



U.S. taxation of Americans abroad

Global Mobility Services



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The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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If you are a citizen or resident of the United States who lives or works abroad, this publication is designed to help you understand your U.S. income tax obligations.

Your tax situation may be especially challenging in the year that you move to or from the United States, and it is generally advisable to seek tax advice in both the U.S. and your host country before you move, if possible, thereby helping to prevent tax “surprises” in either country.

United States tax law is continually changing. This booklet reflects U.S. income tax law as it applies to taxable years ending on or before December 31, 2016.

You may also be interested in our companion publication, *U.S. Taxation of Foreign Citizens*, which is available online on the KPMG Global Mobility Services Web page on <http://www.kpmg.com> at this [link](#).

For further information, please contact your local KPMG International member firm’s office. Our U.S. offices are listed in [Appendix E](#) of this booklet.

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Chapter 1 – Taxation of foreign earnings and the foreign earned income exclusion

If you are a U.S. citizen or resident who lives and works outside the United States, you may qualify to exclude some or all of your foreign earned income from U.S. taxation. The “foreign earned income exclusion” (FEIE) – often referred to as the “section 911 exclusion” in reference to its place in the Internal Revenue Code – allows a general exclusion of up to USD 101,300 in 2016 (USD 102,100 in 2017; the amount is adjusted annually for inflation). In addition to (or in lieu of) the FEIE, you may elect to exclude from income a housing cost amount based on your foreign housing expenses (the “housing cost exclusion”). To claim these exclusions, you must meet certain requirements.

Qualifying for the exclusions

To qualify to claim the FEIE, you must have foreign earned income, your “tax home” must be in a foreign country, and you must meet one of two tests:

- The “bona fide residence test,” which requires that you be a bona fide resident of a foreign country or countries for an uninterrupted period that includes a full tax year; or
- The “physical presence test,” which requires that you be present in a foreign country or countries at least 330 full days during any period of 12 consecutive months.

If you are a U.S. citizen, you may qualify to claim the FEIE (and foreign housing cost exclusion) under either the bona fide residence or physical presence tests. If you are a U.S. resident alien (because you are a “green card” holder) who is working abroad, in general you should use the physical presence test to qualify to claim the FEIE; although if you are a citizen of a country that has an income tax treaty with the United States, you may be able to use the bona fide residence test to qualify to claim the FEIE. The two tests are described in greater detail below.

Bona fide residence test

Bona fide (Latin for “good faith”) residence is determined based on your individual situation, including the nature of your international assignment and the length of your stay in the foreign country. Foreign residence may be established even though you intend to return to the United States when your international assignment is over. Bona fide residence is not the same as domicile, which is normally your permanent home to which you plan to return.

Determining your bona fide residence requires an analysis of all the relevant facts and circumstances. Factors that might indicate that you are a bona fide resident include:

- Your family accompanies you on the international assignment and makes their home in the foreign location;
- You purchase or lease a home in the foreign country;
- You become subject to tax as a resident in the foreign country;
- You intend to become involved in the social life and culture of the foreign country; and
- The nature of any conditions or limitations concerning your employment agreement, as well as the type and term of your visa or residence permit.

To use the bona fide residence test to qualify to claim the FEIE, your period of bona fide residence abroad (whether in one or more countries) must include one full calendar year. Once you meet the full-year requirement, you can apply the bona fide residence test to the partial years abroad at the beginning and end of your assignment, as well. (In a partial year of residence abroad, the maximum FEIE is prorated.) Temporary visits to the United States generally will not disqualify you from claiming to be a bona fide resident of a foreign country, unless the visit to the United States is itself a period of residence in the United States.

Comment

To claim the bona fide residence test on your U.S. income tax return, you cannot claim that you are a nonresident of the foreign country in order to avoid paying resident income tax in the foreign country.

Example 1

Darcy moves from the United States to London, England and establishes bona fide residence there on August 1, 2016. Assuming that the other requirements are met, she will qualify as a bona fide resident on December 31, 2017 (at which point she will have been a resident of the United Kingdom for a full calendar year). As a result, she will qualify for the FEIE for all of 2017 as well as a prorated portion of 2016, commencing with her date of arrival. Her maximum exclusion for 2016 (before taking into consideration the additional exclusion for housing costs) would be USD 42,347 (153 days/366 days x USD 101,300).

Comment

In the example above, Darcy does not qualify to claim the FEIE in her 2016 return until she has lived abroad for all of 2017, meaning that she can't file her 2016 tax return until 2018. The Internal Revenue Service (IRS) allows for a special extension in such circumstances (applied for on Form 2350). If Darcy filed for this extension, the filing deadline for her 2016 income tax return would be January 30, 2018.

Physical presence test

If you use the physical presence test to qualify to claim the FEIE (and the foreign housing cost exclusion), you must be physically present in a foreign country (or countries) for at least 330 full days during any 12-month period. Unlike the bona fide residence test, the physical presence test does not depend on your particular facts and circumstances, or whether you intend to establish residence in a foreign country.

Your qualifying period for the physical presence test can be any period of 12 consecutive months, and the period does not have to start on the first day of the month. If you are claiming the FEIE for a full year of residence abroad, the qualifying period should be the calendar year; but for an arrival or departure year, any 12-month period that begins or ends during the tax year can be used. (In some cases, two or more overlapping 12-month periods may be used; usually this will be the case if two different international assignments occur during the same year.)

A day counts as a day outside the United States only if you were in a foreign country (or countries) for the entire 24-hour period commencing at midnight. For that reason, a day of departure or arrival in a foreign country generally will not count. Time spent over international waters – or in Antarctica – does not count as being present in a foreign country. However, if you spend less than 24 hours in the United States *en route* between two foreign countries, that will not be counted as presence in the United States.

It is important to keep careful records of your travel while on international assignment. Particularly in the year that your international assignment begins or ends, the physical presence test can result in a larger pro rata FEIE than the bona fide residence test, because of the way that the 330-day requirement is applied. It is easiest to explain how this works in an example.

Example 2

Assume the same facts as in example 1 above – Darcy begins her assignment in the United Kingdom on August 1, 2016. Assume further that she does not leave the U.K. for more than a year after that date. To maximize Darcy’s pro rata FEIE, we should find the earliest 12-month period that begins in 2016 and that contains 330 days abroad. Since Darcy remained continuously in the U.K. after her first qualifying day of August 1, 2016, the 330th day of presence in the U.K. will be June 26, 2017. The 12-month period ending on June 26, 2017, begins on June 27, 2016, so Darcy’s qualifying period for the physical presence test in 2016 is June 27 through December 31, a period of 188 days. Her maximum pro rata exclusion is USD 52,034 (188 days/366 days x USD 101,300). Note that this is USD 9,687 more than if she had used the bona fide residence test.

Comment

If you qualify to use both the bona fide residence test and the physical presence test, you may use whichever test allows the larger exclusion. As demonstrated in the two preceding examples, the physical presence test is often preferable in the year of your move abroad (as well as in the year that you end your international assignment), because it may result in a larger prorated maximum exclusion.

Exceptions to minimum time requirements

If you are forced to end your international assignment early because of war, civil unrest, or similar adverse conditions which prevented you from conducting business in the foreign country, you may be allowed a prorated exclusion even though you did not meet the time requirements of the qualifying tests. Each year the IRS releases a list of countries that met this exception in the prior year. The exception applies if you left one of those countries on or after the date specified by the IRS, and this departure prevented you from complying with the time requirements of either the bona fide residence test or the physical presence test, that you otherwise would have expected to meet. Please note the FEIE will be prorated only for the actual period of residence.

The following country was allowed the exception for 2015. (At the time of publication, the list for 2016 had not yet been released.)

Country	Date of departure (on or after)
Burundi	May 14, 2015

Example 3

Ben is a U.S. citizen who began his assignment to Burundi on February 1, 2015. Ben was in Burundi continuously beginning on that date, and established his bona fide residence there. On May 30, 2015, Ben ends his assignment early and returns to the United States due to the civil unrest in Burundi. Ben does not meet the bona fide residence test because his period of bona fide residence in Burundi did

not include one full calendar year. He does not meet the physical presence test either, because he was not present in a foreign country or countries for at least 330 full days in a 12-month period. However, Ben can apply the special exception and claim either of the two tests, because his departure from Burundi was after May 14, 2015, the date specified by the IRS.

Note that the exception does not apply if you leave before the date specified, or if you begin an assignment after the date specified and subsequently leave.

Foreign tax home

To qualify to claim the FEIE (and the foreign housing cost exclusion), your tax home must be in a foreign country throughout your period of bona fide residence or physical presence. The term “tax home” generally means the location of your regular or principal place of business, but you cannot claim that a foreign country is your tax home if your abode is in the United States. Temporary presence in the U.S., or maintaining a dwelling in the U.S., does not necessarily mean you have an abode in the U.S., even if the dwelling is used by your spouse and dependents as their principal place of abode.

The IRS has issued guidelines to help determine whether a work assignment away from your regular place of employment is temporary (so that your tax home remains in place) or is indefinite (so that your tax home moves to the new location). If your expected or actual assignment exceeds one year in a single location, you will be considered to have given up your old tax home. If you realistically expect your assignment away from home to last for a year or less, the employment is considered temporary. Other guidelines establish three factors for determining your place of abode, which also affects where your tax home is considered to be. These factors are:

- Whether your family accompanies you to the new location;
- Whether you duplicate living expenses by maintaining your home; and
- Whether there is a preponderance of business contacts in the new location.

You do not necessarily have to meet all three of these conditions to be considered to have moved your abode to the new location.

Comment

When you take an international assignment, it is very important for you to document the factors that indicate your intention to establish your tax home in the foreign country. Even if you meet the physical presence test, the IRS may not consider your tax home to have moved to the foreign location. On the other hand, if you satisfy the bona fide residence test, the foreign location may be considered your tax home.

Foreign earned income and foreign housing cost exclusions

Once you have established that you have a tax home in a foreign country, and meet either the bona fide residence test or the physical presence test, you are entitled to claim the foreign exclusions.

If you have more foreign earned income than the maximum allowable FEIE, the amount of your exclusion is limited to that maximum. On the other hand, if your foreign earned income is less than the maximum allowable exclusion, the excess exclusion in some circumstances can be used in the previous or following year (this could apply if you receive a bonus based on prior year performance, or a tax reimbursement that relates to the prior year’s tax liability).

As explained above, the maximum amount of the FEIE for 2016 is USD 101,300. If your foreign earned income is more than the maximum allowable FEIE, you may also be able to claim the housing cost

exclusion. The housing cost exclusion is available if your qualified housing costs exceed 16 percent of the maximum FEIE (USD 16,208 in 2016). The amount of your qualified housing costs that exceed that threshold can be taken as housing cost exclusion, up to maximum housing costs of 30 percent of the maximum FEIE (USD 30,390). In other words, up to USD 14,182 of housing costs can be taken in 2016 to increase your maximum exclusion. The 30-percent ceiling amount is increased if you live in certain high-cost locations. The complete list of those locations can be found in the instructions to IRS Form 2555, *Foreign Earned Income*. In a partial year abroad, the housing cost exclusion is prorated in the same manner as the foreign earned income exclusion.

(Housing costs are treated slightly differently if you are self-employed. See the discussion in [Chapter 5](#).)

“Qualified housing costs” are the reasonable expenses you paid (or your employer paid on your behalf) for housing in a foreign country for yourself, your spouse, and your dependents. Qualified housing costs include rent, utilities (other than for telephone and cable television), insurance, occupancy taxes, rental of furniture and appliances, rental of parking, and household repairs. The cost of anything purchased (such as furniture) is not a qualified housing cost, nor is the cost of domestic labor. Mortgage interest and property tax are not considered qualified housing costs (though they remain itemized deductions even if paid in relation to a foreign home).

Example 4

Scott, a U.S. citizen, works in Trinidad for all of 2016. His tax home and bona fide residence are in Trinidad. During 2016, he earns USD 110,000, all of which is foreign earned income. His qualified foreign housing costs in 2016 are USD 35,000, which exceeds the 30-percent ceiling on the housing cost deduction, meaning that he is eligible for the full housing exclusion of USD 14,182. The combined maximum FEIE and housing cost exclusion for 2016 is 115,482 (USD 101,300 + USD 14,182). Therefore, Scott can exclude his entire USD 110,000 of foreign earned income.

If Scott receives a bonus of USD 20,000 early in 2017 that relates to his performance in 2016, he will not be able to offset that bonus with his 2017 foreign earned income exclusion. However, because he had USD 5,482 of unused FEIE in 2016, he can take that amount as an exclusion against the bonus that is paid in 2017 but related to 2016.

Qualified second household

If you maintain a second foreign household for your family at a different location because the living conditions at your place of residence are dangerous, unhealthy, or otherwise adverse, you can claim the expenses for the second household as an additional qualified housing cost. Examples of adverse living conditions include a state of warfare or conditions under which it is not feasible to provide family housing (for instance, remote construction sites).

Two-earner families

If you are married, both you and your spouse can claim the FEIE, but each of you must qualify separately, and if your spouse has any unused exclusion, you cannot use it. If you come from a community property state, community property law is generally disregarded in determining the amount of your foreign earned income. If you and your spouse live together, housing costs can be shared by the two of you, or allocated all to one or the other, whichever is more beneficial.

Example 5

Jacqueline and John are a married couple who are both on international assignment in Costa Rica for all of 2016. Jacqueline's foreign earned income for 2016 is USD 120,000 (which includes reimbursed housing expenses of USD 30,000), while John's is USD 80,000 (which does not include any reimbursed housing). Jacqueline's foreign earned income exceeds the maximum exclusion of USD 115,482 (USD 101,300 plus the housing exclusion of USD 14,182). After claiming the entire exclusion, USD 4,518 of compensation will be subject to U.S. tax (USD 120,000 less USD 115,482).

John's foreign earned income is less than the maximum exclusion of USD 101,300. (Since all of the housing costs were allocated to Jacqueline, John cannot use the housing cost exclusion.) John can claim an exclusion of USD 80,000, leaving USD 21,300 of unused exclusion. Jacqueline cannot use John's unused exclusion against her remaining foreign earned income. However, if in 2017 John receives a bonus that relates to 2016, he can use his unused 2016 exclusion to offset the bonus.

Foreign earned income – what is included

To claim the FEIE, you must have foreign earned income. This is compensation that you receive for services that you perform in a foreign country. Earned income includes not just wages, but bonuses, commissions, employer-provided lodging, foreign incentive and cost-of-living allowances, tax reimbursements, home leave and educational reimbursements or allowances, and moving expense reimbursements. An amount is considered income whether it is paid directly to you or paid on your behalf, and whether it is paid in cash or received as a benefit-in-kind. Earned income does not include passive income such as interest and dividends.

