filing MA Form 1-NR to claim a refund of any tax withheld
- ▶ Resident, file MA Form 1 requires proof of health insurance - Form MA 1099-HC, Individual Mandate Massachusetts Health Care Coverage

<https://www.mass.gov/guides/personal-income-tax-for-residents#filing-requirements>

Massachusetts Tax Filings, Continued

- ▶ Permanent place of abode depends on the type of housing. If you live off-campus and are not affiliated with MIT, you may be deemed to have a permanent place of abode in Massachusetts, if you are a non-U.S. citizen
- ▶ U.S. citizens still financially supported by parents are generally deemed to be residents of the state of their parents' residency
- ▶ Form 1099-HC is not attached to the Massachusetts return, but you will need its information to complete the Massachusetts return
 - ▶ Informational Form Only - No Tax - Penalty assessed up to 50% of minimum monthly insurance premium qualified through MA Health Connector

Other States

If you worked or were a student in more than one state (e.g., CA and MA) in the same year because you moved from one state to another, you may be required to file tax forms in each state.

Which form to use?

- ▶ Nonresident/Part-year resident - Generally less than 183 days present in a state or no place of abode (rental apartment, home, or similar dwelling)
 - Taxed on only income earned in the state and/or all income received or earned during part-year residency
- ▶ Resident - Living in a state, or more than 183 days presence, with place of abode
 - Taxed on income from all sources
- ▶ Tax credits may be available on income taxed by both states

<https://taxadmin.org/state-tax-forms/>

Healthcare Forms

- ▶ Form 1095-B reports information to the IRS about individuals receiving insurance coverage from an insurance company or other provider
 - ▶ Health Insurance purchased directly from a foreign insurance issuer or provided by a foreign government must be recognized by the U.S. Department of Health & Human Services:
<http://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/minimum-essential-coverage.html>
- ▶ MA Form 1099-HC provides proof of MA health insurance coverage during the tax year
 - ▶ Health insurance coverage from a foreign provider must meet MA state requirements for comparable coverage of health services - waiver requests will be reviewed by Gallagher Student Health
<https://www.gallagherstudent.com/students/student-home.php?idField=1424>

Tax Scams

- ▶ Use caution and common sense
- ▶ IRS will never ask for personal details without proper communication
- ▶ IRS is not seeking to penalize anyone they just want to make sure that the fair and correct taxes are paid on time
- ▶ Tax scams generally have the same format (internationally!)
 - ▶ Money Owed
 - ▶ “Instant” payment will make the problem go away
 - ▶ Voucher/prepaid credit card reference preferred payment option
- ▶ IRS identified scams targeting emails with .edu email addresses
 - ▶ <https://www.irs.gov/newsroom/university-students-and-staff-should-be-aware-of-irs-impersonation-email-scam>

Tax Preparation

- ▶ This presentation will be made available online in the coming weeks
- ▶ The VPF website has tax guidance and information for both residents and nonresidents
- ▶ IRS tips for selecting tax preparer:
<https://www.irs.gov/newsroom/tips-to-help-taxpayers-choose-a-reputable-tax-return-preparer>

Q&A