

Timothy Geithner recently filed amended tax returns for years 2001, 2002, 2004, 2005 and 2006 reporting combined additional taxes and interest of \$31,536. For years 2001 and 2002, the most substantial adjustments resulted from his failure to pay self-employment taxes (SE tax) on earned income while employed by the International Monetary Fund (IMF). Mr. Geithner previously had agreed to similar adjustments to SE tax for years 2003 and 2004 after his returns were examined by the Internal Revenue Service (IRS). The IRS waived penalties for those years. The remaining adjustments on the amended returns resulted from a variety of issues identified during a review of his returns by Finance Committee staff during the nomination process.

Mr. Geithner self-prepared his original tax returns for years 2000, 2001, 2002 and 2005. He used paid tax preparers to prepare his original tax returns for years 2003, 2004, 2006 and 2007. He used paid preparers to prepare a 2001 amended return that was filed in July, 2002, and his recently amended returns for years 2001, 2002, 2004, 2005 and 2006. All returns were filed using married filing jointly filing status.

Mr. Geithner regularly employs household help. It has been determined that the legal working status of one individual was lapsed for approximately 3 ½ months during 2005 while in the employ of Mr. Geithner.

Tax Adjustments

Background

On December 5, 2008, the Presidential Transition Team (PTT) met with Finance Committee staff and disclosed that Mr. Geithner had paid to the IRS \$34,023 in additional taxes and \$8,679 in interest because he had failed to pay self-employment taxes on his IMF income paid during 2001 through 2004. The IRS audited Mr. Geithner in 2006 for tax years 2003 and 2004, resulting in additional taxes of \$12,719 and \$2,128, respectively, plus interest of \$1,885. The IRS waived penalties for these tax years. Mr. Geithner voluntarily amended his tax returns for years 2001 and 2002 after Barack Obama expressed his intent to nominate Mr. Geithner to be Secretary of the Treasury and paid additional taxes of \$2,364 and \$16,812, respectively, plus interest of \$6,794.

Tax Year	Self-Employment Tax	Interest	Total Tax and Interest
2001	\$2,364	\$956	\$3,320
2002	\$16,812	\$5,838	\$22,650
2003	\$12,719	\$1,711	\$14,430
2004	\$2,128	\$174	\$2,302
Total	\$34,023	\$8,679	\$42,702

As a result of this meeting, a letter was sent on December 9, 2008 to Mr. Geithner's attorney requesting Mr. Geithner's tax returns, notes and other documentation pertaining to tax years 2000 through 2007. Information in response to this letter was received on December 16, 2008. Committee staff have examined this material. Telephone interviews were conducted with three of Mr. Geithner's accountants and a Human Resources representative at the IMF. Mr. Geithner met personally with staff on December 19, 2008 to answer questions about the self-employment tax issue and other issues identified during the course of the document review.

Self-Employment Taxes

The most significant tax concern identified is Mr. Geithner's failure to pay social security taxes during his entire tenure at the IMF, which began in 2001 and concluded in 2003 (some compensation was not paid until calendar year 2004). He paid no FICA taxes or self-employment taxes with respect to the IMF income during that time.

Under section 3121(b)(15), international organizations like the IMF are exempted from the Federal Insurance Contributions Act (FICA, or social security taxes). Such organizations do not pay the employer share of FICA. There is no employee liability for the employee share of FICA and there is no payroll withholding for the employee's share. Under section 1402(c)(2)(C), service performed by an employee of such an organization is treated as service that is subject to the Self-Employment Contributions Act (SECA, or SE taxes) to the extent that the service is performed in the United States by a United States citizen. Thus, employees of an international organization who are citizens of the United States must pay SE taxes with respect to the compensation received from the organization. IMF workers receive tax allowances for federal, state and self-employment obligations in the form of gross-ups to their regular salary. The IMF, as is their policy as an international organization, did not withhold any taxes, including FICA taxes, and reported "NONE" on Form W-2 in Box 2 (Federal income tax withholding) and Box 4 (Social security tax withheld). No entries appeared in Box 3 (Social security wages), Box 5 (Medicare wages and tips) and Box 6 (Medicare tax withheld).

IMF employees are responsible for meeting their own tax obligations, including federal income taxes, state income taxes and self-employment taxes. The IMF provides employees with several documents throughout the year to help employees understand and meet their tax obligations. These documents include:

- *IMF Employee Tax Manual.* This manual is given to employees at the time they are hired and includes information describing how to pay self-employment taxes.
- *Quarterly Wage Statements.* These statements are provided to employees on a quarterly basis. They report on separate lines for each type of tax the amount of gross-ups for federal, state and self-employment taxes that have been included in wage income for that quarter.

- *Year-End Wage Statements.* These statements are delivered annually via an e-mail that describes the data as very important and includes information regarding the payment of self-employment taxes. The wage statement sent with the e-mail contains a detailed breakdown of wages and compensation paid to the employee for the entire year, including separately stated amounts for federal, state and self-employment taxes.
- *Annual Tax Allowance Request.* IMF employees are required to file annually a form requesting the federal, state and self-employment gross-ups to wages.

Mr. Geithner acknowledged receiving all of these documents. He wrote contemporaneous checks to the IRS and the State of Maryland for estimated tax payments in amounts that tied exactly to the federal and state tax allowances reported on the IMF quarterly wage statements. He did not write checks corresponding to the self-employment tax allowance that was separately stated directly underneath the federal and state allowance amounts. He filled out, signed and submitted an annual tax allowance request worksheet with the IMF that states, "I wish to apply for tax allowance of U.S. Federal and State income taxes and the difference between the "self-employed" and "employed" obligation of the U.S. Social Security tax which I will pay on my Fund income."