Only the location where the services are provided determines whether earned income is foreign – the nationality of the employer, the currency paid, or the location of the bank account is not relevant. However, amounts paid by the United States or its agencies to government employees or members of the U.S. armed services are not considered to be foreign earned income. Likewise, income earned working in Puerto Rico or U.S. possessions is not considered to be foreign earned income (other tax benefits may be available for such income, which is outside the scope of this publication).

If you work in both the United States and a foreign country (or countries), your earned income must be allocated between U.S. and foreign sources based on the number of days worked in each location during the year. In this context, "source" means where the income was earned, not where it was paid or the nationality or residence of the payor. (Certain types of income such as foreign housing allowances and foreign tax reimbursements may be considered to be exclusively foreign source.)

In addition to determining the source of income, it is also necessary to determine when foreign earned income was *earned*, as opposed to when it was *received* – for example, a bonus that is paid in 2017 may have been earned in 2016, because it relates to prior year performance. The FEIE for the current year is used to offset foreign earned income that was earned in the current year.

Example 6

Joan is a U.S. citizen who qualified as a bona fide resident of Japan for all of 2016 and 2017. In 2016, her total compensation was USD 90,000 (including reimbursed housing expenses of USD 28,000), all of which qualified as foreign earned income because she had no U.S. work days. In 2017, she received USD 95,000 (including reimbursed housing expenses of USD 28,500) of foreign earned income attributable to services performed in 2017, plus a USD 5,000 bonus and a USD 10,000 tax equalization payment related to 2016. Joan's earned income exclusions for the two years would be calculated as shown below.

2016	USD
Foreign earned income	90,000
Maximum exclusion	115,482
Exclusion used in 2016	(90,000)
Unused 2016 exclusion	25,482
2017	
Foreign earned income related to 2017	95,000
Foreign earned income related to 2016	15,000
Total income received in 2017	110,000
Total exclusions claimed in 2017 return:	
- Related to 2017	95,000
- Related to 2016	15,000
Total exclusion in 2017 return	110,000
Maximum 2017 exclusion	116,394
2017 exclusion used	(95,000)
Unused 2017 exclusion (available in 2018)	21,394

If you have unused exclusion in a year, you should consider consulting with your employer to be sure that any payments related to that year are paid by the end of the following year, so that the unused exclusion can be used in that following year. (Generally this will be incentive compensation and assignment-related payments such as tax equalization settlements.)

Denial of double benefits

If you claim the foreign earned income and foreign housing cost exclusions, you cannot deduct or claim a credit for any expenses that are directly related to the excluded income. In such cases, a "scaledown calculation" is necessary to determine the portion of the credit or expense that is related to the excluded income.

This "denial of double benefits" rule is typically seen in the areas of deductible moving expenses and foreign tax credits, both of which are discussed in detail in later chapters.

Calculation of U.S. tax liability (stacking rule)

If you claim the FEIE, your income tax is figured using a special calculation called the “stacking rule,” which causes the exclusions to be less beneficial than other deductions or exclusions of the same amount would be.

Like many countries, the United States has progressive tax rates, which means that the higher a person’s taxable income is, the higher his rate of tax. In the U.S., each level of tax is referred to as a “bracket,” with higher levels of income subject to higher tax rates, while income in the lower brackets continues to be taxed at the lower rates. For example, in 2016, a single taxpayer with taxable income of USD 75,000 will pay tax of 10 percent on the first USD 9,325 of income, 15 percent on income in excess of USD 9,325 up to USD 37,950, and 25 percent on income over USD 37,950. The taxpayer would be referred to as being in the 25-percent tax bracket, and would know that his next dollar of income would be taxed at 25 percent. The same applies to deductions – if the taxpayer were to have an additional deduction of USD 100, he would know that because he was in the 25-percent bracket, the benefit of that deduction would be to lower his tax by 25 percent of the deduction, or USD 25.

However, the FEIE is less valuable than other deductions and exclusions, due to the stacking rule, which causes the FEIE to offset income that is taxed in the lowest brackets, rather than in the highest brackets. In our example above, if the taxpayer had a deduction of USD 30,000, it would offset income that would be taxed at 25 percent. However, if the taxpayer had a FEIE of USD 30,000, it would shelter income that would be taxed at 10 and 15 percent.

The stacking rule is applied by figuring the tax on your taxable income without taking the foreign earned income and housing cost exclusions into account. Next, the tax is figured on the amount of your total foreign earned income and housing cost exclusions (at the appropriate graduated tax rates and with no other deductions taken into account), as if the amount of the exclusions was your taxable income. Finally, the difference between the two amounts is your actual U.S. tax liability for the year.

Electing and revoking exclusions

The foreign earned income and housing cost exclusions are elective, which means that if you qualify to claim the exclusions, you can choose whether or not to do so. However, once you have claimed the exclusions in a tax return, you have effectively elected to claim the exclusions in all future years that you qualify to claim them. You can revoke the election – that is, choose not to claim the exclusions after having claimed them in an earlier year – but if you do so, you cannot make the election again for six years, unless you get special permission from the IRS. This permission is not routinely granted, so careful consideration should be made before revoking the election.

You make the election to claim each exclusion separately, or in combination, by completing Form 2555, *Foreign Earned Income*, and attaching it to your tax return (Form 1040). The election should generally be made on a tax return that is not delinquent, but the IRS will accept the election on a late return that is filed within one year of the original due date (generally April 15). You can also make the election on an amended return (in other words, amend a previously filed return to claim the exclusions) if you are amending a return that was initially filed on time, within three years of the due date of the original return.

There are two other situations in which the IRS will accept late elections to claim an exclusion. If you owe no federal income tax after taking the exclusions into account, you can file a Form 1040 (or amended Form 1040X) with a Form 2555 attached to it. However, if you owe federal income tax after taking the exclusions into account, you can claim the late exclusions only if the IRS has not discovered that you did not claim the exclusions. The IRS may allow a late election to claim under other circumstances, but it is important to consult a competent tax adviser to be sure that the special procedures to request IRS permission to make late elections are followed.

Making the decision: To elect or not?

Because of the interaction between the stacking rule (described above) and the foreign tax credit (discussed in [Chapter 4](#)), it is sometimes more beneficial not to claim the foreign earned income exclusion. This is more likely to be the case if you are paying tax in a country that has higher tax rates than the United States. For this reason, it is important to do the complex calculations to determine whether it is more advantageous to claim the exclusion before making the election. On the other hand, once the election has been made, it may not be advisable to revoke it in a future year, even if revocation would result in a lower tax liability in that year, due to the impact that revocation might have on future tax years. Whether to make or revoke the election should be discussed with a qualified tax professional before proceeding.

Special exclusion for meals and lodging provided by employer

It is common for employers who send their employees on international assignment to pay for the assignees' housing costs in the foreign location. The general rule is that housing costs reimbursed or paid on behalf of an employee are considered taxable income for the employee – that is part of the reason why the foreign housing cost exclusion (described above) exists. However, under certain circumstances, the value of meals and lodging furnished to you by your employer may be excluded from taxable income.

General rule

You may exclude from your gross income the value of meals and lodging furnished to you by, or on behalf of, your employer if it is for the convenience of your employer. To qualify for exclusion, the meals and lodging must be provided on the business premises of your employer, and you must accept such lodging as a condition of employment. This general rule applies to employees in the United States, as well as to Americans overseas. One example would be oil workers who reside at an offshore drilling rig.

Foreign camp exclusion

In some cases, your employer can exclude housing costs from your wages if you do not live on the employer's premises, but live overseas in employer-provided housing that qualifies as a "camp."

To qualify as a camp, the following conditions must be met:

- The camp must be provided for your employer's convenience, if the place of business is in a remote area where satisfactory housing on the open market is not otherwise available within a reasonable commuting distance of the work site;
- The camp must be located as near as practicable to the place of employment and be in a common area or enclave not available to the general public;
- The camp must normally accommodate 10 or more employees.

As with on-premises housing, to be excluded from income, you must be required to accept the camp housing as a condition of your employment. Furthermore, you cannot have an option to accept additional compensation instead of housing and meals in-kind. You may qualify for the camp exclusion even if you do not qualify to claim either the FEIE or housing cost exclusion. Note that the excludible cost of camp housing and housing on the employer's premises cannot be treated as qualified housing expense when computing the foreign housing cost exclusion.

Chapter 2 - Employment-related deductions

Most U.S. citizens and residents have the option of claiming the standard deduction (which is a flat amount that is determined according to filing status), or claiming itemized deductions if they are higher than the standard deduction. Deductions reduce taxable income, resulting in a lower tax liability. Deductible items include medical expenses, state and local income taxes, property taxes, charitable contributions, and home mortgage interest, among others. (Many of these are subject to various limitations.) You should consult with your tax adviser about whether itemizing deductions or claiming the standard deduction is more advantageous.

Certain other deductions can be claimed even if you choose to claim the standard deduction rather than itemized deductions. This category of deductions is referred to as “adjustments,” and includes many employment-related deductions.

Moving expenses

If your employer reimburses you for qualified moving expenses, or pays those expenses on your behalf, those amounts can be excluded from gross income. Qualified moving expenses that are not reimbursed by your employer can be deducted as an adjustment as described above.

To be considered “qualified moving expenses,” the expenses must have been incurred in connection with moving to a new location for employment-related reasons, and are limited to the costs of moving household goods and personal effects to the new residence (including in-transit or foreign-move storage expenses), and travel and lodging costs during the move. The definition of qualified moving expenses does not include:

- Meal expenses;
- Expenses incurred while searching for a new home after obtaining employment;
- The costs of selling the old residence (or settling a lease) or purchasing (or acquiring a lease on) a new home;
- Temporary lodging at the new location after obtaining employment;
- Any part of the purchase price of the new home;
- The cost of automobile registration;
- The cost of obtaining a driver’s license in the new location;
- Expenses of obtaining or breaking a lease;
- Home improvements to help sell the house;
- Loss on the sale of the house;
- Losses from disposing of memberships in clubs;

- Mortgage penalties;
- Real estate taxes;
- Refitting of carpets and draperies;
- Security deposits (including any given up due to the move); or
- Storage charges except those incurred in-transit and for foreign moves.

Employer reimbursements of these items must be included in gross income. Also, qualified moving expense reimbursements are only excludible if the following two conditions apply:

- Your new job location is at least 50 miles farther from your old residence than that old residence was from your former place of employment.
- You are a full-time employee at the new location for at least 39 weeks during the 12-month period following the move, unless you are transferred, involuntarily terminated, become disabled, or die. If you are self-employed, you must work full time at the new location for at least 39 weeks during the first 12 months and a total of at least 78 weeks during the first 24 months following the move.

Special rules

Although qualified moving expenses are generally deductible or excludible only if incurred in connection with beginning work in a new location, exceptions are provided in two situations for individuals who return to the United States from abroad. If you retire, and your principal place of work and residence are outside the United States, you may deduct the cost of moving to the United States upon retirement, even if you do not work in the new location. Also, the spouse and dependents of a person who dies, whose principal place of work at the time of death was outside the United States, may deduct the cost of returning to the United States. To be deductible in such circumstances, the move must begin within six months after the death of the decedent and must be from a former home outside the United States, assuming this home was the residence of both the surviving spouse and the decedent at the time of death. The surviving spouse need not work in the new location.

Reasonable costs of storing household effects while on an international assignment are considered qualified moving expenses, even for years in which you reside abroad in a single location.

Allocation of moving expenses (denial of double benefits)

As mentioned above in the discussion of the foreign earned income and foreign housing cost exclusions, expenses that are attributable to excluded income cannot be deducted. Qualified moving expenses connected to a move to a foreign work location are considered to be attributable to the foreign income earned there, so to the extent that some or all of the foreign earnings can be excluded from gross income, an equal proportion of unreimbursed qualified moving expenses cannot be deducted against gross income.

Travel expenses

As discussed above, if your employer reimburses you for your housing and other living costs while you are working in a foreign location, or pays such expenses on your behalf, those amounts are generally includible in gross income, although some portion of the housing reimbursement may be excludible under the foreign housing cost exclusion. In general, you have to reside abroad for at least one year in order to qualify for the housing cost exclusion.

If your assignment is less than a year in length, you probably will not qualify for the foreign earned income and foreign housing cost exclusions, although you may qualify for a different exclusion that

allows you to exclude reimbursements for housing and other travel and living expenses from gross income.

When you are traveling away from home on business, you are allowed to deduct from (or not include in) gross income your reimbursed expenses for travel, meals, and lodging, provided the amounts are reasonable. These amounts, called “temporarily away-from-home expenses,” must meet several requirements to qualify to be excluded from income. First, you must be temporarily away from your tax home (in contrast, to qualify for the foreign earned income and foreign housing cost exclusions, your tax home must *move* to the foreign location – see the discussion of tax home in [Chapter 1](#)). Second, you must account to your employer for your reimbursed expenses by maintaining records and receipts (reimbursements in excess of accountable expenses are not excludible). Finally, to be considered to be temporarily away from home, your assignment abroad must be expected to last for no more than a year, and must actually last for no more than a year.

Example 1

Glendale is sent on a six-month assignment to Ireland. He retains his home in the United States. If documentation requirements are met, Glendale’s employer-paid travel and lodging will be excludible from gross income.

However, after he has been away for three months, Glendale’s employer changes the terms of the assignment and determines that his assignment will be 15 months long; therefore, the reimbursed expenses will be excludible only for the initial three months. The reimbursements should be included in income beginning on the date that it is determined that the assignment will last for longer than a year.

Example 2

Bethany is sent on a 10-month assignment to Ireland. She retains her home in the United States. Although the expectation remains that she will be away for only 10 months, the project runs late and Bethany remains in Ireland for 13 months. Because the intent was always that the assignment should be less than a year in duration, reimbursed expenses are excludible from gross income for the first 12 months of the assignment. Reimbursed expenses after 12 months cannot be excluded.

Individual retirement accounts

An Individual Retirement Account (IRA) is a popular retirement savings plan that allows great flexibility over investment options. You can contribute up to USD 5,500 to an IRA in both 2016 and 2017, if you have earned at least that much in compensation. (If you are married and do not have any compensation income, your ability to contribute to an IRA is based on how much compensation your spouse has.) If you are age 50 or older, you can contribute an extra USD 1,000 per year. In general, the amount contributed to an IRA can be taken as a deduction against gross income, but this benefit is phased out at higher levels of income (although you are still permitted to make non-deductible contributions to an IRA). Often, due to assignment-related allowances and reimbursements, your taxable income will be higher while you work abroad than it was when you were working in the United States. For that reason, you may find that your ability to claim deductions for IRA contributions is limited or lost while you are on assignment.

