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How To Report Foreign Gifts And Bequests To IRS

If you are a citizen or permanent resident, you must report all income to the IRS annually even if it's taxed somewhere else. See [Income from Abroad is Taxable](#). Also, you must report your foreign bank accounts. See [2011 Offshore Voluntary Disclosure Initiative](#). There's been so much press coverage of these issues recently it is harder to claim ignorance of these rules than in the past. See [The ABCs of Foreign Bank Accounts](#).



Fortunately, the IRS recently announced another voluntary disclosure program. See [New IRS Offshore Amnesty Announced: Third Time's A Charm](#) and [Offshore Voluntary Disclosure Program Reopens](#).

But what about foreign inheritances? These rules aren't so well publicized. As a result, you might be in a quandary what to do.

Not Income. First, start with the presumption that if you receive a gift or inheritance, it isn't income. If there is a gift or estate tax, that would be addressed by the person giving you the money or property. So when you receive a gift or inheritance, you don't owe tax on it.

But the IRS likes to keep tabs on such things. If you're concerned about proving that something was a gift or inheritance, you'd better file [IRS Form 3520](#). The IRS instructions are [here](#).

File a Form 3520 if you receive either of the following during the tax year:

1. More than \$100,000 from a nonresident alien individual or a foreign estate (including foreign persons related to that nonresident alien individual or foreign estate) that you treated as gifts or bequests; or
2. More than \$14,375 from foreign corporations or foreign partnerships (including foreign persons related to such foreign corporations or foreign partnerships) that you treated as gifts.

You are required to report bequests on Form 3520 when you actually or [constructively receive](#) them. Thus, report a gift in the year you actually receive it (e.g., title is taken in your name) or the year you **could have** acquired title in your name, whichever occurs first.

The penalty for reporting a gift late is 5 percent of its value for each month the gift is not reported (capped at 25 percent). However, no penalty applies if the IRS is convinced the failure to report was due to reasonable cause and not willful neglect.

For more, see:

[Tax Amnesty: IRS Voluntary Disclosure Part Deux](#)

[IRS Summons? Meet John Doe](#)

[Fat New Regs Trim FATCA Down to Size](#)

[5 Nations Join U.S. In Tax Evasion Crackdown](#)

[With Indictments, IRS Will Get More Data From Swiss](#)

[Happy FATCA Filing Season](#)

[IRS: Expect Even More Transparent *Foreign* Accounts](#)

[Is Foreign Account Ignorance Bliss?](#)

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