Mr. Geithner has experience with social security tax issues. For tax years 1993 through 1995, he late-filed, in February, 1996, social security taxes and Maryland FUTA taxes for household employees. For 1998, he incorrectly calculated Medicare taxes for household employees and received an IRS notice. He filed a corrected 2001 Form W-2 for his household employee. He received notices from the Social Security Administration and the IRS regarding the non-filing of 2003 and 2004 Forms W-2 (the matters were dropped after he submitted copies of the forms). He has filed Schedule H (employment taxes for household help) with several tax returns. He reported self-employment taxes on Schedule C net income for his personal consulting business and his wife's clinical work. In addition, he used tax software to prepare his own returns. These programs include specific boxes and prompts to enter social security taxes.

In November, 2006, the IRS announced a settlement offer to resolve tax matters of U.S. based employees of foreign embassies, foreign consular offices and international organizations.

Other Tax Adjustments

The amended returns contain various other tax adjustments identified during a review of Mr. Geithner's returns. Additional tax of \$4,334 and interest of \$1,232 applies to these adjustments. Items adjusted include a ten-percent early withdrawal penalty on a distribution from a retirement plan maintained by the federal government, recapture of a section 179 deduction for equipment used in a business that was discontinued, an additional charitable contribution deduction for non-cash items, a reduction in utilities

expense to account for personal use, investment interest expense, and reductions to the dependent child care credit. Mr. Geithner included payments to overnight camps in his dependent care credit computations for years 2001, 2004 and 2005. The accountant who prepared his 2006 tax return apprised him that payments to overnight camps were not allowable expenses for purposes of the credit but he did not file amended returns at the time to correct the prior years.

Household Employees

Mr. Geithner has employed three persons to provide household help since 2004. He did not obtain the required Form I-9, Employment Eligibility Verification, from these persons at the time they were hired to verify their legal work status. The legal status of the three employees was reviewed and notes were entered into an address book with citizenship dates, passport numbers and employment authorization numbers, as applicable, for each employee. No copies were retained of the documents used to determine legal status.

One employee, hired in September, 2004, provided a United States Citizenship and Immigration Service Employment Authorization Document (EAD) issued on July 15, 2004 as proof of legal work status. The EAD number was recorded in the Geithner's address book together with the expiration date of the EAD, July 14, 2005. When the EAD expired, the employee did not renew her legal work status and the Geithners did not follow up with the employee to confirm whether she had done so. This person remained employed by the Geithner's until October, 2005. Thus, for the period July 15, 2005 through October, 2005, the person was not eligible for legal employment. Employment taxes were appropriately paid on the individual throughout her period of employment with the Geithners.

International Monetary Fund

Payroll Statement

Timothy Franz Geithner
 Pay Period: 08/29/2002 to 09/11/2002

Annual Salary: \$
 Pay Date: 09/05/2002

Pensionable Gross: \$
 Outstanding Loans: \$0

Earnings	Hours	Amount		Deductions	Amount	
		Current Pd	Y-T-D		Current Pd	Y-T-D
Federal Tax Allowance		.08	.23	Total Deductions	0.00	.92
State Tax Allowance		.95	.86			
SE Tax Allowance		.45	.35			
Other Earnings		0.00	.54			
Total Earnings		.48	.98			

Other Payments	Hours	Amount	
		Current Pd	Y-T-D
Total Other Payments		0.00	.35

Total Amount Paid \$48
 Total Deductions 0.00
 Net Pay \$48

Pay 9/14/02

Distribution Of Net Pay

Bank Name	Account Type / Number	Deposit
		48
Total Distributions		\$48

Timothy Franz Geithner
 Immediate Office
 Policy Development & Review Dept.

Message:

This quarterly tax allowance is based on a projected annual W-2 taxable amount for 2002 of \$66. Please note that this amount may vary each quarter.

Geithner, Timothy

From: Pension & Tax Unit [REDACTED]
Sent: Thursday, December 20, 2001 1:54 PM
To: Timothy Franz Geithner
Subject: Fourth Quarter Tax Allowance Payment For 2001.

Sensitivity: Private



2001-12-19-SAL-71064

1.pdf



itax012_710641.pdf



itax030_710641.pdf

Mr. Geithner:

The attached electronic files contain important information concerning the payment of your fourth quarter tax allowance for 2001. Please PRINT these files and RETAIN them for your records. The contents of each file are described as follows:

PAY ADVICE - presents a detailed breakdown of your allowance. It also includes banking information on the funds to be deposited to your account on 12/20/2001.

ITAX012

PAGE 1 - reports your actual year-to-date earnings by category. (Your earnings MAY include "GLI Imputed Income". This is income you must recognize on the value of employer contributions to term life insurance coverage in excess of \$50,000. The amount may appear high for 2001 because of the refund of premiums that occurred in October.)

PAGE 2 (and Page 3, if applicable) displays the calculation of your tax allowance.

SELF-EMPLOYMENT INCOME - ITAX030

Fund staff are not required to pay self-employment tax on the earnings attributable to services performed abroad (even though your total earnings ARE subject to Federal and state income taxes.) Accordingly, if you traveled outside the U.S. on official business or were appointed to a post abroad during 2001, you will receive a copy of this attachment. The attachment indicates the number of days you were on mission and prorates your earnings based on the ratio of your days working abroad to your total days in pay status. This proration is your income subject to self-employment tax and is used in the Fund's computation of your SE tax allowance. You should use this to prepare your 2001 Form 1040, Schedule SE. The statement should be printed and attached to your tax return.

To view the reports, double click on the attachment and select the 'Open It' radio button. You may enlarge the font on the E-Advice by clicking on the magnifying glass icon on the toolbar and then clicking anywhere on the report, or by selecting any of the options from the View menu. You may print the attachment by selecting the 'Print' option from the File menu.

Please direct any questions to the Pension and Tax Unit mailbox: TRE, Pension and Taxes.