Roth IRAs

A popular alternative to an IRA is a Roth IRA. You can contribute the same amount to a Roth IRA as you can to a traditional IRA (but your contributions to both kinds of IRAs in a given year cannot together exceed the USD 5,500 limitation). Contributions to Roth IRAs are never deductible, but, unlike with traditional IRAs, withdrawals from a Roth IRA upon retirement are not subject to tax. However, you are not allowed to contribute to a Roth IRA if your adjusted gross income is over a certain level, and as

mentioned above, this is more likely to be the case if you are on an employer-sponsored international assignment.

Business and professional expenses

In addition to away-from-home travel expenses, you are entitled to deduct certain employment – or professionally-related – expenses as itemized deductions, subject to limitations. It should be noted that such expenses, if attributable to foreign earned income, will be partially disallowed under the denial of double benefits rules. Such deductions are generally more beneficial to individuals who have substantial U.S.-source income from employment or self-employment, or whose income significantly exceeds the foreign exclusions.

Chapter 3 - Other income, credits, and deductions

U.S. citizens and resident aliens are subject to U.S. tax on worldwide income. The rules for taxing such income, other than for compensation and related items, generally do not change when you reside overseas. An exception to this general rule may occur if your income is taxed by a foreign country. In that case, U.S. tax rules may be changed due to an income tax treaty with the foreign country. Tax treaties (discussed in [Chapter 6](#)), therefore, should always be consulted when considering your tax status while working abroad.

Phased-out deductions and credits

Although all items of income are still subject to taxation, and most deductions are generally allowed, tax planning considerations while residing abroad could very well be different than if you are living in the United States. This is due to various factors, including the foreign earned income and foreign housing cost exclusions, the foreign tax credit, and local country taxes. Also, many important tax credits and deductions are phased out (gradually limited until eliminated) at higher levels of income. As discussed in a previous chapter, if you are on an employer-sponsored international assignment, you may receive allowances and reimbursements that cause your income to be higher than it was when you were working in the United States, and this in turn may cause you to lose certain tax benefits, such as tuition credits (the American Opportunity Tax Credit and Lifetime Learning Credit), deductions for student loan interest, the child tax credit, and the deduction for net real estate rental losses. Consulting with a tax professional before going on assignment may help you anticipate these changes in your tax situation.

Itemized deductions

Itemized deductions are generally allowable under the same rules that apply to taxpayers residing in the United States and will not be reviewed here in detail. It should be noted that foreign sales taxes and value-added taxes (VAT) are not deductible. Similarly, contributions to foreign charities are not deductible unless the organization has obtained U.S. tax-exempt status.

Miscellaneous itemized deductions are deductible only to the extent that, in the aggregate, they exceed 2 percent of adjusted gross income (AGI). This category of deduction includes unreimbursed business expenses and investment expenses. Since your AGI may be higher while you are on assignment, it may take more of these deductions to get any benefit than it would if you were not on assignment.

Comment

While you are on international assignment, your itemized deductions may be lower than the standard deduction. Even if you are tax equalized (see discussion at [Chapter 8](#)), this may mean that you do not get a tax benefit for certain items such as charitable contributions that might have benefited you before you went on assignment. Where deductible expenses can be postponed until after the end of your assignment, it may be worthwhile to do so, though it would be appropriate to review your company's tax

equalization policy with respect to itemized deductions, and consult with a tax professional, before you decide.

Passive investment income

While you are living abroad, dividends and interest, as well as all other income, are subject to tax under the normal rules that would apply if you were a resident of the United States. Interest income is subject to tax unless it is from a qualified obligation of a state, county, city, or municipality in the United States (these are commonly referred to as “municipal bonds”). Interest or other earnings accumulating on IRAs or other qualified retirement plans are not subject to tax unless actually withdrawn from the plan.

Capital gains are taxed at different rates, depending upon the holding period and the nature of the asset. Short-term capital gains (assets held 12 months or less) are taxed at normal income tax rates. Long-term capital gains (assets held more than 12 months) are generally taxed at a rate of 15 percent. However, long-term capital gains are taxed at 0 percent for individuals in the 10-percent and 15-percent tax brackets, or 20 percent for taxpayers in the 39.6-percent bracket.

Capital losses also get special treatment. Capital losses may be deducted in full against capital gains, but if there is an overall net capital loss for a year, only USD 3,000 of that net loss can be deducted against other income (USD 1,500 for a married person filing a separate return). Net losses in excess of USD 3,000 may be carried forward for use against future capital gains or against other income (subject to the same USD 3,000 per year limitation).

Qualified dividend income received by U.S. citizens or residents is taxed at the same rates as long-term capital gains. Generally, qualified dividend income includes dividends received from U.S. corporations and certain qualified foreign corporations. Non-qualified dividends are taxed at normal income tax rates.

In addition, investment income may be subject to an additional tax of 3.8 percent (see discussion of Net Investment Income Tax at [Chapter 6](#)).

Residences

A primary consideration for any foreign move involves the tax implications of holding, renting, or selling your principal U.S. residence. The tax rules that you should consider are described briefly in the following paragraphs.

Sale of principal residence

The general rule is that gain on the sale of property is taxable, including any gain on the sale of your home. However, you may exclude up to USD 250,000 (USD 500,000 for a married couple filing a joint return) of gain on the sale of your principal residence if you meet the following requirements:

1. You must have owned and used (occupied) the residence as your principal residence for at least two years during the five-year period prior to the sale or exchange (the two years do not have to be in one consecutive period); and
2. During the two-year period ending on the date of the sale, you have not excluded gain from the sale of another home.

However, in certain cases, even if you do not meet these requirements, you may be entitled to claim a smaller exclusion, if the primary reason you sold the home was because of a change in place of employment, health, or certain other unforeseen circumstances. You must still have owned and used the home as your primary residence for some period of time in the five-year period ending on the date of sale.

or exchange. If so, your maximum exclusion will be prorated by the ratio of the period that you did use the home as your primary residence to two years.

Example 1

Irwin purchased his home in Yonkers, New York, on January 1, 2015, and immediately moved in to use it as his primary residence. On June 30, 2016, he sold the home because his employer sent him on a long-term assignment to South Africa. Irwin's maximum exclusion for gain on the sale of this home will be USD 187,073 (547 days/731 days x USD 250,000). If Irwin's gain is less than that amount, he can exclude the entire gain. If his gain is more than USD 187,073, the gain in excess of that amount will be taxed as capital gain.

In addition, if your home had any periods of non-qualified use after January 1, 2009, gain attributable to the non-qualified use cannot be offset by the exclusion. Non-qualified use generally includes any period that you did not use the property as your principal residence, such as renting it out, leaving it vacant, or using it as a vacation home – but only if you reoccupy the house as your primary residence afterward.

Example 2

Rosemary purchased her condo on January 1, 2013, for USD 300,000, and immediately moved in to use it as her primary residence. Rosemary moved into a larger house on January 1, 2015 through December 31, 2015, during which time she rented the condo out to tenants. She moved back into the condo on January 1, 2016, and sold the condo on June 30, 2016, for USD 500,000, resulting in a gain of USD 200,000. Even though Rosemary meets the two-out-of-five-year ownership-and-use requirement, the portion of the gain attributable to the period of non-qualified use while she rented the condo to tenants is taxable. The taxable portion is figured as the ratio of the number of days of non-qualified use to the total number of days the property was owned. Therefore, USD 57,165 of the gain is taxable (365 days/1,277 days x USD 200,000), while the remainder of USD 142,835 can be excluded.

Example 3

Assume the same facts as Example 2 above, except that Rosemary did not reoccupy the condo after the rental period, but instead sold it immediately after the tenants moved out. In this case, the rental period would not be considered non-qualified use, and the entire USD 200,000 gain could be excluded. (These examples do not take into account depreciation recapture – see *Example 4* below.)

There are two exceptions to the non-qualified use rule. First, periods of absence of up to 10 years in the aggregate during which you or your spouse are serving on qualified official duty as a member of the uniformed services, the U.S. foreign service, or the intelligence community, will not count as non-qualified use. Also, periods of non-qualified use do not include any other period of absence (not to exceed two years in the aggregate) due to change in place of employment, health conditions, or certain other unforeseen circumstances.

Renting your home out while you are on assignment can create taxable gain on the sale of the home in another way, by creating "depreciation recapture." When you rent out your home, you must claim the rents received as income, but you can also deduct related expenses, including depreciation, which is a portion of the purchase price of the property. When you sell the property, the amount you originally paid for the property (your "basis" in the property) is decreased by the allowable depreciation deductions you took or were able to claim, which increases the gain. The portion of the gain that is related to this depreciation adjustment is called depreciation recapture, and it cannot be offset by the exclusion for gain on the sale of a primary residence. Also, this depreciation recapture is taxed at 25 percent, rather than the 15-percent rate that applies to most long-term capital gains.

Example 4

Assume the same facts as Example 3 above. During the rental period, Rosemary claimed depreciation deductions of USD 10,000. When she sells the condo, her original purchase price (i.e., her basis) of USD 300,000 will be adjusted by the depreciation deductions, resulting in an adjusted basis of USD 290,000. This means her gain will be USD 210,000, and the USD 10,000 depreciation recapture will be subject to tax even though Rosemary qualified to claim the exclusion for gain on sale of a primary residence.

Comment

As discussed, to be eligible for the exclusion, you must have owned your residence and used it as your principal residence for at least two years during the five years prior to the sale or exchange. This requirement often causes problems for people on temporary assignment. When you are on assignment overseas, you will not be occupying your residence, and it is not unusual for a two- or three-year assignment to be extended. It is also common for a returning assignee to accept another position with his or her employer in a different location. In these situations, it is possible that you will not meet the two-out-of-five-years use requirement to exclude the gain on the sale of your home.

Furthermore, as noted earlier, if you go on international assignment you may rent your home out while you are away, in order to cover the expenses. This period of rental may create depreciation recapture, as well as a period of non-qualified use if you reoccupy the home when your assignment is over.

Limitations on deduction of rental losses (passive activity loss limitation)

It is common to keep your home while you are on international assignment, and to rent the property in order to cover the carrying costs. In such cases, the rental income must be reported on your tax return, and you can claim certain deductions against that income. These deductions include items such as mortgage interest, property taxes, insurance, agency commissions, and other operating expenses of the property. Depreciation may also be allowed on the cost of the building, improvements, and furnishings, but not on the portion of the cost of the property that is attributable to land.

If rental income exceeds the tax deductions related to the property, the net rental income is included in taxable income. On the other hand, if the deductions exceed rental income, the net loss generally cannot be deducted against other ordinary income such as salary, interest, dividends, and active business income. Instead, rental loss can only be deducted against income from other rental properties, and from other "passive activities" such as limited partnerships from which you may derive income. The non-deductible losses – called "suspended loss" – are carried forward to future tax years. In the year the property is disposed of, any remaining suspended loss becomes fully deductible.

However, a special rule allows you to deduct up to USD 25,000 of net rental loss against your ordinary income, if you "actively participate" in the management property. You actively participate if you or your spouse owns at least 10 percent of the property, and you perform management functions such as approving new tenants, deciding on rental terms, and approving expenditures. The USD 25,000 amount is phased out if your AGI exceeds USD 100,000, and is fully disallowed if your AGI exceeds USD 150,000 (all these amounts are halved on married filing separate returns). For this purpose, AGI is generally determined without regard to net losses from passive activities and any IRA deductions, but after the reduction for the foreign earned income and housing cost exclusions.

Comment

These "passive activity loss limitation" rules, which apply to rental property as well as to any other activities that you do not materially participate in, are very complex. You should seek advice from a tax professional to analyze the effects of these rules on an international assignment.

Vacation home rules

Other rules may limit deductible losses if you use your rental property for personal purposes during the year. If you use the property for personal purposes for more than the greater of 14 days or 10 percent of the number of days the home is rented during the tax year, deductions related to the rental use (depreciation, insurance, maintenance, etc.) may be limited to the amount of rental income, meaning that no loss can be created either to be deducted in the current year, or to be carried forward to a future year. Personal use of a property includes occupancy by relatives. Losses may not be deducted from rental of a property unless a market rent is paid for use of the property. (Personal use does not include any period that the home is your principal residence.) If personal use does not exceed the 14 days/10-percent limitation, then the rental may instead be subject to the passive activity loss limitation rules described above.

Foreign properties

The rules described above apply to personal residences and rental properties located in foreign countries, as well as those in the United States. However, special depreciation rules apply to foreign properties. These rules generally provide longer useful lives (resulting in a smaller annual deduction) than those allowed for domestic properties, and, therefore, they may make such investments less attractive from a tax standpoint.

Chapter 4 - Foreign tax credit

When you live and work in a foreign country, you may be subject to that country's income taxes because you are a resident. Even if you do not meet your host country's definition of a resident, you may still be taxed on the income you earn in that country. As a U.S. citizen or green card holder you will also be subject to U.S. income tax on your worldwide income, which means that while you are working abroad, some or all of your income could be subject to income tax in both countries. To reduce the possibility of being taxed twice on the same income ("double taxation"), the United States allows a credit for foreign tax paid on foreign-source income. If you have U.S.-source income that is being taxed in your host country, in many cases that country will allow a similar credit. The United States also has tax treaties with many countries, which help to coordinate the foreign tax credits allowed by the two countries. A list of treaty countries is provided in [Appendix C](#).

The amount of foreign tax credit (FTC) that the United States will allow is the lesser of the amount of foreign tax paid, or the amount of U.S. tax on the foreign-source income. As an alternative to claiming a FTC, you may claim an itemized deduction for the foreign tax paid, which under certain circumstances may be more beneficial than claiming the foreign tax credit. However, you cannot claim both a FTC and an itemized deduction for foreign taxes in the same year.

Cash versus accrual method

As a general rule, individuals are "cash basis" taxpayers. This means that you recognize income when it is received, not when it is earned, and claim deductions when the expenses are paid, not in the period that the expense relates to. However, in calculating the FTC, you may elect to instead use the "accrual method," which means you will claim the credit in the period the taxes relate to, not in the year that the taxes are paid. Once you choose to use the accrual method for calculating the FTC, you must use that method in all subsequent years.

