

Taxes for Fulltimers Serving Abroad – Tax Year 2022

This article is a general guide to US taxes for fulltimers serving abroad. In most cases, you will file a regular Form 1040. You may also be required to report your foreign financial assets. Please refer to the IRS instructions and publications for full details on a particular topic.

Basic principle:

US citizens and residents (Green Card holders) are taxed on worldwide income. That means you're subject to the same filing requirements whether you live in the US or in a foreign country. For 2022 a return is required to be filed if your gross income is at least:

- \$12,950 if you're single and under age 65 (\$14,700 if over 65)
- \$25,900 if you're married filing jointly and both are under age 65 (\$28,700 if both are over 65)
- \$400 if you're self-employed

That means most fulltimers will file a US tax return every year, no matter where they live. If you meet the filing thresholds, you must file a return even if you have no tax liability.

Due date of return:

The due date for US individual tax returns is April 15. If you are living abroad on that date, you are given an automatic extension of two months to June 15. However, this is an extension of time to file, not of time to pay. So if you owe tax when you file your return on June 15, any interest and penalties will be calculated from April 15, not June 15.

Foreign Earned Income Exclusion:

You may be able to exclude from income foreign earnings up to a certain amount (\$112,000 for 2021). This amount is adjusted annually. To qualify you must meet these 4 qualifications:

1. Be a US citizen or resident
2. Have foreign earned income, i.e. income received for services performed in a foreign country
3. Have a foreign tax home. That means your regular or main place of business is in a foreign country and you do not have an abode in the US at the same time. (This does not mean you cannot own a home in the US, but it cannot be your place of residence at the same time as you are residing in a foreign country.)
4. Meet either (a) the Bona Fide Residence Test or (b) the Physical Presence Test.
 - a. *The Bona Fide Residence Test* means you were a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year. (You won't be able to meet this test the first year you're abroad.)
 - b. *The Physical Presence Test* means that you were physically present in a foreign country for at least 330 full days during any period of 12 consecutive months (that means fewer than 35 days in the US). Fulltimers will generally qualify under the physical presence test.

Note: I have used the term *foreign country* in the singular but it could be plural *countries*. If you lived in more than one foreign country during the period, aggregate the time in all countries to apply the tests.

Earned income includes salaries and wages, commissions, professional fees and self-employment income. It does not include interest and dividends, capital gains, pensions or social security.

It is foreign income if it is for work done in a foreign country, even if the income comes from the US or is paid into your US bank account.

The exclusion is computed on Form 2555 or 2555-EZ, which is filed with your Form 1040. You cannot use Form 2555-EZ if you are self-employed.

Both spouses may claim a foreign earned income exclusion if they both meet the requirements. A separate Form 2555 or 2555-EZ must be filed for each spouse.

You must file a tax return even if you can exclude all your income and you owe no tax.

If your tax return is due before you've met the physical presence test, you can file an extension on Form 4868 and get a six-month extension. If you need more time to meet the test in order to qualify for the exclusion, you can file Form 2350 to get an additional extension, usually to 30 days beyond the date you expect to qualify.

If you've met the physical presence test but have been in the foreign country for less than a calendar year, you can pro-rate the exclusion on your tax return.

There is also a foreign housing exclusion or deduction for amounts paid on your behalf that are taxable foreign earned income to you. This usually won't apply to fulltimers.

TIP: Even if you qualify for the foreign earned income credit, compute your tax without the exclusion first. If you don't owe any income tax, the exclusion will not help you. The exclusion reduces the regular income tax, but does not reduce self-employment (SE) tax.

Foreign Tax Credit:

If you paid foreign taxes to a foreign country and are subject to US tax on the same income, you may be eligible for the Foreign Tax Credit. This is to avoid double taxation on foreign source income.

You can deduct the foreign tax on Schedule A if you itemize, or you can take a credit on Form 1116. It is usually more advantageous to take the credit.

You cannot take the foreign tax credit for taxes paid on income you excluded under the foreign earned income exclusion.

The foreign tax credit only offsets income tax; it does not reduce SE tax.

Exchange Rates:

You must list amounts on your US tax return in US dollars. You can use the exchange rate for transactions on specific days, or you can use the yearly average exchange rate found at <https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates>

Income and Deductions:

Because you are filing a US tax return, the rules are generally the same. (See *Taxation for Fulltimers* <http://www.lindadonqea.com/fulltimers>).

Income is all payments for services performed, regardless of what the payments may be called. You will probably not receive a 1099 when working in a foreign country, so it is up to you to keep track of your income.

The **housing allowance** is available if the funds are designated as such. Expenses must be allocated so only those related to taxable income are deductible. (See *Taxation for Fulltimers* <http://www.lindadonqea.com/fulltimers>).

Moving Expenses:

Moving expenses are no longer deductible except for members of the Armed Forces on active duty.