INTERNATIONAL MONETARY FUND
ACTUAL AND PROJECTED EARNINGS

For Earnings Paid As Of 12/21/2001
And Projected Earnings On Or After 12/01/2001

Name: Geithner, Timothy Franz
Empl ID: [REDACTED]

State: MD
Locality: 031 Montgomery
Annual Rt: \$ [REDACTED]

Allowance Begin Date: 09/04/2001
Allowance End Date: 12/31/2001

Part Year? Yes
FEI? No

TEA Allow: \$ [REDACTED]

Total Days Overseas: 1

Earnings Code	Description	Actual Amount	Projected Amount	Total Amount
REG	Net Salary	[REDACTED].65	\$0.00	[REDACTED].65
FTA	Federal Tax Allowance	[REDACTED].05	\$0.00	[REDACTED].05
GII	GLI Imputed Income	[REDACTED].75	\$0.00	[REDACTED].75
REG	Regular Pay	\$-0.01	\$0.00	\$-0.01
SEA	Self Employment Tax Allowance	[REDACTED].21	\$0.00	[REDACTED].21
STA	State Tax Allowance	[REDACTED].46	\$0.00	[REDACTED].46
TEA	Spouse and Child Allowances	[REDACTED].93	\$0.00	[REDACTED].93
Total Earnings =		[REDACTED]	\$0.00	[REDACTED]

INTERNATIONAL METARY FUND
QUARTERLY TAX ALLOW : CALCULATION REPORT
PART YEAR STEP 1 CALCULATION
4TH QUARTER 2001

Name: Geithner, Timothy Franz
Empl ID: ██████████
Begin Date: 09/04/2001 End Date: 12/31/2001

Federal-MFJ
MD-MFJ
Montgomery MD-MFJ

Net Fund Income	\$ ██████████.52	
Federal Tax	\$ ██████████.84	
State Tax	\$ ██████████.15	
SE Tax*	\$ ██████████.49	
Total Fund Income	\$ ██████████.00	
Spouse Income	\$ ██████████.00	
Total Gross Income	\$ ██████████.00	
Adjustments	\$ ██████████.49	
Total Adjusted Gross Income	\$ ██████████.51	
Deductions		
Exemptions	\$ ██████████.00	
Exemption Phaseout	(\$ ██████████.00)	
Average Ded	\$ ██████████.00	
Staff State Tax	\$ ██████████.00	
Spouse State Tax	\$ ██████████.15	
Deduction Phaseout	\$ ██████████.41	
Phaseout Addback	(\$ ██████████.00)	
Net Deduction	\$ ██████████.45	
Taxable Income	\$ ██████████.07	
Tax Thereon	\$ ██████████.06	
Less Spouse Tax	\$ ██████████.22	
Staff Portion	\$ ██████████.84	
Percent Not Worked	\$ ██████████.88	
Amt To Be Subtracted From Step 2	\$ ██████████.31	

* Total Days Overseas: 1
 * Out Inc Subject SE : ██████████.00
 * Out Inc Subject Med: ██████████.00
 * Inc Subject SE Tax : ██████████.29

INTERNATIONAL NETARY FUND
QUARTERLY TAX ALLOW. CALCULATION REPORT
PART YEAR STEP 2 CALCULATION
4TH QUARTER 2001

Name: Geithner, Timothy Franz

Empl ID: [REDACTED] Begin Date: 09/04/2001 End Date: 12/31/2001

Federal-MFJ

MD-MFJ
Montgomery

MD-MFJ

Net Fund Income
Federal Tax
State Tax
SE Tax*

1
[REDACTED] 1.00
[REDACTED] \$0.00
[REDACTED] [REDACTED].29

* Total Days Overseas:
* Out Inc Subject SE :
* Out Inc Subject Med:
* Inc Subject SE Tax :

Total Fund Income
Spouse Income

Total Gross Income
Adjustments

Total Adjusted Gross Income

Deductions
Exemptions
Exemption Phaseout
Average Ded
Staff State Tax
Spouse State Tax
Deduction Phaseout
Phaseout Addback

Net Deduction

Taxable Income

Tax Thereon
Less Spouse Tax

Staff Portion
Less Amount from Step 1

Fed Tax Allow
Plus SE Tax

Total Annual Tax Allow
Less Tax Allow Paid YTD

Quarterly Payment

\$ [REDACTED].55
\$ [REDACTED].21
\$ [REDACTED].34
\$ [REDACTED].00
\$ [REDACTED].00
\$ [REDACTED].70
\$ [REDACTED].41
\$ [REDACTED].60
\$ [REDACTED].41
\$ [REDACTED].93
\$ [REDACTED].58
\$ [REDACTED].22
\$ [REDACTED].36
\$ [REDACTED].31
\$ [REDACTED].05
\$ [REDACTED].21
\$ [REDACTED].26
\$ [REDACTED].00
\$ [REDACTED].26

*** Part Year W2 Income Basis ***

Actual Net Fund Inc [REDACTED].32
Fed Tax Allow [REDACTED].05
State Tax Allow [REDACTED].46
SE Tax Allow [REDACTED].21
W2 Income Basis [REDACTED].04

=====
\$ [REDACTED].00
=====

Handwritten: 12/01/01

INTERNATIONAL MONETARY FUND

TAX ALLOWANCE APPLICATION
FOR U.S. FEDERAL AND STATE INCOME TAXES AND SOCIAL SECURITY TAX FOR 2002
APPLICATION MUST BE RECEIVED BEFORE NOVEMBER 15, 2002
BY TREASURER'S DEPARTMENT

PLEASE READ ATTACHED INSTRUCTIONS BEFORE FILLING OUT THIS FORM

1. Name: Geithner, Timothy Franz
2. Dept: PDRAI

3. Emplid: [redacted]
4. [redacted]

- 5. 2002 Filing Status
- Single
- [x] Married Filing Joint
- Married Filing Separate
- Unmarried Head of Household
- Widow(er) with dependent child
(Date spouse died _____)

- 6. 2002 Exemptions Over 65 Blind
[x] Yourself
[x] Spouse
[x] Dependent Children
- Other Dependents
- No. of Dependent Child Credits

7. 2002 Spouse Income (FROM WORKSHEET)
(A)-Earned Income [redacted]
(B)-Capital Gains Income [redacted]
(C)-Other Income [redacted]