Example 1

Flo is a U.S. citizen who lives in France. In 2016, Flo is subject to both U.S. and French income tax on her salary of USD 100,000. No French income tax is withheld on her salary, so Flo pays the entire USD 30,000 of French tax in March 2017. As a cash basis taxpayer, Flo should claim the FTC for the French tax paid in 2017. However, if Flo elects to use the accrual method, she can claim the credit in 2016, because the tax paid relates to income earned in 2016, even though she didn't actually pay the tax until the following year. In Flo's case, the accrual method would be beneficial because it would enable her to claim the credit in the same year the U.S. tax is due on her French income.

Since the election to use the accrual method cannot be revoked, it should be made only after careful consideration and consultation with a tax adviser. In some situations, the accrual method is not beneficial, particularly if you pay tax in a country that does not use the calendar year as its tax year (for example, Australia, whose tax year runs from July 1 through June 30). This is because you are not allowed to claim an accrued FTC until the calendar year in which the other country's fiscal year ends.

Example 2

Marco is a U.S. citizen who lives and works in Australia. His salary for the year July 1, 2016 through June 30, 2017 is USD 10,000 per month. Marco's Australian tax is withheld from each paycheck at a rate of USD 3,000 per month. Marco previously lived in France, and elected to use the accrual method for calculating his FTC while he lived there. He must continue to use the accrual method while he lives in Australia. This means that the entire USD 36,000 of Australian tax must be claimed as FTC in 2017, because that is the U.S. tax year in which the Australian tax year ends. Marco cannot switch back to the cash basis of calculating the FTC, but if he could, he would claim the USD 18,000 that was withheld from his salary during 2016 as FTC in his 2016 U.S. tax return.

Foreign taxes eligible for credit

To claim a tax as a FTC, it must be an income tax, war profits tax, or excess profits tax, or a tax paid in lieu of one of those. Foreign Social Security taxes can be claimed as additional FTC for income tax purposes, unless they were paid to a country that the United States has a Social Security totalization agreement with (see [Appendix C](#) for a list of those countries). The tax must be paid to a foreign country or its political sub-divisions (e.g., Canadian provinces or Swiss cantons), or to a U.S. possession. Other foreign taxes, such as real estate tax, sales tax, value-added tax, turnover tax, luxury tax, wealth tax, or occupancy tax, cannot be claimed as foreign tax credit. It is not always clear whether a certain tax qualifies as a creditable tax, so it is a good idea to consult with a competent tax adviser if there is any question.

Disallowance of credit allocable to exempt income

As mentioned in [Chapter 1](#), a denial of double benefits rule says that you cannot claim a FTC (or itemized deduction) for foreign taxes paid on income that is exempt from tax in the United States. The principal is that you should never get a benefit for expenses related to income that is not subject to tax. The amount disallowed is proportional to the amount of income that is not subject to tax.

Example 3

Jolene is a U.S. citizen who lives and works in Greece. In 2016, she earns USD 120,000, on which she pays USD 30,000 of Greek income tax. Jolene qualifies for the foreign earned income and foreign housing cost exclusions, which completely offset her earnings. Because none of her Greek salary is taxable in the United States, Jolene cannot claim any FTC for the Greek income tax she paid on her earnings.

Example 4

Same as above, except that Jolene has no qualified housing expenses, so she can claim the maximum foreign earned income exclusion of USD 101,300, but no foreign housing cost exclusion. The portion of Jolene's Greek income tax that relates to the excluded income, USD 25,325, cannot be claimed as FTC ($101,300/120,000 \times 30,000$). The remainder, USD 4,675, can be claimed as FTC, or as an itemized deduction.

Comment

As discussed in [Chapter 1](#), in some cases it is more beneficial to forego the FEIE, and instead claim only the foreign tax credit. A qualified tax professional should be able to do a comparative calculation to determine which position would be better in a given year. However, if you determine that it would be better not to claim the FEIE, but you have claimed it in the past, you should weigh the current year benefit of revoking the FEIE against the possible disadvantages of being barred from re-electing the FEIE for the six following years.

Limitation on credit

As noted above, the FTC is limited to the lesser of actual foreign taxes paid (or accrued), or U.S. tax on foreign-source income. Form 1116, *Foreign Tax Credit*, is used to calculate what portion of one's U.S. tax liability is attributable to foreign-source income. The calculation is complicated because some deductions are attributed only to U.S.-source income, while others are apportioned between U.S.- and foreign-source income. Additional complications can arise if the individual has long-term capital gains or qualified dividend income, since these categories of income are taxed in the United States at special rates. Also, income must be separated into two categories, generally referred to as the "passive basket" and the "general basket." Foreign taxes paid on income in one basket cannot be used as a credit against U.S. tax on income in the other basket.

Example 5

Maria is a U.S. citizen and resident. Maria has foreign-source investment income of USD 10,000, on which she paid USD 3,000 of foreign income tax. Maria also worked abroad for two months, and her salary related to the work abroad was USD 20,000, but due to a treaty provision, she did not pay foreign income tax on the salary earned abroad. Maria's effective U.S. income tax rate is 20 percent. Assuming that the U.S. income tax on Maria's investment income is USD 2,000, she will have USD 1,000 of excess FTC in the passive basket. Maria cannot use that excess FTC as a credit against the U.S. tax on her salary earned abroad, because compensation is in the general basket, and FTC in one basket cannot offset U.S. tax in the other basket.

Carryback and carryover of unused credits

Individuals with FTCs that exceed the limitation for a year can carry those excess credits back to the prior year, and treat them as if they were credits generated in that year. If they cannot be used in the prior year, they can be carried forward for 10 years. If they are not used in the 10 years following the year in which they were generated, the excess credits expire. Note that because the excess credits were subjected to the denial of double benefits rule in the year they were generated, they are not subject to that rule again in the carryback or carryforward year.

Example 6

Arnold is a U.S. citizen who has several business trips abroad during 2015. His salary attributable to the foreign trips, USD 10,000, is treated as foreign-source income. Arnold pays no foreign income taxes in 2015, but his U.S. tax on the foreign-source income is USD 2,500.

In 2016, Arnold goes on international assignment. His foreign-source earnings in 2016 are USD 120,000, and he pays foreign income tax of USD 40,000 on that amount. Arnold does not elect to claim the FEIE, but claims a FTC of USD 30,000 against the U.S. tax on his earnings, completely offsetting the U.S. tax. Arnold can carry the excess USD 10,000 back to 2015 on an amended return, and claim a FTC of USD 2,500 against the U.S. tax on his 2015 foreign-source income. The remaining USD 7,500 of unused credit will be reflected as carryforward credit in Arnold's 2017 U.S. tax return.

Planning for use of excess credits

It is not uncommon to return to the United States after an international assignment with large FTC carryforwards. You may assume that these credits are useless once you are no longer living abroad, but that is not always the case. As demonstrated above in the example of a FTC carryback, you only have to have foreign-source income to utilize a FTC – it does not have to be foreign-source income on which you paid foreign taxes. So generating foreign-source earnings after the end of your assignment may enable you to use your excess credits from prior years. Foreign-source income that may not be subject to foreign income tax includes:

- Taxable pension and profit-sharing distributions attributable to services that were performed abroad.
- Stock option income attributable to periods of international assignment or business travel.
- Compensation related to business trips abroad, either before or after moving to the location of the international assignment, which in many cases would not be taxed in the foreign country.
- Compensation related to a second international assignment, to a country with tax rates lower than U.S. rates.

Comment

If you were subject to a tax reimbursement policy while you were on your international assignment, it is possible that your employer was paying your foreign taxes on your behalf. If that is the case, then any reductions in your post-assignment U.S. tax liability due to FTC carryforwards or carrybacks would be the result of credits that were financed by your employer, and your employer may expect you to surrender any refunds attributable to these foreign tax credits. Many tax reimbursement policies address this issue and may require that you track your post-assignment overseas business trips for this reason.

Chapter 5 - Special rules for self-employed individuals

If you are self-employed and living abroad, you may find that the foreign earned income and foreign housing cost exclusions discussed in [Chapter 1](#) are less advantageous and more complex than they are for employees.

Foreign earned income exclusion (FEIE)

The principles of qualifying for the FEIE are the same whether you are self-employed or an employee. However, there may be a limitation on the amount that you can claim as foreign earned income. First of all, the FEIE is applied to your income *before* expenses (gross receipts). If your business is to provide personal services, such as a doctor or lawyer, all of your income is characterized as “earned.” If not, the amount of your gross receipts that can be characterized as earned cannot exceed 30 percent of the net profits of your business. In many cases this may mean that the maximum allowable FEIE is less than the annual maximum (USD 101,300 for 2016, and USD 102,100 for 2017).

Disallowance of business expenses

As we discussed in [Chapter 1](#), the denial of double benefits rule prevents you from claiming a deduction for expenses that relate to excluded income. If you are self-employed and claim the FEIE against some of your gross receipts, this means that a portion of your business expenses will be disallowed. Because the FEIE is applied to gross receipts rather than net income, it may be less beneficial to you than it would be to an employee.

Example 1

Peter, Paul, and Mary are U.S. citizens who live abroad and qualify for the FEIE for all of 2016. Peter is a salaried employee, Paul is a self-employed attorney, and Mary is a self-employed manufacturer.

(All figures USD)	Peter: Salaried employee	Paul: Self-employed attorney	Mary: Self-employed manufacturer
Gross income	101,300	151,300	231,300
Business expenses	0	(50,000)	(130,000)
Net income	101,300	101,300	101,300
Earned income exclusion	101,300	101,300	30,390*
Disallowed expense:	0	$(101,300/151,300 \times 50,000) = 33,477$	$(30,390/231,300 \times 130,000) = 17,080$

(All figures USD)	Peter: Salaried employee	Paul: Self-employed attorney	Mary: Self-employed manufacturer
Calculation of taxable earnings:			
Gross income	101,300	151,300	231,300
Earned income exclusion	(101,300)	(101,300)	(30,390)
Taxable gross income	0	50,000	200,910
Business expenses		50,000	130,000
Disallowed expenses		(33,477)	(17,080)
Allowable expenses		16,523	112,920
Net taxable earnings	0	33,477	87,990

* Limited to "reasonable earned income," up to a maximum of 30 percent of net income.

Foreign housing cost deduction

If you are self-employed, you are not allowed to claim the foreign housing cost exclusion. Instead, you can claim a deduction that is calculated the same way as the foreign housing cost exclusion. This foreign housing cost deduction is limited to the amount of foreign earned income that you have in excess of the foreign earned income exclusion. Because of the way that the stacking rule (see [Chapter 1](#)) and the denial of double benefits rule work, in some cases this foreign housing cost deduction may be more advantageous than the foreign housing cost exclusion that you would be entitled to if you were an employee.

Self-employment tax

As a U.S. self-employed taxpayer, you must continue to pay self-employment tax (which is Social Security tax for self-employed people) even when you are living abroad, and even if you are also paying Social Security tax in your country of residence. The self-employment tax rate is 15.3 percent of net earnings up to a base amount. The base amounts are USD 118,500 in 2016 and USD 127,200 in 2016. Earnings in excess of these wage limits are taxed at 2.9 percent, while earnings in excess of USD 200,000 (USD 250,000 for a married couple filing jointly) are taxed at 3.8 percent (due to an additional 0.9-percent tax on high-wage earners). Net earnings subject to self-employment tax are figured without taking the FEIE into account.

These rates are higher than the FICA* tax that is withheld from an employee's wages because when you are subject to FICA, your employer pays additional FICA related to your wages. (See [Chapter 6](#) for a discussion of FICA, which is the Social Security tax for employees.) When you are self-employed, you are effectively paying both the employer and employee taxes, so you are allowed a deduction for one-half of the 15.3-percent and 2.9-percent taxes, but none of the 0.9-percent tax.

* Federal Insurance Contributions Act, or FICA, refers to U.S. Social Security and Medicare taxation.

Social Security totalization agreements

If you are self-employed and working in a country that has a Social Security totalization agreement with the United States, you may be exempt from self-employment tax. (See [Appendix C](#) for a list of countries that have such agreements.) See the United States Social Security Administration Web site (www.ssa.gov/international) for more information regarding how to determine if one of these agreements applies to you.

Partnerships

If you are a service partner in a service partnership (such as a law firm), you are considered to be self-employed for U.S. tax purposes, which means that you are subject to self-employment tax, and your FEIE is calculated as described in this chapter. Also, when determining the portion of your partnership income that can be considered foreign earned income, in general you must look not to what proportion of your services were provided outside the United States, but rather what proportion of the partnership income as a whole was earned outside the United States. This means that even if you are a partner who works exclusively outside the United States, but your partnership earns income in the United States, a portion of your partnership income will not be eligible for the foreign earned income exclusion. However, the rules may be different if you receive a “guaranteed payment,” or if you receive a special allocation of overseas profits, from the partnership. These rules are very complex and therefore you should consult with a tax professional who is familiar with the rules before commencing an international assignment as a partner in a partnership.

Partners in foreign partnerships

If you are a partner in a foreign partnership, the rules regarding taxation of your partnership income are the same as described above. However, there are special reporting requirements for U.S. partners of foreign partnerships, so be sure to discuss your situation with a qualified tax professional.

Chapter 6 - Other tax considerations of overseas residents

Treaties

If you are a resident of a country that shares a tax treaty with the United States, or if you receive income from one of those countries, you may be able to claim benefits allowed by the treaty to lower your overall tax burden. In most cases, a treaty may limit your exposure to foreign income tax, but allow your U.S. income tax to remain what it would be without the application of a treaty. If you are able to claim the benefit of a treaty to lower your U.S. tax, you may have to disclose that fact by attaching Form 8833, *Treaty-Based Return Position Disclosure*, to your U.S. income tax return. You can find a list of countries that have tax treaties with the United States in [Appendix C](#).

Social Security taxes

When you are working abroad for an American employer, you may be subject to both U.S. and foreign Social Security taxes. However, if you are employed by a foreign employer, including a foreign subsidiary of a U.S. company, in most cases you will not be subject to U.S. Social Security and Medicare tax (often called FICA tax, as earlier noted). Special exceptions apply if the U.S. parent company has elected to continue FICA coverage while you work abroad (this is unusual), or if you work for a foreign employer that is controlled by a U.S. company and you are providing services in connection with a U.S. government contract.