Earned Income Credit:

The earned income credit is not allowed unless you resided in the US for more than 6 months of the year.

Additional Child Tax Credit:

The Additional Child Tax Credit (Schedule 8812) is not allowed if the Foreign Earned Income Exclusion is used.

Charitable Contributions:

Donations to foreign churches or other foreign charities are generally not deductible. There are some exceptions for Canadian, Mexican and Israeli charities if you have income from that country and the charities meet certain requirements. (See *IRS Publication 597* for more information.)

Qualified Business Income Deduction (QBID):

The Qualified Business Income Deduction is only available for income from businesses within the United States.

SE (Self-Employment) Tax

If you are living abroad and you are a self-employed US citizen or resident, you generally are subject to the SE tax based on your net self-employment earnings.

When computing the SE tax, you must add back any self-employment income that was excluded under the Foreign Earned Income Exclusion (just as you add back the housing allowance).

Estimated Tax

The rules for paying estimated tax are the same whether you live in the US or abroad.

Estimated tax payments can be made online at www.irs.gov/payments or mailed with Form 1040-ES to:

Internal Revenue Service
PO Box 1300
Charlotte NC 28201-1300
USA

Affordable Care Act

US citizens and residents living abroad are subject to the provisions of the Affordable Care Act, meaning they must have health insurance that meets the minimum essential coverage standard or pay a penalty called the shared responsibility payment. Beginning in 2019, the shared responsibility payment is 0. US citizens and residents who qualify for the Foreign Earned Income Exclusion are exempt, even if they do not use the exclusion.

US Citizen or Resident Married to a Nonresident Alien

A US citizen or resident who is married to a nonresident is considered Married Filing Separate. However, an election may be made to treat the nonresident spouse as a US resident and file a regular Form 1040. The general rules, including taxation of worldwide income, apply. To make the election, three requirements must be met:

1. Both spouses must be treated as US residents for tax purposes,
2. They must file a joint return the first year they make the election, and
3. Neither spouse can claim to be treated as a non-US resident under a tax treaty.

Expatriation Tax

Special rules apply to US citizens who have renounced their citizenship and to long-term residents who have ended their US resident status for federal tax purposes. For more information go to <https://www.irs.gov/individuals/international-taxpayers/expatriation-tax>.

State Taxes

In most cases, you will be a nonresident of the state you previously lived in. You will probably have to file as a part-year resident in the year you move abroad. If you have rental property, you will probably have to file a non-resident return every year for the state where the property is located. If you have no income from the state, you will not have to file. If you have a mailing address in the state, you may get a letter asking for a tax return. Explain that you do not live in the state and had no income from that state.

Foreign Financial Assets

If you have a financial interest in or signature authority over a foreign financial account, such as a bank account, brokerage account, mutual fund, or other type of foreign financial account, you may be required to report it. An account maintained with a branch of a US bank that is physically located outside of the US is a foreign bank account.

FBAR (Foreign Bank Account Report)

If the aggregate value of all your foreign financial accounts exceeds \$10,000 at any time during the calendar year, you are required to file FinCEN Form 114, commonly referred to as FBAR.

If you meet the filing requirements, the FinCEN Form 114 must be filed even if you are not required to file a tax return.

FinCEN Form 114 must be filed electronically through the FinCEN e-filing system at <http://bsaefiling.fincen.treas.gov/main.html>. The due date for the FinCEN Form 114 is April 15th.

FACTA (Foreign Account Tax Compliance Act)

The requirements under FACTA are separate and in addition to the FBAR filing. The same assets may be required to be reported on both forms.

US taxpayers holding foreign financial assets may need to file Form 8938 with their Form 1040. If Form 1040 is not required, Form 8938 is not required.

The specified foreign financial assets which must be reported under FACTA include the following assets in your name or held for your use:

- Any financial account maintained by a foreign financial institution,
- Any of the following not held in an account maintained by a financial institution:
 - Any stock or security issued by a person other than a US person
 - Any financial instrument or contract held for investment that has an issuer or counterparty which is other than a US person
 - Any interest in a foreign entity

Real estate is not required to be reported unless it is held inside a foreign entity.

If your foreign financial assets are over a certain threshold, you must file Form 8938. For single taxpayers living outside the US, the threshold is \$200,000 on the last day of the tax year or \$300,000 at any time during the year. For married taxpayers filing jointly, the threshold is \$400,000 at the end of the year or \$600,000 at any time during the year. (<https://www.irs.gov/businesses/corporations/summary-of-fatca-reporting-for-us-taxpayers>)

Comparison of FBAR and FACTA

See chart at <https://www.irs.gov/Businesses/Comparison-of-Form-8938-and-FBAR-Requirements>

Note: There are other foreign information returns that may be required if you have ownership in a foreign trust, a foreign corporation or a foreign partnership.

References

The best reference for taxes is the IRS website: www.irs.gov . Type a subject in the search box. For state taxes, go to the state tax website.