8. To be completed by new staff employed by the Fund in calendar year 2002.
Your adjusted gross income prior to joining the Fund.
Amount subject to Social Security and Medicare: _____
Amount subject to Medicare only: (Prior CSRS federal employees) _____

9-A. Current Address:
Street: [redacted]
City: [redacted] County: [redacted]
State: [redacted] Zip Code: [redacted]

9-B. New Address:
Street: _____
City: _____ County: _____ (Maryland residents)
State: _____ Zip Code _____ Date Address Changed: _____

10. In accordance with General Administrative Order No. 5, Revision 7, Section 7.03, I wish to apply for tax allowance of U.S. Federal and State income taxes and the difference between the "self-employed" and "employed" obligation of the U.S. Social Security tax which I will pay on my Fund income. I authorize the Fund or any of its staff members designated by it for the purpose, to ascertain from the appropriate tax authorities whether tax returns were received. I hereby certify that all the information contained herein is true to the best of my knowledge and belief and that I will pay the taxes for which I have received tax allowance payments from the Fund. I certify that if any of the data provided on this application changes, I will immediately report such changes to the Fund.

Date: 10/17/02 Signature: [Handwritten Signature]

Telephone Extension: 39960 Room Number: 51000

INTERNATIONAL
MONETARY FUND

*Tax
Allowance
System*

December 1993

Introduction

Purpose of the Booklet

This booklet explains the International Monetary Fund's tax allowance system and advises staff members who are subject to U.S. income tax how and when they should file estimated tax payments and income tax returns.

The booklet describes the Fund's existing tax allowance system. The Fund's tax allowance system may change as a result of policy review or changes in the law, which is amended frequently.

The tax allowance policy is formally described in GAO No. 5., Rev. 7. This GAO is currently being revised to incorporate changes to the tax allowance system that were approved in 1992. If there is a difference between GAO No. 5 and this booklet, GAO. No. 5 takes precedence.

Goal of the Tax Allowance System

The goal of the Fund's tax allowance is to provide staff members with an allowance that is reasonably related to the income taxes they pay on their Fund salaries and allowances. The tax allowance is not a tax reimbursement. It is computed using general assumptions and not on the facts of the particular staff member. It normally will not be exactly equal to the actual income tax due.

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I. Explanation of the Tax Allowance System

Why the Fund Pays a Tax Allowance

Fund member countries have agreed not to impose income tax on the compensation of Fund staff who are nationals of other countries, but they may impose income tax on the Fund compensation of their own nationals.

Although most countries do not tax Fund salaries, some do. The United States taxes the Fund salaries of its citizens, wherever they work. France taxes the Fund salaries of its citizens who work in France. A few other countries tax Fund salaries under limited circumstances.

In order to make the after-tax incomes of its staff members comparable, the Fund pays a tax allowance to staff members who are subject to national, state, or local income tax.

Who is Eligible to Receive a Tax Allowance

As stated above, staff members who are required to pay national, state, or local income tax based on their Fund salaries are entitled to receive tax allowances.

U.S. citizens who are staff members are required to pay U.S. tax are entitled to receive tax allowances. U.S. citizens who are contractuels do not receive tax allowances even though they are required to pay U.S. taxes; their salaries are adjusted to account for this fact. Green card holders

(resident aliens) and G-IV visa holders (non-resident aliens) do not pay U.S. income tax on their Fund salary and, therefore, are not entitled to tax allowances. French citizens working for the Fund in Paris receive tax allowances because they are required to pay French income tax.

How the Tax Allowance is Calculated

Because the vast majority of staff to whom the Fund pays a tax allowance are U.S. citizens, this booklet focuses on the tax allowance paid to U.S. citizens.

If you are U.S. citizen and are eligible to receive a tax allowance, the Fund calculates your tax allowance in a manner similar to the manner in which you calculate your tax liability. It uses your actual filing status, personal exemptions, and state of residency, and partially takes into account your spouse's income, if any. However, it excludes your non-Fund income, since your tax allowance relates only to your Fund income. Instead of using your actual itemized deductions, the Fund deducts the higher of the standard deduction or an "average deduction". Your average deduction is the average amount of itemized deductions that, according to IRS statistics, a person has, who has the same gross income as you.

Example 1 shows how this calculation is done. Example 1 and the other examples in this booklet are based on the U.S. tax law in effect on December 1, 1993.

Explanation of the Tax Allowance System

Example 1

TAX ALLOWANCE CALCULATION FOR A SINGLE STAFF MEMBER

Staff Profile:

Net Salary: \$50,000
Marital Status: Single
Dependents: None
State of Residency: DC

Income

Net salary	\$50,000
Federal tax allowance	11,024
State tax allowance	<u>4,760</u>
Income for average deductions	\$65,784
Social security tax allowance	<u>4,513</u>
Gross Fund income (W-2 income)	\$70,297

Less Adjustments/Deductions

Social security tax allowance	4,513
Average deductions	9,043
State tax allowance	4,760
Personal exemption	<u>2,350</u>
Income on which tax allowance is computed	<u>\$49,631</u>

Tax Allowance

Federal	\$11,024
State	4,760
Social security	<u>4,513</u>
Total tax allowance	<u>\$20,297</u>

Explanation of the Tax Allowance System

The Income on Which Your Tax Allowance is Based

As you can see from Example 1, the Fund pays a tax allowance on the gross Fund income (\$70,297 in this example), rather than on the net salary (\$50,000). Your gross Fund income is your net salary plus your tax equivalency allowance, your tax allowance, and most other allowances and reimbursements that you receive. See "Key Terms" on page 29 for a list of all items included in gross Fund income. Your gross Fund income is the taxable income that the Fund reports to the IRS each year on a W-2 form.

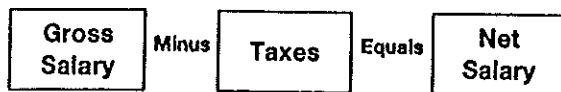
Computing Your Social Security Tax Allowance

U.S. employees of the Fund are considered self-employed for purposes of social security taxes only.