In general, FICA tax is imposed at 7.65 percent on compensation up to an annual maximum (the “OASDI wage base”), and 1.45 percent on compensation over the OASDI wage base. Your employer also pays a payroll tax at the same rate. (The OASDI wage base is USD 118,500 in 2016 and USD 127,200 in 2017.) Compensation in excess of USD 200,000 is subject to an additional 0.9-percent tax (for the employee but not the employer). Your employer is required to withhold FICA tax from your wages. The additional 0.9-percent tax is applicable to married couples if their joint compensation exceeds USD 250,000; so if you are married you could be over- or under-withheld on this tax. In that case, you will be credited for the over-withholding, or pay the balance if you are under-withheld, with your federal income tax return. Note that the foreign earned income exclusion (discussed in [Chapter 1](#)) cannot be claimed against your compensation when calculating your FICA tax.

Although income tax treaties do not address the possibility of being double taxed – that is, taxed in two countries on the same income – for Social Security purposes, 26 countries have special agreements with the United States, called “Social Security totalization agreements” (hereinafter, “SSTAs”), that help prevent double Social Security tax. (See [Appendix C](#) for a list of countries that have SSTAs with the United States.) If you are working in a country that has a SSTA with the United States, the default rule is

that you will be subject only to the host country Social Security tax, and will be exempt from FICA. However, if you were sent on temporary assignment to the other country by your current employer, you may qualify under an exception in the SSTA that makes you exempt from the host country Social Security tax, and allows you to continue to pay FICA tax instead. If this exception is available, your employer should do the necessary paper-work on your behalf.

If you are working abroad in a country that does not have a SSTA with the United States, you can generally claim the foreign country's Social Security tax as an addition to your foreign tax credit (see [Chapter 4](#) for a discussion). However, this credit offsets your U.S. regular income tax liability and not your U.S. FICA tax liability.

Foreign currency exchange rules

You must report your income and deductions in your U.S. tax returns in U.S. dollars (USD). Income received and expenses paid in a foreign currency should generally be converted to USD using the exchange rate at the date of receipt or the date of payment, although under some circumstances it may be appropriate to use an average exchange rate for the year. When calculating your capital gains and losses, you must use historical exchange rates, which means that you could have a gain or loss in U.S. dollars (USD) even though you did not in the foreign currency.

Example 1

Paul purchased 100 shares of stock in a British corporation for GBP 10 per share, when the exchange rate was GBP 1.00 = USD 1.90. Two years later, he sold the stock for GBP 11 per share, at a time when the exchange rate was GBP 1.00 = USD 1.60. Paul received GBP 1,100 for shares he had paid GBP 1,000 for, a gain of GBP 100. However, for U.S. tax purposes, Paul will be treated as having received USD 1,600 for shares he had paid USD 1,900 for, realizing a capital loss of USD 300.

Example 2

Art purchased 100 shares of stock in a Canadian corporation for CAD 10 per share, when the exchange rate was CAD 1.00 = USD 0.85. Two years later, he sold the stock for CAD 10 per share, at a time when the exchange rate was CAD 1.00 = USD 0.98. Although Art had no gain or loss when measured in Canadian dollars, for U.S. tax purposes, he will be treated as having received USD 980 for shares he had paid USD 850 for, realizing a capital gain of USD 130.

Community property rules

Some U.S. states* impose community property rules which provide that most marital income and assets are the property of both spouses, regardless of which spouse earned the income. Community property rules generally have no impact on a married couple that files a joint return. However, the impact on the tax liability of married couples that file separate returns can be significant. Community property rules are not applied to the earned income of a married couple if either spouse is a nonresident alien, or when calculating the foreign earned income exclusion. Community property provisions and restrictions on such reporting are complex. If you live in, or are on assignment from, a community property state, you should consult a tax adviser regarding how the rules may apply to you.

* Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Alternative Minimum Tax and minimum tax credit

If you have a relatively high level of income and have high levels of deductions, you may be subject to the Alternative Minimum Tax (AMT), which was enacted to ensure that the taxpayers at higher income levels pay at least a minimum amount of tax. AMT is calculated by disallowing many tax deductions, including those for state income tax and property tax, and applying a large flat exemption amount (see

[Appendix D](#) for the exemption amounts). The resulting AMT income is taxed at 26 percent on the first USD 186,300 in 2016 or USD 187,800 in 2017 (half those amounts for a married taxpayer filing separately), and 28 percent on AMT income in excess of those amounts. If your AMT is higher than your regular tax liability, you must pay the higher amount. The FTC as well as most other common tax credits are allowed against Alternative Minimum Tax.

If you are subject to AMT in a given tax year, this may result in a special tax credit called the minimum tax credit (MTC) in a subsequent year. Paying AMT does not automatically result in a MTC – you are entitled to a MTC if part of your AMT liability was generated for specific reasons, such as having exercised incentive stock options or having claimed depreciation deductions on business or rental property. You are allowed to claim the MTC in a year that you are not subject to AMT, and you cannot use the MTC to lower your regular tax liability to below what your AMT would be in that year.

Comment

Because of assignment-related allowances and reimbursements, you may be subject to AMT while you are on international assignment, even though you have never paid AMT before. Calculating the AMT, the AMT foreign tax credit, and the MTC, can be quite complex, and it is recommended that you consult your tax adviser if you are, or ever have been, subject to the Alternative Minimum Tax.

Net Investment Income Tax

The Net Investment Income Tax (NIIT) is applied in addition to the regular income tax on the “net unearned income” of certain taxpayers. Net unearned income is your investment income, plus other passive income such as rental income, reduced by directly-related expenses. The NIIT tax rate is 3.8 percent and applies to the lesser of your net unearned income, or the excess of your modified AGI over a threshold amount. The threshold amount is USD 250,000 for married taxpayers filing jointly, USD 125,000 for married taxpayers filing separately, and USD 200,000 for all others. If you are on an international assignment, you may find yourself liable for this tax, due to the extra taxable assignment-related allowances you may receive.

State income taxes

Depending on the state you live in, the length of your international assignment, and the connections you maintain with the state in your absence, including whether you maintain a residence there, you may continue to be subject to state income tax while you are living abroad. Tax law varies greatly from state to state, so to determine whether you will be subject to state income tax while you are on assignment, it is important to review your particular set of circumstances with your tax adviser. If you are subject to state income tax, be aware that many states do not allow the FEIE or the FTC that you might qualify for at the federal level.

Expatriation

People who give up U.S. citizenship or who give up their green card (this is known as “expatriation”) may be subject to a special exit tax. Green card holders are subject to this tax only if they are considered to be long-term permanent residents, which is the case if they have had green card status in eight years during the 15-year period ending in the year of expatriation. If you are a long-term green card holder but choose to be treated as a nonresident of the United States under a tax treaty, you will be treated as if you gave up your green card.

The exit tax applies if you give up your citizenship or green card, but only if you meet one of the following conditions:

- Your average annual U.S. net income tax liability over the five years before the year of expatriation is greater than USD 161,000 in 2016 or USD 162,000 in 2017;
- Your net worth is USD 2 million or more on the date of expatriation (this amount is not indexed for inflation); or
- You fail to certify that you have complied with U.S. tax laws for the five preceding tax years.

Narrow exceptions apply to certain U.S. citizens with dual nationality.

If you are subject to the exit tax, you are known as a “covered expatriate” and are treated as if you have sold all your property at its fair market value on the day before your date of expatriation. Any resulting gains in excess of an exclusion amount (USD 693,000 for 2016; USD 699,000 for 2017) are subject to income tax. For the purposes of calculating this “deemed gain” on property that you owned when you first became a U.S. resident, you are treated as if you acquired that property for its fair market value on the date that you became a U.S. resident if that amount is higher than the actual cost of acquisition.

Special rules apply to items of deferred compensation, certain tax-deferred accounts, and any interest in a nongrantor trust. An election is available to postpone payment of the exit tax until the relevant property is actually sold, by posting adequate security and paying interest.

Estate and gift taxation

If you give someone a large gift, or if you leave property to someone when you die, the value of those transfers of property may be subject to the U.S. gift and estate tax, a tax that is payable by you as the person who gives the property, rather than by the person who receives it. In addition, some U.S. states also impose an estate or inheritance tax. Furthermore, determining the tax treatment of inheritances and gift giving when you are a U.S. citizen overseas may be impacted by the application of estate and gift tax treaties that the U.S. has concluded with various countries.

If you are a U.S. citizen, or if you are domiciled in the United States, the gift and estate taxes are coordinated in one unified system. Domicile is different from residency for income tax purposes – you are considered to be domiciled in the United States if you reside in the United States and intend to remain there indefinitely. If you have a green card, you will probably be considered to be domiciled in the United States. You may be domiciled in the United States even if you are a nonresident alien, if you intend to return to the United States and consider it to be your permanent home.

As a U.S. citizen or domiciliary, you are allowed to give up to USD 14,000 in 2016 and 2017 tax-free, to each separate person you give gifts. If you are married, you and your spouse can together give up to twice those amounts to each person you give gifts, if you and your spouse are both either U.S. citizens or domiciled in the United States. (In that case you and your spouse are considered to have split the gift evenly.) You are also allowed unlimited gifts to your spouse, if your spouse is a U.S. citizen. Otherwise, you are allowed to make gifts to your non-U.S. citizen spouse of up to USD 148,000 in 2016 and USD 149,000 in 2017.

If you make any gifts in excess of these annual limits, the excess is defined as “taxable gifts,” which you must track and report on an annual gift tax return. When your cumulative taxable gifts exceed a lifetime maximum of USD 5,450,000 in 2016 or USD 5,490,000 in 2017, the excess is subject to gift tax at a maximum rate of 40 percent.

Special transfer tax rules may apply to U.S. citizens or residents who receive certain gifts and certain bequests on or after June 17, 2008, from a covered expatriate (as defined in the “Expatriation” section

above). The transfer tax applies only to the extent the gifts or bequests to each recipient exceed the annual exclusion amount for gifts (USD 14,000 for 2016 and 2017).

At death, the estate tax may apply. The taxable value of your estate (i.e., the property you leave) is the value of all your property at the date of your death, reduced by liabilities, transfers to your spouse who is a U.S. citizen, and bequests to U.S. charitable organizations. Your taxable estate is then reduced by any portion of the USD 5,450,000 (for 2016) exclusion that has not already been claimed against taxable gifts, and the remainder is taxed at a maximum rate of 40 percent.

Any property you leave to your spouse is not subject to the estate tax if your spouse is a U.S. citizen (or becomes one soon after you die). Generally, no deduction is allowed for property that is left to a spouse who is not a U.S. citizen. Careful estate planning can help to mitigate this disadvantage. If you are concerned about the taxation of your estate, you are advised to consult with a professional who specializes in this area.

Foreign tax planning

Individual income tax rates vary widely from country to country, and in many locations are higher than those in the United States. Marginal rates (e.g., being in the “28-percent bracket”) are only part of the story – many countries allow fewer deductions than U.S. taxpayers are accustomed to, and in most countries, a taxpayer may pay the highest rate of tax at a much lower level of income than in the United States. For these reasons, planning in advance for the impact of foreign taxes can have a significant effect on the cost of an international assignment. Even if your employer reimburses you for foreign taxes on your wages, it is necessary to be aware of how your investment and other income will be treated. (See [Chapter 8](#) for a discussion of tax reimbursement.)

Often the timing of a transaction will determine whether it is subject to tax in your host country. Many countries apply the same principle as the United States to resident taxation: residents are taxed on all income from all sources, while nonresidents are taxed only on income from within that country. It is very important, therefore, to determine when you become a resident of your host country, and to know in advance how those rules work.

Example 3

Roger is a U.S. citizen who is selected by his employer to go on assignment to Spain. He decides to sell his home in Chicago, rather than retain it while he is living in Spain. He puts his home on the market immediately, but does not close the sale until two weeks after he establishes residence in Spain. Roger realizes a gain of USD 200,000 on the sale of the home, which qualifies for the special exclusion for gain on sale of a primary residence (see [Chapter 3](#)), making the sale tax-free in the United States. However, because the sale is concluded after Roger has become a resident of Spain, the sale is taxable there. If Roger had been able to time his assignment so that his resident status in Spain did not begin until after the sale of his home had been completed, the gain on the sale would not have been taxable in Spain.

You may also find that your employer structures the delivery of certain allowances and reimbursements in ways that are most tax effective in the host country. For example, in the United States, if your employer pays for your housing, the same amount will be included in your income regardless of whether you are reimbursed as opposed to the employer paying your landlord directly, and regardless of in whose name the lease is. In some countries, though, these facts can give rise to very different results. Sometimes such tax planning considerations may require some action on the employee’s part, which is one reason why a pre-assignment meeting with a tax professional can be an important element in understanding, and perhaps lowering, the overall cost of the international assignment.

Chapter 7 – Procedural aspects

As a U.S. citizen or permanent resident (green card holder), you are subject to U.S. tax law even if you live outside the United States. This means that you may have a U.S. tax liability, and that you may have to file U.S. tax returns even if you do not have any tax to pay. However, many of the procedural rules regarding filing your tax return are different when you live abroad.

Tax return filing

Where to file

If you are claiming the FEIE or the foreign housing cost exclusion, or if you live outside the United States, you may be required to mail your tax return to a different address than you used previously. These addresses can change from year to year, so check the tax return instructions or follow the instructions of your tax return preparer.

The IRS has offices in a number of U.S. embassies abroad, and those offices often accept filing of U.S. income tax returns. If you plan to file your return at a U.S. embassy or consulate, you should ascertain in advance that the one you intend to use has an IRS office that accepts U.S. tax returns.

Due dates and extensions

U.S. citizens and residents must generally file their tax returns by April 15, but if you are residing abroad on that date, you get an automatic two-month extension to June 15. (Any due date that falls on a Saturday, Sunday, or holiday is also extended to the next weekday that is not a holiday.) If you qualify for this automatic extension, there is no special form to file, but you should attach a statement to your tax return explaining that you qualify for the automatic two-month extension. Be aware that tax return extensions are not extensions of time to pay your tax – any tax paid after April 15 will be subject to interest, and possibly penalties, even if the return filing date has been extended.

If more time is needed to prepare your tax return, you can get an automatic extension to October 15 by filing Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. For the extension to be valid, you must file Form 4868 by the tax return due date (generally April 15 or June 15 as discussed above), and you must make a reasonable estimate of your tax liability. If you anticipate owing tax with your tax return, you should pay it by April 15 to avoid interest and potential penalty charges.

If your tax return was due on June 15 because you were residing abroad on April 15, and you still need more time to finish your return after October 15, you can request an additional extension to December 15 by sending a letter to the IRS explaining why you need additional time. The IRS can approve or reject this request at its discretion.

