



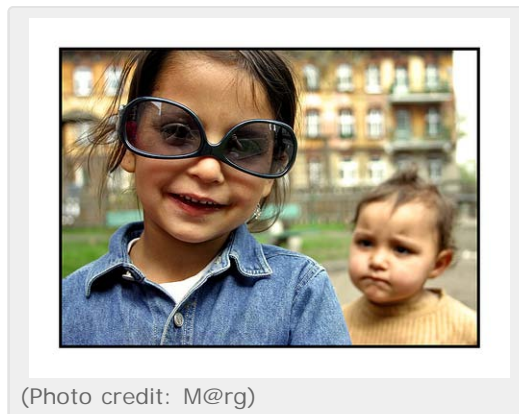
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U.S. Citizens Can't Claim Non-Citizen Kids As Dependents

It's no secret that the IRS has declared war on foreign income and foreign accounts. They are perfectly legal, of course, but you must declare them and pay tax on them. Those are two different obligations and both are taken seriously, as the recent prison sentence for failure to file FBARs [here](#) reveals.



Both obligations carry huge civil and even criminal penalties. Some complain that the penalties for failing to report and pay tax on a foreign bank account are worse than many violent crimes. But that doesn't mean the penalties won't be imposed, as many are finding.

What's more, with FATCA's long tentacles coming on line in 2013, the world is rapidly becoming a village, one with talkative gossips at that. FATCA requires foreign financial institutions to rat on American account holders or face a bevy of serious penalties from the IRS. See [5 Nations Join U.S. In Tax Evasion Crackdown](#). For a time it appeared that the international community would rise up [Network-style](#) and scream that they were "mad as hell and not going to take it anymore." See [Are Expats Derailing The FATCA Express?](#)

But now, FATCA seems safe and rolling like a juggernaut toward full implementation. See [More Bad News For FATCA](#). For that reason and

others, the smart play for most is to go into the IRS amnesty program. No matter how painful it may be, it's way better than the alternative. See [IRS Announces Tax Relief For Dual Citizens And U.S. Citizens Abroad](#).

Need more proof? Several taxpayers have gone to court fighting over dependency exemptions and child care credits for their kids on their taxes. There's not all that much money in those, mind you, but it's the principle that counts.

In [Carlebach v. Commissioner](#) and [Stern v. Commissioner](#), the Tax Court ruled that regardless of having good [records](#) and legitimate expenses, parents cannot claim dependency exemptions or child care credits for children who aren't U.S. citizens. Plus, that's true even if the children become U.S. citizens in later years.

In both Tax Court cases, the couples had multiple children (six children in one case, nine in the other) and lived in Israel. Only one of the spouses was a U.S. citizen. The Tax Court upheld accuracy-related and late-filing penalties in one of the cases.

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