The Fund pays the difference between your U.S. self-employment tax, which is the social security tax that self-employed U.S. citizens pay, and the employee's share of social security taxes. You pay the employee's share of U.S. social security taxes, as you would be required to do if you worked for any U.S. employer. In 1993 the social security tax rate is equal to one-half of the self-employed tax rate, so the Fund pays one-half of your self-employment taxes.

Most employers pay

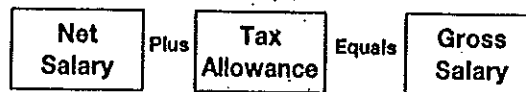
A gross salary . . .



. . . but income taxes are deducted, which leaves a net salary.

The Fund pays

A net salary . . .



. . . and a tax allowance is added to help cover the income taxes you owe.

Explanation of the Tax Allowance System

Illustrative Iterative Calculation of a Tax Allowance for A Single Staff Member With a Net Salary of \$50,000

	1st Iteration	2nd Iteration	3rd Iteration	4th Iteration	5th Iteration	6th Iteration	And So On
Net Pay	50,000	50,000	50,000	50,000	50,000	50,000	
State Tax Allowance		3,526	4,389	4,650	4,728	4,751	4,757
Federal Tax Allowance		7,732	10,035	10,730	10,936	10,998	11,016
Social Security Tax Allowance		3,532	4,439	4,493	4,507	4,511	4,512
Gross Pay	50,000	64,790	68,863	69,873	70,171	70,260	
Minus:							
Personal Exemptions	2,350	2,350	2,350	2,350	2,350	2,350	
Average Deductions	6,250	8,420	8,843	8,983	9,025	9,038	
State Taxes	3,526	4,389	4,650	4,728	4,751	4,757	
One Half Social Security Taxes		3,532	4,439	4,493	4,507	4,511	
Federal Taxable Income	37,874	46,099	48,581	49,319	49,538	49,604	
Federal Taxes	7,732	10,035	10,730	10,936	10,998	11,016	
Social Security Taxes	7,064	8,878	8,986	9,014	9,022	9,024	
One Half Social Security Taxes	3,532	4,439	4,493	4,507	4,511	4,512	

Basic Calculation Procedures

The complexity of calculating tax allowances arises because deductions assumed in the calculations are determined by gross pay, but gross pay is not known until the tax allowance is calculated and added to net pay.

This problem is solved by doing a series of calculations. As a first step, the taxes payable on net pay are calculated assuming the amount of the deductions applicable to the level of net pay, as if it were gross pay.

The state, federal, and one-half of the social security taxes calculated in the first

iteration (\$3,526, \$7,732, and \$3,532) are then added in the second iteration to net pay to arrive at an estimate of gross pay (\$64,790), and the taxes are recalculated. In the new calculations, the higher amount of the deductions applicable to the new level of gross pay are assumed.

This process continues through as many additional iterations as are necessary until the difference in estimated taxes between two successive iterations falls below \$1.00. At that point, the amounts of the Federal, state, and social security tax allowances and the amount of average deductions correctly reflect gross pay (net pay plus tax allowances).

Explanation of the Tax Allowance System

Deducting Social Security/ Self-Employment Tax

For purposes of computing both income and self-employment taxes, the IRS allows self-employed taxpayers to deduct from gross income one half of the self-employment taxes that they pay. The Fund uses these deductions in calculating your tax allowance.

Deriving Average Deductions

The average deductions in Example 1 are based on income of \$65,784. As stated above, average deductions are the average amount of itemized deductions (excluding state and local income taxes) that, according to IRS statistics, a person with a given level of gross income would have. Certain itemized deductions (e.g., medical and dental expenses and miscellaneous itemized deductions) are subtracted from the IRS average deduction statistics because Fund staff are generally unable to claim these amounts. (See Appendix G for selected average deductions.) The income on which average deductions are based is gross Fund income less social security tax allowances, imputed income from spouse points and group life insurance, safeguard tax allowances in the final year of Fund employment, and certain allowances received by staff working outside the United States. The IRS-derived amount of state and local taxes are excluded from average deductions. Instead, the state and local taxes computed by the tax allowance program are subtracted from income.

How Your Marital Status Affects Your Tax Allowance

As shown on the next few pages, your marital status on the last day of the year affects the computation of your tax allowance.

Single

If you are single, your tax allowance computation will be similar to the computation shown in Example 1.

There is one difference between the computation in Example 1 and the computation of many single staff members—the average deductions of single staff members with net income less than \$60,000 are less than the average deductions of married staff members with the same income. Smaller average deductions are used for single staff members because, according to IRS statistics, the itemized deductions of single taxpayers are frequently less than the itemized deductions of married taxpayers since they often do not own a home and, consequently, cannot deduct mortgage interest and real estate taxes.

Explanation of the Tax Allowance System

Married Filing Jointly Spouse Income Less Than Yours

If you are married and your spouse's income is less than or equal to yours, the Fund computes your joint tax liability using the married filing jointly status. It then subtracts the tax liability of your spouse, computed assuming a married filing separately status. The difference is your tax allowance.

See Example 2 for an illustration of the calculations for a married staff member whose spouse's income was less than the staff member's Fund income.

In Example 2, the gross joint income on which the federal tax allowance is calculated is the sum of the staff member's gross Fund income (\$57,704) and the spouse's income (\$20,000). Average deductions are based on the gross joint income (\$77,704) less the staff member's social security tax allowance (\$4,077). Personal exemptions are deducted for the staff member, spouse, and child (\$2,350 X 3). The spouse's federal tax liability (\$1,706) is subtracted from the joint federal tax liability (\$10,195) to yield the staff member's federal tax allowance (\$8,489). For Virginia and DC residents, the staff member's state tax allowance is computed without regard for the spouse's income, as is done in the calculation of the staff member's actual state tax liability. Because

Maryland requires taxpayers who file joint federal returns to file joint state returns, the state tax allowance of Maryland residents take spouse income into account.