Finally, a special extension past December 15 is available if more time is needed to meet the time requirements to claim the foreign earned income and foreign housing cost exclusions (see [Chapter 1](#) for a discussion of these time requirements). You are not allowed to claim these exclusions in your tax return until you actually qualify for them, and in many cases this means waiting a full year to file your tax return. In such cases, you should file Form 2350, *Application for Extension of Time to File U.S. Income Tax Return*, by the due date of your return (including extensions). The IRS will respond with a reply regarding whether the extension has been granted. In most cases the latest date the tax return can be extended to is January 30 of the year following the original due date.

Example

Patricia is a U.S. citizen who began her international assignment in Brazil during 2016. Due to frequent trips back to the United States, she will not be able to use the physical presence test to qualify for the foreign earned income exclusion. Patricia has established her bona fide residence in Brazil, but she cannot claim the bona fide residence test to qualify for the FEIE until her period of bona fide residence abroad includes one full calendar year. In Patricia's case, that means that she cannot claim the FEIE in her tax return until after the end of 2017. If Patricia files Form 2350 by April 17, 2017, her 2016 tax return filing due date can be extended to January 30, 2018.

No matter what kind of tax return extension is applied for, the extension request should be mailed to the same IRS office where you expect to file your return. To be considered as filed on time, the tax return should be postmarked by the due date of the return. Foreign postmarks are acceptable for this purpose. You can also send in the return by the due date using a private delivery service such as UPS, DHL, or FedEx, but the IRS does not accept all delivery modes offered by such vendors. If you plan to use a private delivery service, you should check the tax return instructions to see which services are acceptable.

Filing status and requirements

U.S. citizens and green card holders must file a U.S. tax return if their gross income (without taking into account the FEIE and the foreign housing cost exclusion) exceeds a certain level (see [Appendix D](#) for 2016 and 2017 minimum filing requirements). If you are married and both you and your spouse are U.S. citizens or residents for the entire year, you have the choice of filing your return(s) jointly or filing separately. (In many cases, filing jointly is more advantageous, however, you may wish to consult with a tax adviser regarding your filing status.) If you are not married, you must file as single, unless you support a dependent who lives with you (or supply a home for your dependent parent), in which case you may qualify for the more advantageous "head of household" status.

If you are married and either one of you is a nonresident alien at any point during the year, then, in general, you must file your return using "married filing separate" status. However, you may be able to make a special election to be treated as if you were full-year residents, enabling you to file your tax return jointly. In general, this election is made because filing jointly can be more beneficial than filing separately. Please note, making the election may cause some income to be subject to U.S. income tax that otherwise would not have been. Also, the election can be made only once, and in some cases the election is binding in all future years. Therefore, whether or not to elect this treatment should be considered carefully with the advice of a qualified tax adviser.

If you are married to a nonresident alien who has no U.S. tax filing obligation, you may qualify to claim head of household status, as mentioned above. Note that to claim someone as your dependent, that person must be either a U.S. citizen, or a resident of the United States, Canada, or Mexico.

Interest and late filing penalties

If you pay any part of your tax liability after the original deadline of the tax return, the IRS will charge interest on that amount. Extensions of time to file the return do not prevent this interest charge.

In some cases, you may also be assessed a penalty for paying your tax after the due date. If assessed, this penalty runs at 0.5 percent of the amount due per calendar month. As noted above, if you file an extension of time to file your return, you should estimate the amount that will be due with your return, and pay that amount with the extension. However, even if you cannot pay, you should still file the extension, because the penalty for filing a return late is much higher than the penalty for paying your tax late – the late filing penalty is 5 percent of the amount due per calendar month, for up to five months. (In a month that you are subject to both penalties, you pay 5 percent a month, and the two penalties together cannot exceed 25 percent of the tax due.)

There is one other reason to be sure you request an extension if you will not be able to file your return by April 15: filing late may jeopardize your ability to claim the foreign earned income and foreign housing cost exclusions.

Estimated tax payments

Another penalty for under-payment of estimated taxes applies if you do not pay at least 90 percent of your tax liability over the course of the year, if the amount due with your tax return is more than USD 1,000. You can also avoid the penalty if the amount of tax paid during the year is at least as much as your prior year tax liability. (If your AGI is over USD 150,000, or USD 75,000 if you are married filing separately, then you must pay at least 110 percent of the prior year's tax liability to qualify for this exception.) To avoid the penalty by paying the prior year's tax liability, you must have filed a tax return in the prior year, as either a U.S. citizen or a full-year U.S. resident.

If the income tax withheld by your employer is not sufficient to avoid this penalty, you should make additional estimated tax installment payments. These payments should be made with Form 1040-ES, *Estimated Tax for Individuals*, and are due on April 15, June 15, and September 15 of the tax year, and January 15 of the following year.

Comment

Many taxpayers adjust their income tax withholding to cover their entire tax liability. In many cases, employer withholding is reduced or eliminated while a person is on international assignment, so it is important to determine whether you should be making estimated tax payments while you are on assignment, even if you have never made them before.

U.S. withholding taxes

While you are working abroad, you may continue to be subject to U.S. income tax withholding. If you want your employer to stop withholding income tax, either because you expect to claim the benefit of the FEIE or foreign housing cost exclusion, or because you will be able to claim FTCs, you may be able to lower or eliminate your tax withholding, for one of several reasons:

- If you are a U.S. citizen and your earnings are subject to mandatory foreign income tax withholding, your employer is not required to withhold U.S. income tax.
- If you are a U.S. citizen and you expect to qualify for the FEIE, you can provide your employer with Form 673, *Statement for Claiming Exemption from Withholding on Foreign Earned Income Eligible for the Exclusion(s) Provided by Section 911*, which allows the employer to stop withholding on the portion of your earnings that will be covered by the exclusions.

— If you expect to offset some or all of your U.S. income tax with FTC, you can provide your employer with Form W-4, *Employee's Withholding Allowance Certificate*, indicating sufficient withholding allowances to reduce your tax to the appropriate level.

Determining whether your U.S. income tax withholding should be reduced or eliminated while you are on international assignment can be a very complicated calculation, particularly if you have investment or business income to consider. Additional complexity is introduced if you are subject to an employer tax reimbursement policy (see [Chapter 8](#) for a discussion of this topic). It is strongly suggested that you have a tax professional assist you with making these calculations.

Amended returns

Being on an international assignment (or previously having been on one) makes it more likely that at some point you will need to amend a tax return. The complexities of international payroll may result in your receiving an amended Form W-2 (Form W-2c), and you may have excess foreign tax credit that can be carried back to the prior year, or subsequent payments of foreign tax may change the amount of a previously-claimed foreign tax credit.

Although the form for filing an amended tax return, Form 1040X, *Amended U.S. Individual Income Tax Return*, is simple, the supporting calculations can be complex, and may require the assistance of a tax professional. You should file your amended return with the same IRS office where the original return was filed, generally within three years of the due date of the original return, although changes to your FTC are allowed for 10 years from the due date of the original return.

Foreign bank and financial asset reporting

You must file FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (the "FBAR," formerly known as Form TD F 90-22.1), if you have a financial interest in or signature authority over foreign bank, securities, or other financial accounts, both business and personal, that exceed USD 10,000 in aggregate value at any time during the calendar year. The report is filed separately from your income tax return, can only be filed electronically, and generally must be completed by April 15 of the year following the tax year. (For the 2015 tax year, the due date for FinCEN Form 114 was June 30, 2016.) An extension is allowed until October 15 of the year following the tax year, provided certain filing requirements are met. (No extensions were allowed for tax years before 2016.) Significant penalties may be assessed for failure to file.

In addition, a special report must be attached to your tax return if the value of your foreign financial assets exceeds certain thresholds that vary depending on marital status and whether you live in the United States or abroad. Foreign financial assets include (but are not limited to) bank accounts, investments, and pensions. This report, Form 8938, *Statement of Specified Foreign Financial Assets*, is required in addition to the FBAR, mentioned above.

Creation of or transfers to certain foreign trusts

If you are a U.S. citizen or resident and you create a foreign trust, or transfer property to a foreign trust, you are required to file an information return, Form 3520, *Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts*, within 90 days of the creation or transfer. Failure to file may result in civil penalties unless reasonable cause can be established. You may also be responsible for seeing that the trust files Form 3520-A, *Annual Information Return of Foreign Trust with a U.S. Owner*.

Foreign corporations and other foreign entities – owners, officers, and directors

If you are a U.S. citizen or resident who is an owner, officer, or director of a foreign corporation, it is important to be aware that you may have to include a special information report with your tax return, Form 5471, *Information Return of U.S. Persons with Respect to Certain Foreign Corporations*. The form applies to several categories of individuals, and the information that must be reported varies depending on which category you are in. Other special information reports apply if you are a partner in a foreign partnership, if you receive a large gift or inheritance from a foreign source, if you give money to or are a beneficiary of a foreign trust, or if you own stock in a passive foreign investment corporation (such as a foreign mutual fund (see below)).

The penalties for failing to file any of these reports can be quite high, so it is important that you consult with your tax adviser about any foreign investments you may have.

Passive foreign investment companies

If you have an ownership interest in a passive foreign investment company (PFIC), such as a foreign mutual fund, you must report this annually with your tax return on Form 8621, *Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund*. In addition, you must pay tax and an interest charge on any gain derived from the sale of the investment in the PFIC or on an excess distribution from it. However, you can elect to treat the PFIC as a “qualified electing fund.” If you do this, you will generally be taxed on your share of the PFIC’s annual undistributed earnings unless you elect to defer the tax. As part of the election, the PFIC can choose to agree or not to agree to disclose certain information on ownership and earnings to the IRS. The tax rules in this area are extremely complex, so before investing in any foreign entity, or if you already have ownership interest in a PFIC, consultation with a tax adviser is recommended.

Foreign partnerships

If you are a partner in a foreign partnership, you must disclose certain information on Form 8865, *Return of U.S. Persons with Respect to Certain Foreign Partnerships*. In addition, certain foreign partnerships with U.S. partners or U.S. operations must file U.S. partnership returns. Failure to file can result in the disallowance of losses and credits to the U.S. partners, including resident aliens.

Currency restrictions and reporting

The United States imposes no restrictions on bringing money into or out of the country. However, if you transport or receive more than USD 10,000 of cash or monetary instruments in or out of the United States, you must report it; different rules for when, where, and how to report apply depending on whether you receive the money, you ship or mail the money, or you travel into or out of the United States with the money. “Transportation” includes physically carrying currency as well as mailing, shipping, or causing currency to be carried, mailed, or shipped. The report is made on FinCEN Form 105, *Report of International Transportation of Currency or Monetary Instruments*, which must be filed in accordance with the instructions on the Form.

An exception to the filing requirements applies to funds transferred through normal banking procedures if no physical transportation of currency or monetary instruments is involved.

Chapter 8 - Employer tax reimbursement policies

If you are a U.S. citizen or permanent resident (green card holder) who moves abroad to take a job with a foreign employer, or if you already live abroad, you probably participate fully in the local economy, with a salary in local currency, paying taxes in that country as any other employee there would. On the other hand, if your U.S. employer sends you on an international assignment that is not open-ended, your finances may be more complicated. You may receive your compensation in a combination of U.S. dollars and local currency, and your employer may provide special incentives and allowances to help you cope with differences in the cost of housing and other living expenses. These special items generally must be included in your taxable compensation, and that fact combined with the higher tax rates imposed by many countries mean that your annual tax bill may be higher than it was before you went on assignment.

For this reason, many multinational employers have in place a tax reimbursement policy. Every company's policy is different, but broadly stated, the goal of such a program is to lower an assignee's exposure to higher tax rates and taxes on assignment-related allowances. Most such policies can be grouped into one of two types: "tax equalization" and "tax protection." This chapter will discuss how these programs generally work.

Tax equalization

The idea behind tax equalization is that taxes should be a neutral factor in your compensation packages when you go on international assignment. In other words, under tax equalization, you should continue to have a tax burden while on assignment equal to what you would have had at the same level of compensation if you had remained in the United States. This should remain true whether the host country tax burden is higher or lower than that in the United States. Tax equalization helps remove the issue of taxes for you with respect to assignment-related elements of compensation, such as cost-of-living allowance, education and travel reimbursements, etc.

Tax equalization can be complicated to administer, since responsibility for your taxes is split between you and your employer. However, there are potential advantages for both. For the employer, tax equalization can lower the overall cost of an international assignment program, if assignees are employed in both high- and low-tax countries. For you, tax equalization means that while you are on assignment your tax burden and cash flow should be more predictable than they might be if you were responsible for paying your own foreign taxes.

Tax protection

The concept of tax protection is that as an assignee, you will be reimbursed if your overall combined foreign and U.S. tax burden is higher than what you would have paid on the same level of income if you were not on assignment. On the other hand, if the combined tax burden is lower than it would have been if you were not on assignment (generally because the foreign tax rate is low and you are able to claim the

foreign earned income exclusion and housing cost exclusion), under tax protection you would be entitled to retain the financial benefit.

From the employer's standpoint, tax protection can be problematic because it may detrimentally influence employee mobility – if you are offered identical assignments in Saudi Arabia (with no income tax) and Belgium (with a high income tax rate), tax rates might influence your willingness to accept one assignment or the other, in a way that they would not if your employer utilized tax equalization. Similarly, if the host country's tax laws change to increase taxation during an employee's assignment, the loss of the former "benefit" may cause economic difficulties to the employees and create morale problems, even though, in theory, they are no worse off than in the United States. In addition, tax protection is often administered in a way that requires you to pay your own foreign and U.S. taxes through the year, and then "true up" with your employer after your tax returns are prepared. This can have a significant impact on your cash flow, and means that you may have to deal with the foreign tax system more than you would under tax equalization.

Comment

Tax protection is most often used by employers that have only a small number of international assignees who do not go on serial assignments from one country to another. In this case, the possibility of benefiting from a lower overall tax burden can become part of the incentive for accepting the international assignment.

Hypothetical/Theoretical taxes

Whether your employer applies tax protection or tax equalization, a key element is the determination of the amount of tax that you as the assignee would have paid on your level of compensation if you had remained in the United States. This is generally referred to as "hypothetical tax" or "theoretical tax." (Some employers use the terms interchangeably, while others use the term hypothetical tax to refer to the amount that is withheld from your paycheck, while theoretical tax refers to the final year-end tax liability calculated as if you had not been on assignment.)

Because your circumstances are different while you are on assignment, the precise amount that you would have paid if you had not been on assignment generally cannot be determined. Instead, the tax reimbursement policy may address certain items to help provide greater certainty and predictability. As one example, while you are on assignment, you may no longer have itemized deductions because you may no longer own a home and may no longer be paying state income tax, yet determining what your "stay-at-home" tax would have been necessitates making an assumption about your hypothetical itemized deductions. Your employer's tax reimbursement policy may spell out what assumptions to make in this and similar situations.

