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Tax Alert

U.S. Taxation for Expat Americans Living Abroad

As an Expatriate (Expat) American (American Citizen or Green Card Holder living abroad) you should be aware of several tax requirements that you must comply with even though you are out of the U.S. and have no U.S. source income. This article explains these filing obligations and when do you have to submit them.

What do you have to file?

The U.S. tax code has in place a set of returns, forms and schedules that an American living abroad must prepare and file. Failing to file some of those returns may result in large penalties and subject you to criminal charges. On the other hand, filing all the forms listed in this article, not only put you in full compliance with the IRS but also allow the statute of limitations for IRS audits to expire years after you file those returns. It means the IRS will not be able to go back (excluding fraud claims) and audit those returns.

IRS Form 1040 - U.S. Individual Income Tax Return

The Internal Revenue Code defines a U.S. Citizen and a U.S. Permanent Resident (e.g. Green Card Holder) as a U.S. person for tax purposes. As such, both are liable for filing on a timely manner a U.S. individual tax return, IRS form 1040 and all applicable schedules and report any U.S. and foreign source income taxable by law. For example, if you work for a foreign employer in the country where you reside, those wages are reportable on your U.S. tax return. Additionally, any interest, dividend or capital gains you earned in the U.S. is reportable as well. Should you file a return even if your income is below the IRS filing requirements for the U.S.? As explained above, filing a return starts the clock on the Statute of Limitations, therefore you should file your tax returns even if you have no income or don't owe taxes in order to force the statute of limitations to run and eliminate future problems when you decide to return to the U.S., the deadline for filing this return is June 15 for the previous tax year ended December 31.

IRS Form 2555 - Foreign Earned Income Exclusion

Meeting certain criteria will allow you to qualify for the foreign earned income and foreign housing exclusions and the foreign housing deduction and significantly reduce your taxable foreign income. If you are a U.S. citizen (or a U.S. Permanent resident) living abroad, you are taxed on your worldwide income. However, you may qualify to exclude from income up to \$91,400 of your foreign earned income. In addition, you can exclude or deduct certain foreign housing amounts. To be eligible for the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, you must: (1) have foreign earned income, (2) your tax home must be in a foreign country, and (3) you must be one of the following: (3.a.) U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, (3.b.) U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, or (3.c.) a U.S. citizen or a U.S. resident alien who is physically present in one or more foreign countries for at least 330 full days during any period of 12 consecutive months. The term "foreign country" does not include U.S. possessions such as Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, or American Samoa. The deadline to file this form is the same as form 1040, see above.

IRS Form 1116 - Foreign Earned Income Tax Credit

The foreign tax credit is designed to eliminate (e.g. in some cases only to lower) the double tax liability resulting when foreign income is taxed by both the United States and the foreign country in which it was earned. Generally, income tax paid (as opposed to other taxes) or accrued to a foreign country or a U.S. possession will qualify for the foreign tax credit. Tax paid to countries that provide support for acts of international terrorism, the United States does not conduct diplomatic relations with the country, or the United States does not recognize the country's government does not qualify for the Foreign Earned Income Tax Credit and Expats are not able to use it. The deadline to file this form is the same as form 1040, see above.

TD F 90-22.1- Report Of Foreign Bank And Financial Accounts

If you are a United States resident for tax purposes (e.g. U.S. citizen, Green Card Holder or reside in the U.S. for 183 days or more in the tax year) you must file IRS form F 90-22.1 to report financial interest in or signature or other authority over any foreign financial accounts, including bank, securities, or other types of financial accounts, in a foreign country, if the aggregate value of these financial accounts exceeds \$10,000 at any time during the calendar year. The deadline to file this form is by June 30, of the succeeding year.

What should you do if you have not filed previous years?

Many Americans living abroad unintentionally fail to comply with the above because they incorrectly think that living out of the country means that they have disconnected their ties to the IRS thus they are not liable to file any US. tax returns or pay any U.S. tax. When the IRC (Internal Revenue Code) actually "follows" them to their foreign country, they become concerned and unsure about how to resolve the issue.

When a problem like that arises, it is highly recommended to file a minimum of 3 (three) years of unfiled tax returns, report your U.S. foreign income and pay any tax due to the IRS as soon as you become aware of the default. We strongly suggest that you retain an accountant that is experienced in issues related to Expat taxation and that can represent you before the IRS. Your goal is to correct all IRS filing requirements, pay any tax due and then apply for penalties removal if the IRS assesses any.

An experienced tax accountant will be able to help you with filing previous year returns, take advantage of the tax breaks available by law (as an Expatriate American living abroad) and then communicate with the IRS to try and minimize penalties.

Conclusion

Taking an assignment in a foreign country or simply living outside of the U.S. does not release you from complying with all IRS requirements if you are considered a U.S. person. Disregarding these laws, regulations and requirements may result in significant penalties, collection actions and even criminal charges against you. It is easy to avoid those issues by submitting the necessary returns and forms. Tax Usa, has the expertise and experience to assist you with all the issues listed above.

About Tax Usa Inc.

Our firm specializes in providing tax advice and tax preparation services for expatriate Americans. We have the knowledge and expertise to address your expat tax concerns and make sure you are always in compliance with the ever-changing US tax code. When you retain us we will accurately complete all of your US tax forms and quickly pinpoint any refund opportunities that you may qualify for. [\[more\]](#) U.S. +1 [202] 742-6317 <http://Tax-Usa.net> info@Tax-Usa.net