Spouse Income More Than Yours

If your spouse's income is more than yours, the Fund may or may not take your spouse's income into account when computing your tax allowance. Your tax allowance is first computed as described for spouses whose income is less than the staff member's. It is then computed using the married filing separately status. Average deductions in this second calculation are based on your income only and personal exemptions of dependents are prorated between you and your spouse according to net income. The results of these two calculations are compared. You receive the greater of the two.

Example 3 is an example of the calculation that would be done for a staff member whose spouse's income was more than the staff member's Fund income.

Married Filing Separately

The married filing separately status is used in your tax allowance computation if you are separated from your spouse and you and your spouse file separate tax returns for the year in question.

Explanation of the Tax Allowance System

Example 2 MARRIED FILING JOINTLY

Staff Profile:

Net Salary:	\$40,000
Tax Equivalency Allowance:	\$ 2,600
Marital Status:	Married
Dependents:	One Child
Spouse Income:	\$20,000
State of Residency:	Virginia

Income

Net salary	\$40,000
Tax equivalency allowance	2,600
Federal tax allowance	8,489
State tax allowance	2,538
Social security tax allowance	4,077
Gross Fund income (W-2 income)	<u>\$57,704</u>
Spouse income	20,000
Gross joint income	<u>\$77,704</u>

Less Adjustments/Deductions

Social security tax allowance	4,077
Average deductions based on income of \$73,627*	9,927
Staff member's state tax allowance	2,538
Spouse's state taxes	567
Personal exemptions	7,050
Income on which tax allowance is computed	<u>\$53,545</u>

Tax allowance

Federal tax liability on joint income	\$10,195
Less spouse's federal tax liability	<u>1,706</u>
Federal tax allowance	\$8,489
State tax allowance	2,538
Social security tax allowance	4,077
Total tax allowance	<u>\$15,104</u>

*Gross joint income	\$77,704
Less social security tax allowance	<u>4,077</u>
Equals income on which average deductions are based	<u>\$73,627</u>

Explanation of the Tax Allowance System

Example 3

MARRIED FILING SEPARATELY

Spouse Income Greater Than Staff's

Staff Profile: Net Income:		\$30,000
Tax Equivalency Allowance:		\$ 1,890
Marital Status:		Married
Dependents:		Two Children
Spouse Income:		\$60,000
State of Residency:		Virginia
	Married Filing Jointly Calculation	Married Filing Separately Calculation
Income		
Net salary	\$30,000	\$30,000
Tax equivalency allowance	1,890	1,890
Federal tax allowance	5,331	4,990
State tax allowance	1,707	1,687
Social security tax allowance	2,959	2,932
Gross Fund income (W-2 income)	\$41,887	\$41,449
Spouse income	60,000	N/A
Gross income for tax allowance calculation	\$101,887	\$41,499
Less Adjustments/Deductions		
Social security tax allowance	2,959	2,932
Average deductions*	13,460	6,232
Staff Member's state tax allowance	1,707	1,687
Spouse's state taxes	2,624	N/A
Personal exemptions	9,400	4,261**
Income on which tax allowance is computed	\$71,737	\$26,387
Tax Allowance		
Federal	\$15,289	\$4,990
Less: Spouse's Federal tax liability	9,958	N/A
Federal tax allowance	\$5,331	\$4,990
State	1,707	1,687
Social security	2,959	2,932
Total tax allowance	\$9,997	\$9,609
*Average deductions based on:		
Gross Fund income	\$41,887	\$41,499
Plus Spouse income	60,000	N/A
Less social security tax allowance	2,959	2,932
Equals income on which average deductions are based	\$98,928	\$38,563

**Prorated share

Explanation of the Tax Allowance System

Head of Household

If you use the head of household filing status when you file your income tax return, the Fund uses this status when computing your tax allowance.

You are eligible to use the head of household filing status if you meet two tests:

1. You are unmarried or considered unmarried on the last day of the year. You are considered unmarried if you are legally separated from your spouse and your spouse did not live in your home during the last six months of the year.
2. You pay more than half the cost of keeping up a home that was the main home during more than half the year for you and a dependent.

Example 4 shows the tax allowance calculation of a staff member filing as head of household.

Other Conditions that Affect Your Tax Allowance Calculation

Several other conditions may affect the calculation of your tax allowance. These conditions and the tax allowance calculations used when the conditions prevail are discussed in the appendices. They include:

Part year employment with the Fund	Appendix A
Two states of residence during the year	Appendix B
Both spouses work for the Fund	Appendix C
Your spouse works for another international organization	Appendix D
Staff working abroad	Appendix E
Safeguard Calculations	Appendix F

Changes in U.S. tax law also affect the calculation of your tax allowance. Several recent changes enacted in the Revenue Reconciliation Bill of 1993 will affect your tax allowance. They are discussed in Appendix H.

Explanation of the Tax Allowance System

Example 4 HEAD OF HOUSEHOLD

Staff Profile:

Net Salary:	\$50,000
Tax Equivalency Allowance:	\$ 2,500
Marital Status:	Divorced
Dependents:	One Child
State of Residency:	DC

Income

Net salary	\$50,000
Tax equivalency allowance	2,500
Federal tax allowance	9,672
State tax allowance	4,578
Income for average deductions	<u>\$66,750</u>
Social security tax allowance	4,526
Gross Fund income (W-2 income)	<u>\$71,276</u>

Less Adjustments/Deductions

Social security tax allowance	4,526
Average deductions	9,185
State taxes	4,578
Personal exemptions	4,700
Income on which tax allowance is computed	<u>\$48,287</u>

Tax Allowance

Federal	\$9,672
State	4,578
Social security	4,526
Total tax allowance	<u>\$18,776</u>

II.

Will Your Tax Allowance Cover Your Taxes?

Will Your Tax Allowance Cover Your Taxes?