Another important determination a tax reimbursement policy may set forth is whether the assignee will be subject to hypothetical state income tax while he or she is working abroad. Some employers charge the state tax of the employee's home state, while others may charge the tax of the company headquarters state, or may charge state tax only if the employee continues to be subject to actual state income tax while he or she is working abroad. Since tax reimbursement is a company policy, and is not governed by any law, your company's policy will likely have been designed with reference to your company's industry, its competitors, and what makes sense in the context of the company's business and corporate culture.

Comment

If your company's tax reimbursement policy sets the amount of hypothetical itemized deductions according to a formula that does not take your actual expenses into account, you may find it more

beneficial to postpone discretionary deductible expenditures such as charitable contributions until after your assignment is over and you are no longer subject to your employer's tax reimbursement policy.

Personal income and losses

The primary objective of many employer tax reimbursement plans is to relieve excessive taxation on employment income, including expatriate allowances. Many tax equalization and protection plans, therefore, cover only taxes on employment-related income.

However, many countries tax residents on their worldwide income, including personal income, at rates that, in many cases, are higher than in the United States. For that reason, if you have significant personal income (e.g., income from investments or rental properties), you may pay a higher tax rate on that income by virtue of being on an international assignment. To address this problem, many companies' tax reimbursement policies cover personal income, either in full or subject to limits.

Administration of tax equalization/protection plans

Complex tax calculations are required to properly administer tax reimbursement policies for international assignees. Hypothetical taxes must be calculated, and actual foreign and U.S. taxes, either on company income or total income, must be verified. Exchange rates for conversion into dollars may vary when foreign taxes are finally paid, and foreign tax assessments may be incorrect and subject to challenge to prevent over-payment.

To help determine that taxes are not over-paid and to preserve the confidentiality of employees' personal tax information, many employers use independent tax accountants to prepare tax returns and calculate final tax equalization or protection payments.

Chapter 9 - Planning for an international assignment

When you assume an international assignment abroad, there are many things to be considered. There are several factors that can help an assignment to be successful and rewarding. An organized approach can smooth your transition, reduce surprises, and help realize both your and your employer's objectives for the international assignment.

These important factors can generally be categorized as follows:

- Compensation factors;
- Pre-departure planning;
- Vital documents;
- Adjustment to the host country;
- End of assignment planning.

Following is a brief overview of each of the above points. Check-lists are included in [Appendix A](#) and [Appendix B](#) to help you and your employer to plan a successful international assignment.

Compensation factors

If your employer has an international assignment policy that discusses compensation, be sure that you understand how it applies to you before the assignment begins. Many such policies provide for various allowances and other benefits that affect your total compensation. A variety of things can significantly alter the actual value of compensation, such as: differences in costs of living between the home and host countries; different health care systems/plans; medical and life insurance benefits; pension schemes; different education costs for children; supporting relocation assistance costs; and different tax impacts.

Pre-departure planning

Pre-departure activities outlined in the check-lists in [Appendix A](#) can help prepare you and your family for leaving home and facilitating your transition to the new host country. Among other things, these activities can also help clear the way for your daily living needs, such as streamlining financial transactions in your host country. These may include: opening a bank account, establishing lines of credit and accepted credit cards, and identifying personal insurance coverage needs. While not exhaustive, the suggested listing of action items in [Appendix A](#) can help you prepare for your assignment, mitigate concerns as you begin your assignment, and acclimate to your new position and life-style.

Vital documents

An important part of pre-departure activities is the preparation of vital documents, such as visas, wills, powers of attorney, and property deeds. This can help assure that concerns regarding legal status at home and in the host country are properly handled, including the status of your possessions, guardians for your children in case of emergency, and many other vital matters. While this preparation can be difficult, it may help protect you if unexpected circumstances arise. (See [Appendix B.](#))

Adjustment to the host country

Prior to departure from the United States, you should learn as much as possible about the host country and the city or town where you will work and live. Local magazines and guidebooks, government literature, and a plethora of helpful country and cultural resources are readily available in your local library or book-store or on the Internet. Work with local HR/global mobility and management members from your host-country company to request introductions and meetings, even if informal in nature, at which you and your family are introduced to your peers. Your employer may even assign a fellow employee in the host location to serve as your local contact, mentor, or “point person” – he or she can be a source of helpful information and guidance for you.

Sometimes the everyday activities that you take for granted at home can become unfamiliar and cause confusion and lost time when you arrive in the host country location. Asking for references to local resources – for example, doctors, telephone, utility, cable television and Internet providers, tipping guidelines, sales tax, local banks, retail shops, and so forth – can save time and prevent stress.

End of assignment planning

The best time to plan for your return to the United States is actually before your international assignment even begins; that is when you should discuss your performance goals for the assignment itself, as well as your next steps and career progression post-assignment. Because they recognize the value of international work assignments, more organizations are aligning their overarching talent management framework and talent development goals with international assignments.

Being sure that you and your employer understand each other’s objectives is an important element of success and satisfaction, and should help in the “repatriation” process. These basic objectives should be written up in a development plan that clearly expresses the agreed-upon objectives and expected outcomes for you and the organization during and after the international assignment.

During the assignment, ongoing performance management processes with clearly established lines of communication between you and your performance managers and HR contacts in the home and host country locations are essential. Moreover, an established, open communications framework, along with clearly established roles and responsibilities between key stakeholders, can help to support your ongoing performance and contribute to your assignment’s success.

Appendix A – Suggested pre-departure activities check-list

Action required:

1. Work with HR/Talent Management members and your performance manager(s) to formulate a list of performance objectives for the international assignment.
2. Consider health-related issues in each country. Factors that could affect your health include climate, altitude, presence of infectious diseases, sanitation, security issues, pollution, and more.
3. Have a complete medical examination, have required tests performed, and receive necessary inoculations a month before departure, or as recommended by your physician or other medical personnel.
4. Obtain medical and dental records for you and your family.
5. Investigate country pet entry requirements and secure papers required to transport pet(s) to the host location.
6. Attend language courses, if necessary, and take advantage of cross-cultural training opportunities that may be offered by your employer.
7. Complete resource reading on the host country and reading of company orientation material.
8. Research host location climate to determine suitable clothing during your assignment.
9. Secure and familiarize yourself and family members with samples of local currency.
10. Review guidance for visitors regarding local customs and familiarize yourself with local practices.
11. Draw up, or update, a will. Have the will properly witnessed, with the original placed in a safe place or with a responsible person in the United States. Keep a copy in your possession. (Determine whether a will in the host location is advisable.)
12. Consider creating a medical directive. This includes a health-care power of attorney, which designates someone to make medical decisions for you if you are unable, and a living will, which lists your treatment preferences in case of terminal illness or permanent unconsciousness.
13. Make arrangements for a power-of-attorney to leave with a lawyer, relative, or friend so that you have someone who can act legally on your behalf while you are abroad.

14. Choose a legal guardian for children, and complete the necessary formalities. In the case of your and your spouse's unexpected deaths, the legal guardian may be the only person permitted to take your child/children back to your home country.
15. Draw up a "letter of instruction" to be followed in the event of death (with a copy for your lawyer, relative, or friend), including preferred funeral arrangements and names, addresses, and telephone numbers of relatives and close friends to be notified. Note: this is not a legal document and does not substitute for a legal will.
16. Consider setting up a revocable living trust and placing your real estate assets in it, especially if you own property in more than one state. This mechanism can enable your survivors to by-pass probate and may offer other advantages.
17. Have any necessary adjustments made in life, medical disability, group health insurance policies, including the amount(s) and beneficiary(ies) of each policy. If needed, update beneficiaries on these policies, as well as on your retirement plans. Check whether your life insurance covers death in terrorist or "perils of war" incidents.
18. Notify home country credit card and charge accounts of your address change (and your intention to use the cards in the foreign location) or have them canceled.
19. Ensure that automatic teller machine (ATM)/debit cards can be used internationally. Inquire about additional fees, if any, and international networks that will allow for money withdrawals for free at certain banks. If necessary, obtain new personal identification numbers (PIN).
20. Notify local post office of mailing address change and provide six to eight weeks' notice of change of address for journals/periodicals to which you are subscribed.
21. Check procedures for absentee voting in the state where you vote in elections to determine if any special registration is required. Confirm address for absentee ballots.
22. Once departure date is known, inform home delivery services, utilities, etc.
23. Foreign immigration processes may require you to obtain original or certified copies (translated) of your university diploma(s) and transcripts (record of grades). Certification can typically be done by bringing your original documents to the host country consulate. Your company's immigration services provider can also provide further guidance.
24. Make arrangements for support obligations of family members remaining in the United States, where appropriate.
25. Scan important papers, including past tax returns, and save on CD, thumb-drive, or other portable storage device. Record vital documents on a check-list (see [Appendix B](#)). Give a copy of the check-list of vital documents to a home country relative or friend, and place a copy in your safe deposit box – or other "safe-keeping" place – with originals or copies of the documents.
26. Arrange for your sending office/company to send pertinent publications and communications to you on a timely basis.
27. Receive tax counseling from an experienced international tax adviser with host country knowledge and experience.

28. Communicate with your receiving host country office contact(s) as to your anticipated date of arrival in the host country and your assignment starting date.

Secure the following:

1. Keep with your passport (and your family's passports), a written record of all immunizations and vaccinations with dates and physicians' signatures. School and local health authorities often require this information.
2. Separate passports for each family member and make photocopies of each passport (cover-to-cover).
3. Proof of citizenship if a naturalized citizen.
4. Military service papers.
5. Visa and proper work authorization as directed by the company and/or immigration counsel, as applicable.
6. Birth certificates.
7. Social Security cards for each family member.
8. Marriage license.
9. Proof of termination of any previous marriage.
10. Children's school records.
11. Inventories of stored and shipped household effects.
12. Letters of reference and credit rating reports.
13. An international driver's license (although in some jurisdictions you may be required to take a local driving test within a certain period of your arrival).
14. Letter from current auto insurer referring to your driving record and insurance history.
15. Universally accepted credit/debit cards that can be transferred to a local-currency-based account. Investigate fees that credit card companies charge for international transactions.
16. An account with a bank that has host country branches or an open transactional relationship with a host country bank. (Establish at least one joint checking account accessible to either spouse/partner. Confirm over-draft protection.)
17. Safe deposit box.
18. Copy of your most recent prescriptions for glasses, contact lenses, and medicines.
19. Spare pair of glasses/contact lenses.
20. Supply of prescription medicines adequate until local medical contacts can be established in your host location.

For many of the items noted in the above Suggested Pre-departure Activities Check-list, consultation with your financial planning agent, an attorney, and/or an immigration specialist is advised.

Appendix B - Suggested vital documents check-list

	Identification number (where applicable)	Location	Date
Your Will			
Spouse's Will			
Guardianship Agreements			
Trust Agreements			
Mortgages			
Property Deeds			
Car Titles			
Stock Certificates			
Stock Purchase Agreements			
Bonds			
Checking Account			
Savings Account			
Other Financial/Brokerage Account			
Life Insurance Policies			
Other Insurance Policies			
Any Relevant Contracts			
Set of Last Instructions			
Retirement Agreements			
Pension or Profit Sharing Plans			
Birth Certificates			
Marriage Licenses			
Divorce and Settlement Papers			
Notes Receivable			
Employment Contracts			

	Identification number (where applicable)	Location	Date
Income Tax Returns (Last 3 Years)			
Military Discharge and Documents			
Recurring Bills/Statements			
Credit/Debit Cards/Other Cards			
Frequent Flyer Program(s)			
Personal Computer Log-on Name/Password			
Personal e-mail Account and Password			
Driver's License			
Passport(s)			

For many of the items noted in the above Suggested Vital Documents Check-list, consultation with your financial planning agent, an attorney, and/or an immigration specialist is advised.

* * * * *

My Attorney:

Name: _____

Address: _____

Phone Number: _____

My Personal/Family Physician:

Name: _____

Address: _____

Phone Number: _____

My Relative/Other Individual in the United States (to contact in case of emergency):

Name: _____

Relationship to me: _____

Address: _____

Phone Number: _____

Appendix C – United States tax agreements

List of U.S. tax treaty countries

Information as of December 31, 2016.

For treaty withholding tax rates, see IRS Publication 901, *U.S. Tax Treaties*.

Armenia*	Iceland	Poland
Australia	India	Portugal
Austria	Indonesia	Romania
Azerbaijan*	Ireland	Russia
Bangladesh	Israel	Slovak Republic
Barbados	Italy	Slovenia
Belarus*	Jamaica	South Africa
Belgium	Japan	South Korea
Bulgaria	Kazakhstan	Spain
Canada	Kyrgyzstan*	Sri Lanka
China, People's Republic of	Latvia	Sweden
Cyprus	Lithuania	Switzerland
Czech Republic	Luxembourg	Tajikistan*
Denmark	Malta	Thailand
Egypt	Mexico	Trinidad and Tobago
Estonia	Moldova*	Tunisia
Finland	Morocco	Turkey
France	Netherlands	Turkmenistan*
Georgia*	New Zealand	Ukraine
Germany	Norway	United Kingdom
Greece	Pakistan	Uzbekistan*
Hungary	Philippines	Venezuela

* Former republic of the U.S.S.R. and member of the Commonwealth of Independent States, covered by the U.S.-U.S.S.R. income tax treaty signed June 20, 1973.

List of U.S. Social Security totalization agreement countries

Information as of December 31, 2016. For text and description of each agreement, see U.S. [Social Security Administration International Programs](#) Web site. Agreements with Brazil and Iceland have been signed but have not yet entered into force.

