

FOREIGN EARNED INCOME EXCLUSION FOR U.S. EXPATS

IF YOU'RE AN EXPAT, YOU MIGHT QUALIFY FOR A FOREIGN EARNED INCOME EXCLUSION FROM YOUR 2019 U.S. TAXES, UP TO \$105,900 OR EVEN MORE IF YOU INCUR HOUSING COSTS. (EXCLUSION IS ADJUSTED ANNUALLY FOR INFLATION)

WHAT CAN YOU EXCLUDE?

THE FOREIGN EARNED INCOME EXCLUSION CAN HELP REDUCE OR ELIMINATE U.S. TAX ON COMPENSATION THAT IS EARNED WHILE WORKING ABROAD. THIS EXCLUSION IS ONLY AVAILABLE FOR EARNED INCOME AND DOESN'T APPLY TO INVESTMENT INCOME SUCH AS INTEREST AND DIVIDENDS. NOTE: YOU MIGHT QUALIFY FOR THE FOREIGN EARNED INCOME EXCLUSION EVEN IF ITALY DOES NOT ASSESS INCOME TAX ON YOUR COMPENSATION.

WHO CAN BENEFIT

THE EXCLUSION USUALLY APPLIES TO THOSE WHO HAVE LIVED ABROAD FOR AT LEAST ONE FULL YEAR. HOWEVER, PARTIAL- YEAR EXCLUSIONS ARE AVAILABLE IF YOU'VE RECENTLY MOVED TO A FOREIGN COUNTRY OR RETURNED TO THE U.S. MID- YEAR. THE FOREIGN EARNED INCOME EXCLUSION IS AVAILABLE TO EXPATS WHO EITHER:

- WORK OUTSIDE THE U.S. AS EMPLOYEES, WHETHER FOR A U.S. OR NON U.S. EMPLOYER

WORK OUTSIDE THE U.S IN A SELF-EMPLOYED OR PARTNER CAPACITY
EMPLOYEES OF THE U.S. GOVERNMENT CANNOT CLAIM THE FOREIGN INCOME EXCLUSION. HOWEVER, AN EMPLOYEE OF A PRIVATE COMPANY UNDER CONTRACT WITH THE U.S. GOVERNMENT MIGHT STILL BE ELIGIBLE.

FOREIGN TAX CREDIT VS. EXCLUSION

IT'S IMPORTANT TO CHOOSE BETWEEN THE FOREIGN INCOME EXCLUSION AND TAX CREDIT WISELY. IF YOU CLAIM THE EXCLUSION AND THEN CHANGE BACK TO THE FOREIGN TAX CREDIT, YOU CANNOT EASILY CLAIM THE EXCLUSION AGAIN FOR FIVE YEARS. CLAIMING THE FOREIGN TAX CREDIT MIGHT BE THE BETTER OPTION IF ANY OF THESE APPLY:

- YOU ARE PAYING FOREIGN TAX AT A HIGHER RATE THAN YOUR U.S. TAX RATE
- YOU WISH TO PARTICIPATE IN AN INDIVIDUAL RETIREMENT ARRANGEMENT (IRA)
- YOU QUALIFY FOR CERTAIN FAMILY-RELATED BREAKS BASED ON NON-EXCLUDED INCOME

THE FOREIGN TAX CREDIT MIGHT ALSO BE A BETTER CHOICE FOR EXPATS WITH SMALL BUSINESS OPERATIONS THAT USE CAPITAL OR INVENTORY AS AN IMPORTANT PART OF THEIR BUSINESS.

EXPAT TAX EXTENSIONS

EVEN IF YOU HAVEN'T BEEN OUT OF THE COUNTRY LONG ENOUGH TO CLAIM THE EXCLUSION BY **YOUR FILING DATE**, YOU CAN REQUEST AN EXTENSION TO FILE UNTIL YOU'VE MET THESE TIME REQUIREMENTS.

LATE ELECTIONS TO CLAIM THE FOREIGN EARNED INCOME EXCLUSION

YOU GENERALLY MUST CLAIM THE EXCLUSION EITHER:

- WITHIN ONE YEAR OF THE DUE DATE OF YOUR RETURN
- BY AMENDING A TIMELY FILED RETURN

HOWEVER, YOU MAY CLAIM THE EXCLUSION IF:

- THE IRS HASN'T DISCOVERED YOUR FAILURE TO FILE YOUR RETURN
- CLAIMING THE EXCLUSION, OR

YOU OWE NO TAX AFTER TAKING THE EXCLUSION INTO ACCOUNT

IF YOU HAVEN'T FILED RETURNS IN PRIOR YEARS, YOU STILL MIGHT BE ABLE TO EXCLUDE YOUR FOREIGN EARNED INCOME FROM U.S. TAX. THIS COULD HAVE THE EFFECT OF ELIMINATING YOUR TAX LIABILITY AND ANY PENALTIES AND INTEREST THAT WOULD BE ASSESSED.

FOREIGN HOUSING EXCLUSION OR DEDUCTION

IF YOU'RE AN EXPAT AND YOU INCUR FOREIGN HOUSING EXPENSES, YOU MIGHT BE ABLE TO EXCLUDE OR DEDUCT THEM. THE EXCLUSION IS AVAILABLE FOR EXPATS WORKING AS EMPLOYEES WITH EITHER:

- OUT-OF-POCKET HOUSING EXPENSES
- EMPLOYER PROVIDED HOUSING AMOUNT INCLUDED IN THEIR WAGES

THE TAX DEDUCTION IS AVAILABLE FOR SELF-EMPLOYED EXPATS PAYING FOREIGN HOUSING EXPENSES. THE AMOUNT OF YOUR HOUSING EXCLUSION OR DEDUCTION IS BASED ON THE DIFFERENCE BETWEEN THE FOLLOWING:

- YOUR ACTUAL FOREIGN HOUSING EXPENSES
- A BASE AMOUNT FOR YOUR FOREIGN COUNTRY OF RESIDENCE