As stated in the introduction to this booklet, your tax allowance is not a tax reimbursement. It is computed using general assumptions. Because your tax characteristics may be different from those assumed, your tax allowance may be greater or less than the tax liability on your Fund income. Your tax allowance is not meant to cover the taxes on your non-Fund income, such as investment income, nor does it cover the taxes on your spouse's income. In addition, your tax allowance does not cover the employee's share of social security taxes.

The primary reasons why your tax allowance may not match the tax liability on your Fund income are explained in more detail below:

1. You Must Pay the Employee's Share of Social Security Taxes

Employees of international organizations are considered self-employed for purposes of social security taxes. As such, they must pay both the employer's and the employee's share of social security taxes. The Fund gives you a tax allowance for the employer's share of social security taxes only. You are responsible for the employee's portion of this tax. If you worked outside the Fund, you would also pay the employee's share of social security taxes.

The employee's share of social security taxes (in 1993) is 7.65% of the first \$57,600 of earned income plus 1.45% of the amount greater than \$57,600 but less than \$135,001. Beginning in 1994, there will be no ceiling on the amount taxed at 1.45%.

2. Your Itemized Deductions are Lower Than Your Average Deductions

If your actual itemized deductions are lower than your computed average deductions because, for example, you do not own a home, your actual taxable income will be more than the taxable income used in your tax allowance computation. Your tax allowance will, thus, be less than your tax liability.

This deficiency may be at least partially offset by the safeguard adjustment. See Appendix F for an explanation of the safeguard adjustment. Example 5 in Appendix F shows a situation in which a staff member's average deductions are higher than the staff member's actual itemized deductions.

3. The Tax Rate Applied to Your Fund Compensation

Under the U.S. graduated income tax system, the first income you earn is taxed at the 15 percent rate, the next income is taxed at the 28 percent rate, and so forth, up to the 39.6 percent rate. In computing your tax allowance, the Fund assumes that the first income earned is your Fund income and the last income earned is your outside income. Your tax allowance is, thus, computed using the lower rates, and your tax allowance is less than it would be if the Fund assumed that your outside income were earned first.

III.

Applying For and Receiving Your Tax Allowance

Applying for Your Tax Allowance

Each October, you will receive a tax allowance application. The application will ask you to provide your filing status, the number of dependents that you have, your new address if you moved during the year, your spouse's age, and your spouse's estimated earned and unearned income, social security benefits, and capital gains. In order to be eligible to receive a fourth quarter tax allowance, you must complete and return this application to the Treasurer's Department in early November.

It should be noted that the request for your spouse's income for tax allowance purposes is separate and distinct from the request for your spouse's income for tax equivalency allowance purposes, because the definition of spouse income used in the computations of these two allowances is different. For tax allowance purposes, the Fund uses your spouse's taxable income. For tax equivalency allowance purposes the Fund uses your spouse's earned income. You must, therefore, respond to both requests for information.

Receiving Your Tax Allowance

Your tax allowance is paid to you in four installments. Your first three installments are based on current tax law, your projected fund income for the year, and the filing status, number of dependents, state of residency, and spouse income that you claimed on your *prior* year's tax allowance application. Your fourth quarter tax allowance computation is based on current tax law, your projected Fund income for the year, and the filing status, number of dependents, state of residency, and spouse income that you claimed on *this* year's tax allowance application. Your fourth quarter tax allowance is the difference between the fourth quarter computation and the tax allowances that you received in the first

three quarters of the year. You will receive your quarterly tax allowance approximately a week before each of the first three estimated tax payments is due. The fourth installment will be paid in late December.

Applying for a Recalculation of Your Tax Allowance

You should apply for a recalculation of your tax allowance if one or more of the following situations apply to you:

1. Your spouse's income, as estimated on your tax allowance application, differs from your spouse's actual income by more than \$200. The estimation of your spouse's income is printed on the tax allowance computation worksheet that you receive with your fourth quarter tax allowance.
2. The filing status on your actual tax return is different from the one you listed on your tax allowance application.
3. The number of dependents on your actual tax return is different from the number of dependents listed on your tax allowance application.
4. You would benefit from the safeguard adjustment. See Appendix F for an explanation of the safeguard adjustment.
5. You want to receive part of your safeguard adjustment early. If you received a safeguard adjustment last year, you may apply for an interim safeguard adjustment this year. The interim adjustment is a partial prepayment of this year's safeguard adjustment.

Application forms for these recomputations are distributed by staff bulletin in January. You have until February 28th to apply for an interim safeguard adjustment. You may apply for the other recalculations until August 15th.

IV.

Paying Your Taxes

Making Estimated Tax Payments

The federal and state governments require you to pay your taxes in quarterly installments. To make your estimated tax payments, send an estimated tax voucher and your check to the taxing authority. Dates and form numbers for estimated tax vouchers and for final tax returns are listed on page 15. Write your social security number, the form number and the period to which the tax applies on your check.

Estimated self-employment taxes are sent to the federal government along with estimated federal income taxes, using the same voucher and check. Note that each quarter you should pay both your own share of self-employment taxes and the share of these taxes reimbursed by the Fund.

You will be penalized if you do not make your tax payments on time and in the correct amounts. To avoid penalties in 1993, each of your estimated payments must equal at least one fourth of your prior year's total tax liability, including your self-employment tax liability, or one fourth of 90% of your current year's liability. If your 1992 adjusted gross income was greater than \$75,000 (\$37,500 for married filing separately) and your 1993 adjusted gross income is at least \$40,000 (\$20,000 for married filing

separately) more than your 1992 adjusted gross income, your estimated payments must equal 90% of your 1993 tax liability.