Australia	Germany	Poland
Austria	Greece	Portugal
Belgium	Hungary	Slovak Republic
Canada	Ireland	South Korea
Chile	Italy	Spain
Czech Republic	Japan	Sweden
Denmark	Luxembourg	Switzerland
Finland	Netherlands	United Kingdom
France	Norway	

Appendix D – U.S. individual income tax figures 2016 & 2017

2016 tax tables

Married individuals filing joint returns and surviving spouses	
If taxable income is:	The tax is:
Not Over \$18,550	10% of the taxable income
Over \$18,550 but not over \$75,300	\$1,855 plus 15% of excess over \$18,550
Over \$75,300 but not over \$151,900	\$10,367.50 plus 25% of the excess over \$75,300
Over \$151,900 but not over \$231,450	\$29,517.50 plus 28% of the excess over \$151,900
Over \$231,450 but not over \$413,350	\$51,791.50 plus 33% of the excess over \$231,450
Over \$413,350 but not over \$466,950	\$111,818.50 plus 35% of the excess over \$413,350
Over \$466,950	\$130,578.50 plus 39.6% of the excess over \$466,950
Heads of households	
Not Over \$13,250	10% of the taxable income
Over \$13,250 but not over \$50,400	\$1,325 plus 15% of excess over \$13,250
Over \$50,400 but not over \$130,150	\$6,897.50 plus 25% of the excess over \$50,400
Over \$130,150 but not over \$210,800	\$26,835 plus 28% of the excess over \$130,150
Over \$210,800 but not over \$413,350	\$49,417 plus 33% of the excess over \$210,800
Over \$413,350 but not over \$441,000	\$116,258.50 plus 35% of the excess over \$413,350
Over \$441,000	\$125,936 plus 39.6% of the excess over \$441,000

Unmarried individuals (other than Surviving Spouse and Heads of Households)	
Not Over \$9,275	10% of the taxable income
Over \$9,275 but not over \$37,650	\$927.50 plus 15% of the excess over \$9,275
Over \$37,650 but not over \$91,150	\$5,183.75 plus 25% of the excess over \$37,650
Over \$91,150 but not over \$190,150	\$18,558.75 plus 28% of the excess over \$91,150
Over \$190,150 but not over \$413,350	\$46,278.75 plus 33% of the excess over \$190,150
Over \$413,350 but not over \$415,050	\$119,934.75 plus 35% of the excess over \$413,350
Over \$415,050	\$120,529.75 plus 39.6% of the excess over \$415,050
Married individuals filing separate returns	
Not Over \$9,275	10% of the taxable income
Over \$9,275 but not over \$37,650	\$927.50 plus 15% of the excess over \$9,275
Over \$37,650 but not over \$75,950	\$5,183.75 plus 25% of the excess over \$37,650
Over \$75,950 but not over \$115,725	\$14,758.75 plus 28% of the excess over \$75,950
Over \$115,725 but not over \$206,675	\$25,895.75 plus 33% of the excess over \$115,725
Over \$206,675 but not over \$233,475	\$55,909.25 plus 35% of the excess over \$206,675
Over \$233,475	\$65,289.25 plus 39.6% of the excess over \$233,475

2017 tax tables

Married individuals filing joint returns and surviving spouses	
If taxable income is:	The tax is:
Not Over \$18,650	10% of the taxable income
Over \$18,650 but not over \$75,900	\$1,865 plus 15% of excess over \$18,650
Over \$75,900 but not over \$153,100	\$10,452.50 plus 25% of the excess over \$75,900
Over \$153,100 but not over \$233,350	\$29,752.50 plus 28% of the excess over \$153,100
Over \$233,350 but not over \$416,700	\$52,222.50 plus 33% of the excess over \$233,350
Over \$416,700 but not over \$470,700	\$112,728 plus 35% of the excess over \$416,700
Over \$470,700	\$131,628 plus 39.6% of the excess over \$470,700

Heads of households	
Not Over \$13,350	10% of the taxable income
Over \$13,350 but not over \$50,800	\$1,335 plus 15% of excess over \$13,350
Over \$50,800 but not over \$131,200	\$6,952.50 plus 25% of the excess over \$50,800
Over \$131,200 but not over \$212,500	\$27,052.50 plus 28% of the excess over \$131,200
Over \$212,500 but not over \$416,700	\$49,816.50 plus 33% of the excess over \$212,500
Over \$416,700 but not over \$444,550	\$117,202.50 plus 35% of the excess over \$416,700
Over \$444,550	\$126,950 plus 39.6% of the excess over \$444,550
Unmarried individuals (other than surviving spouse and heads of households)	
Not Over \$9,325	10% of the taxable income
Over \$9,325 but not over \$37,950	\$932.50 plus 15% of the excess over \$9,325
Over \$37,950 but not over \$91,900	\$5,226.25 plus 25% of the excess over \$37,950
Over \$91,900 but not over \$191,650	\$18,713.75 plus 28% of the excess over \$91,900
Over \$191,650 but not over \$416,700	\$46,643.75 plus 33% of the excess over \$191,650
Over \$416,700 but not over \$415,050	\$120,910.25 plus 35% of the excess over \$416,700
Over \$418,400	\$121,505.25 plus 39.6% of the excess over \$418,400
Married individuals filing separate returns	
Not Over \$9,325	10% of the taxable income
Over \$9,325 but not over \$37,950	\$932.50 plus 15% of the excess over \$9,325
Over \$37,950 but not over \$76,550	\$5,226.25 plus 25% of the excess over \$37,950
Over \$76,550 but not over \$116,675	\$14,876.25 plus 28% of the excess over \$76,550
Over \$116,675 but not over \$208,350	\$26,111.25 plus 33% of the excess over \$116,675
Over \$208,350 but not over \$233,475	\$56,364 plus 35% of the excess over \$208,350
Over \$235,350	\$65,814 plus 39.6% of the excess over \$235,350

Standard deduction

	2016	2017
Single	\$6,300	\$6,350
Married filing joint return and surviving spouse	\$12,600	\$12,700
Married filing separate return	\$6,300	\$6,350
Head of household	\$9,300	\$9,350

If you can be claimed as a dependent on another person's return, your standard deduction cannot exceed the greater of USD 1,050 (in both 2016 and 2017) or your earned income plus USD 350.

If you are age 65 or over, or if you are blind, you are entitled to an additional standard deduction. The additional standard deduction amount for married taxpayers and surviving spouses is USD 1,250 for both 2016 and 2017. For a single taxpayer or head of household, the additional standard deduction is USD 1,550 for 2016 and 2017. If you are both 65 or older and blind, the additional standard deduction amount is doubled.

Personal exemptions

	2016	2017
Personal and dependent exemption amount	\$4,050	\$4,050

Alternative Minimum Tax

AMT exemption amounts

	2016	2017
Single or head of household	\$53,900	\$54,300
Married filing joint return and surviving spouse	\$83,800	\$84,500
Married filing separate return	\$41,900	\$42,250

The AMT exemption is reduced by 25 percent of the amount by which your alternative minimum taxable income exceeds a certain amount. These threshold amounts are as shown below.

AMT exemption phase-out thresholds

	2016	2017
Single or head of household	\$119,700	\$120,700
Married filing joint return and surviving spouse	\$159,700	\$160,900
Married filing separate return	\$79,850	\$80,450

Minimum filing requirements

Taxpayers under age 65 are required to file a U.S. income tax return if their gross income, disregarding the foreign earned income and housing costs exclusions, exceeds the amounts shown in the tables below.

Type of return filed	2016	2017
Joint Return	\$20,700	\$20,800
Head of Household	\$13,350	\$13,400
Single	\$10,350	\$10,400
Married Filing Separate	\$4,050	\$4,050

These amounts are increased for taxpayers who are age 65 or older, and for taxpayers who are legally blind.

Children and other dependents are required to file a U.S. income tax return if their gross income exceeds the following amounts:

	2016	2017
If taxpayer has only unearned income (interest, dividends, etc.) –	\$1,050	\$1,050
Earned income plus \$350 in 2015 and 2016, up to a maximum of –	\$6,300	\$6,350

Social Security and self-employment tax wage base amount

	2016	2017
Old Age, Survivors, and Disability Insurance maximum wage base	\$118,500	\$127,200

Capital gains tax rates

Assets held more than one year (long-term capital gain) – Gains on assets held for more than one year (called “long-term capital gains”) are generally taxed at a rate of 15 percent. However, if you are in the lowest marginal income tax brackets (10 or 15 percent), your long-term capital gains are taxed at zero percent. If you are in the highest (39.6 percent) income tax bracket, your long-term capital gain tax rate is 20 percent.

Assets held not more than one year (short-term capital gain) – The special capital gain tax rate applies only to assets that you have owned for more than one year. Gains on assets that you have owned for one year or less are taxed at your normal marginal tax rate, with a maximum of 39.6 percent.

Depreciation recapture – If you own real property (such as a building) that is used as business or rental property, you are entitled to take depreciation deductions for that property (however, no depreciation deduction is allowed for land). When you sell that property, the amount of the gain is increased by the depreciation that was taken (or that you were allowed to take, even if you did not claim it). The portion of the gain that is related to depreciation is referred to as depreciation recapture and is taxed at 25 percent.

Qualified dividends – Qualified dividends are taxed at the same rate as long-term capital gains. In general, qualified dividends include dividends received from U.S. corporations and certain qualifying foreign corporations.

Appendix E – List of KPMG offices in the United States with a GMS practice

<p>Albany KPMG LLP 515 Broadway, Suite 200 Albany, NY 12207-2974 Tel. +1 (518) 427-4600 Fax +1 (518) 689-4717</p>	<p>Buffalo KPMG LLP 12 Fountain Plaza, Suite 601 Buffalo, NY 14202-2222 Tel. +1 (716) 854-1830 Fax +1 (716) 625-1221</p>
<p>Atlanta KPMG LLP 303 Peachtree Street NE, Suite 2000 Atlanta, GA 30308-3210 Tel. +1 (404) 222-3000 Fax +1 (404) 222-3050</p>	<p>Charlotte KPMG LLP 550 S. Tryon Street, Suite 3200 Charlotte, NC 28202-4214 Tel. +1 (704) 335-5300 Fax +1 (704) 335-5377</p>
<p>Austin KPMG LLP 111 Congress Avenue, Suite 1900 Austin, TX 78701-4091 Tel. +1 (512) 320-5200 Fax +1 (512) 320-5100</p>	<p>Chicago KPMG LLP Aon Center 200 E. Randolph Drive, Suite 5500 Chicago, IL 60601-6436 Tel. +1 (312) 665-1000 Fax +1 (312) 665-6000</p>
<p>Billings KPMG LLP 175 N. 27th Street, Suite 1002 Billings, MT 59101-2048 Tel. +1 (406) 252-3831 Fax +1 (406) 245-9738</p>	<p>Cincinnati KPMG LLP 312 Walnut Street, Suite 3400 Cincinnati, OH 45202-4019 Tel. +1 (513) 421-6430 Fax +1 (513) 763-2690</p>
<p>Boston KPMG LLP Two Financial Center 60 South Street, Suite 100 Boston, MA 02111-7600 Tel. +1 (617) 988-1000 Fax +1 (617) 507-8321</p>	<p>Columbus KPMG LLP 191 West Nationwide Boulevard, Suite 500 Columbus, OH 43215-2568 Tel. +1 (614) 249-2300 Fax +1 (614) 249-2348</p>

<p>Dallas KPMG LLP 2323 Ross Avenue, Suite 1400 Dallas, TX 75201-6585 Tel. +1 (214) 840-2000 Fax +1 (214) 840-2297</p>	<p>Los Angeles KPMG LLP 550 South Hope Street, Suite 1500 Los Angeles, CA 90071-2629 Tel. +1 (213) 972-4000 Fax +1 (213) 622-1217</p>
<p>Denver KPMG LLP 1225 17th Street, Suite 800 Denver, CO 80202-5598 Tel. +1 (303) 296-2323 Fax +1 (303) 295-8829</p>	<p>Minneapolis KPMG LLP 4200 Wells Fargo Center 90 South Seventh Street Minneapolis, MN 55402-3903 Tel. +1 (612) 305-5000 Fax +1 (612) 305-5100</p>
<p>Detroit KPMG LLP 150 West Jefferson, Suite 1200 Detroit, MI 48226-4429 Tel. +1 (313) 230-3000 Fax +1 (313) 230-3001</p>	<p>New York City KPMG LLP 345 Park Avenue New York, NY 10154-0102 Tel. +1 (212) 758-9700 Fax +1 (212) 758-9819</p>
<p>Fort Lauderdale/Miami KPMG LLP Las Olas Centre 450 E Las Olas Boulevard, Suite 750 Fort Lauderdale, FL 33301-4219 Tel. +1 (954) 524-6000 Fax +1 (954) 462-4765</p>	<p>Northern Virginia KPMG LLP 1676 International Drive, Suite 1200 McLean, VA 22102-4838 Tel. +1 (703) 286-8000 Fax +1 (703) 286-8010</p>
<p>Hartford KPMG LLP 755 Main Street 1 Financial Plaza, Suite 11 Hartford, CT 06103-2601 Tel. +1 (860) 522-3200 Fax +1 (860) 297-5555</p>	<p>Orange County KPMG LLP 20 Pacifica, Suite 700 Irvine, CA 92618-3391 Tel. +1 (949) 885-5400 Fax +1 (949) 885-5410</p>
<p>Houston KPMG LLP 811 Main Street, Suite 4500 Houston, TX 77002-6100 Tel. +1 (713) 319-2000 Fax +1 (713) 319-2807</p>	<p>Orlando KPMG LLP 111 N Orange Avenue, Suite 1600 Orlando, FL 32801-2332 Tel. +1 (407) 423-3426 Fax +1 (407) 386-6159</p>
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<p>Raleigh KPMG LLP 4242 Six Forks Road, Suite 850 Raleigh, NC 27609 Tel. +1 (919) 664-7100 Fax +1 (919) 664-7250</p>	<p>St. Louis Suite 900 10 S Broadway, Suite 900 St Louis, MO 63102-1736 Tel. +1 (314) 444-1400 Fax +1 (314) 444-1470</p>
<p>San Diego KPMG LLP 4747 Executive Drive, Suite 600 San Diego, CA 92121-3100 Tel. +1 (858) 750-7100 Fax +1 (858) 750-7101</p>	<p>Stamford KPMG LLP Stamford Square 3001 Summer Street Stamford, CT 06905-4317 Tel. +1 (203) 356-9800 Fax +1 (203) 352-2002</p>
<p>San Francisco KPMG LLP 55 Second Street, Suite 1400 San Francisco, CA 94105-4557 Tel. +1 (415) 963-5100 Fax +1 (415) 358-5746</p>	<p>Tampa KPMG LLP 100 N Tampa Street, Suite 1700 Tampa, FL 33602-5145 Tel. +1 (813) 223-1466 Fax +1 (813) 229-3976</p>
<p>Santa Clara (Silicon Valley) KPMG LLP Mission Towers 1 3975 Freedom Circle Drive, Suite 100 Santa Clara, CA 95054-1258 Tel. +1 (408) 367-5764 Fax +1 (408) 877-3034</p>	<p>Washington National Tax KPMG LLP 1801 K Street NW Washington, DC 20006-1301 Tel. +1 (202) 533-3000 Fax +1 (202) 533-8500</p>

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