Beginning in 1994, you can avoid penalties if each of your quarterly estimated payments equals one fourth of:

If, last year, your taxable income was \$150,000 or less (\$75,000 for married filing separately):

1. 100% of last year's liability; or
2. 90% of this year's liability

If, last year, your taxable income was more than \$150,000 (\$75,000 for married filing separately):

1. 110% of last year's liability; or
2. 90% of this year's liability

The additional regular federal income tax that you owe due to the increased 1993 rates may be paid in three equal installments due:

- Installment 1—April 15, 1994
- Installment 2—April 17, 1995
- Installment 3—April 15, 1996

See Appendix H for the new 1993 tax rates.

Paying Your Taxes

Tax Payment	Due Date	
Installment 1	April 15	(Virginia due May 1)
Installment 2	June 15	
Installment 3	September 15	
Installment 4	January 15	
Final Return	April 15	(Virginia due May 1)

Taxing Authority	Form Number		
	Est. Tax Voucher	Final Return	Extension
Federal	1040 ES	1040	4868
DC	D-40 ES	D-40	FR-127
Virginia	760ES	760	760-E
Maryland	502 D	502	502 E

Paying Your Taxes

Filing Your Final Return

Your final tax returns and the balance of the taxes owed are due on April 15 (May 1 for Virginia).

You may get an extension of time to file your return. However, the extension is for filing only; the balance of your tax liability must be sent in with the extension request or you will be charged interest.

Each January you will receive a Form W-2 from the Fund. The W-2 will show the amount of income which you must report to the government. You will receive a W-2, which is used to report the income of employees, rather than a Form 1099, which is the form used to report the income of self-employed people, because the IRS considers you to be an employee for all purposes except social security taxes. For purpose of social security taxes, you are considered self-employed.

The Fund issues very few Form 1099s because, as stated above, these forms can be issued only to individuals who are not considered employees by the IRS. The IRS considers a person an employee if his or her employer has the right to control and direct the person's work and the means by which the person does the work. Evidence of an employer-employee relationship is full-

time employment, working at the employer's place of business, using the employer's computers, tools, and supplies, following the employer's instructions, and being paid a salary or an hourly wage rather than by the task.

Report your W-2 income on the wage line of the appropriate tax form. Also report it on line 2 of Federal Schedule SE, in order to calculate the amount of your self-employment tax. At the bottom of Schedule SE, note that you are an employee of an international organization.

Though Schedule SE calls for income from Schedule C, which is the form usually used to report earnings from self-employment, you should not file Schedule C. You are not allowed to reduce your W-2 income by business expenses such as those listed on Schedule C. Contractual employees receiving a W-2 should, similarly, not file a Schedule C, since they are also not allowed to reduce their W-2 income by business expenses.

Tax forms are available in the first floor hallway of the headquarters building, opposite the Credit Union automatic teller machine, and at most public libraries and post offices. Once you have filed estimated taxes and your final return, the government will send these forms to you annually.

VI.

Key Terms

Adjusted Gross Income—gross income less one-half of self-employment taxes, IRA and KEOGH deductions, alimony paid, one-fourth of self-employed health insurance, the penalty on early withdrawal of savings, and deductible moving expenses (beginning in 1994).

Average Deductions—the average amount that, according to IRS statistics, a person with a specific level of income would take as itemized deductions on his or her tax return (excluding the deduction taken for state and local income taxes).

Dependent—You may claim an individual who satisfies five tests as your dependent. The person must

- 1) Be related to you or a member of your household.
- 2) Be a citizen or resident of the U.S., or a resident of Canada or Mexico.
- 3) Not file a joint return.
- 4) Have gross income less than \$2,350 (indexed for inflation). This test does not apply if the person is your child and is under 19, or is a full time student under 24.
- 5) You must provide more than half of his or her support.

Earned Income—wages, salary, other employee compensation, and income from self-employment.

Effective Tax Rate—average tax rate imposed on your income.

Estimated Tax—advance payments of tax which are made quarterly.

Filing Status—a condition that, in part, determines your tax rates. Filing statuses include single, married filing jointly, married filing separately, and head of household. Your filing status is governed by your marital status on the last day of the year.

Form 1040—IRS form used by U.S. citizens and residents to file individual income tax returns.

Form 1040-ES—IRS form used to file quarterly estimated tax payments.

Form 1099—IRS form on which payors report the income paid to self-employed individuals.

Form W-2—IRS form on which employers report the gross income of employees (both staff members and contractual employees).

Gross Income—all worldwide income unless specifically excluded from taxation by the Internal Revenue Code.

Gross Fund Income—the amount of taxable benefits that you receive from the Fund. Gross Fund income includes net salary, tax equivalency allowance, overtime payments, spouse travel on points, installation and resettlement allowances, settling-in and separation grants, termination benefits, subsistence allowance, housing allowance, rent, utilities, cost of living allowance, automobile allowance, rest and recovery allowance, home leave, per diem and incidentals, storage, non-deductible moving expense reimbursements, and the imputed value of group life insurance and interest from the SRBP.

Itemized Deductions—amounts by which you can reduce your adjusted gross income. Common itemized deductions are mortgage interest, real estate taxes, state and local income taxes, and charitable contributions.

Marginal Tax Rate—the tax rate imposed on the last dollar you earn.

Net Salary—the pay that you receive from the Fund, net of allowances.

Key Terms

Self-Employment Taxes—the social security taxes paid by self-employed people. As a Fund employee you are considered self-employed for purpose of social security taxes.

Social Security Taxes—the required payment into the U.S. Social Security System. As an employee of an international organization you pay self-employment taxes instead of social security taxes.

Standard Deduction—a dollar amount that reduces your adjusted gross income. It is used instead of itemized deductions if your itemized deductions are lower than the standard deduction.

Tax Equivalency Allowance—the allowance you receive from the Fund for each family member who qualifies as your dependent under the Fund's rules.

Taxable Income—earned income plus interest income, dividends, capital gains, pensions, rental income, income from partnerships and trusts, alimony, unemployment compensation, and most other revenue, less adjustments to income, itemized deductions, personal exemptions, the foreign earned income exclusion, and the housing exclusion.

Tax Allowance—The amount you receive from the Fund to help you pay your federal, state, and local income taxes and your self-employment taxes.