

# Tax Facts for US Citizens Living Abroad 2022



## WHAT IF I EARN INCOME FROM SELF-EMPLOYMENT OVERSEAS?

Self-employment income is reported on Form 1040, Schedule C. The income from self-employment is eligible for the foreign earned income exclusion, after reductions for adjustments and expenses related to the self-employment income. However, you must still compute the amount of self-employment tax due (social security tax) and pay that amount unless you reside in a country with a Social Security Totalization Agreement. That computation is done using Form 1040, Schedule SE. The foreign earned income exclusion only excludes income from income tax but not from self-employment tax.

## WHERE CAN I GET MORE GUIDANCE ON FILING REQUIREMENTS FOR US CITIZENS RESIDING OVERSEAS?

Internal Revenue Service Publication 54, Tax Guide for US Citizens and Resident Aliens Abroad, has more detailed information. You are also welcome to visit TieTax Service's website at [www.tietax.com](http://www.tietax.com).

E-mail [stephen.boush@tietax.com](mailto:stephen.boush@tietax.com) or [jun.jang@tietax.com](mailto:jun.jang@tietax.com) for a quick response.



## 1. WHO MUST FILE A RETURN?

Any US citizen or US resident alien, who has worldwide income in excess of the sum of his or her standard deduction and personal exemptions, must file a return annually. For 2022 the standard deduction amounts for most people are \$25,900 (married filing jointly), \$12,950 (single or married filing separately), and \$19,400 (head of household). The personal exemption amount was eliminated in 2018.

## 2. WHEN IS MY TAX RETURN DUE?

US citizens and US resident aliens have an automatic extension to June 15, 2023, if they are overseas on April 15, 2023. The automatic extension applies only to filing the return and while no penalty is applied for persons overseas on April 15th, interest may accrue beginning on April 15th. Any amounts owed should be paid on or before April 15, 2022. An international postmark by the due date counts as timely paid or filed, so long as the postmark date is clearly legible.

## 3. WHAT FORM SHOULD I FILE?

Both the foreign earned income exclusion and/or the foreign tax credit can only be claimed on IRS Form 1040.

## 4. HOW DO I CLAIM THE FOREIGN EARNED INCOME EXCLUSION?

To claim the foreign earned income exclusion (and the foreign housing exclusion if applicable), you must complete Form 2555. For 2021, the maximum exclusion amount is \$112,000. This form applies even if you were an overseas resident for only part of the year (prorated allowance), if you earned more than \$112,000, if you are claiming a foreign housing exclusion, or if you had income both as an employee and from self-employment as well.

## 5. WHAT DOCUMENTS DO I ATTACH TO MY RETURN?

The Internal Revenue Service only requires Forms W2 (wage and earnings statements issued by US entities) and other documents that show US income tax withheld. Do not send copies of a pay statement from a foreign employer provided by the business or human resources office. Only include a document regarding foreign earned income if it is paid by a US corporation, a US unincorporated business or US non-profit organization on a Form W2.



**WHAT IF I PAY FOREIGN INCOME TAX?**

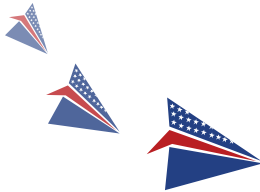
If you earn more than the maximum foreign earned income exclusion amount or if the tax rate in the foreign country where you live is higher than US tax rates, you may be able to claim a foreign tax credit, for at least a portion of foreign tax paid on Form 1116.

**WHICH TEST DO I USE TO QUALIFY TO CLAIM THE FOREIGN EARNED INCOME EXCLUSION?**

- A. If your planned period of residence overseas will be less than an entire calendar year you will normally have to use the physical presence test to qualify to exclude foreign earned income from US tax.
- B. If your planned period of residence overseas exceeds one entire calendar year, you will normally qualify to file as a bona fide resident.
- C. If you are not required to pay taxes to the foreign country of residence because of a tax treaty, you will not normally be allowed to claim bona fide resident status. In order to exclude foreign earned income in such cases you must meet the physical presence test each year. As an alternative you may be able to claim a foreign tax credit to offset US tax.
- D. If you are a US resident immigrant alien and your passport country has a tax treaty with the US you must file using the physical presence test. You may not file using the bona fide resident exclusion.

**MAY I CLAIM BOTH THE FOREIGN EARNED INCOME EXCLUSION AND THE FOREIGN HOUSING EXCLUSION?**

Yes, if your earned income exceeds the foreign earned income exclusion limits. To the extent your total foreign housing costs exceed 16 percent of the foreign earned income exclusion for the year, those excess costs may be excluded up to a total reported housing cost equal to 30 percent of the foreign earned income exclusion. Details of the increased housing exclusion amounts by city and country can be found in the instructions to IRS Form 2555.



**WHAT ABOUT IRA'S?**

Normally you cannot contribute to IRA accounts, whether traditional or Roth, while working overseas. The contribution limit for 2021 is the lesser of taxable earned income or \$6,000 (\$7,000 for people 50 or older). If you exclude all earned income from US income tax your taxable earned income is 0, restricting your ability to make any contribution. You may not exclude "selectively" and must either exclude all of your qualifying foreign earned income or none.

If married, the same rule applies to the spouse. However, a taxpayer and spouse may elect different treatment of their individual income. If your earned income exceeds the exclusion limit; if you live in a country where the income tax you pay to the foreign country may exceed what you would have paid in the US; or if your overseas employer designates a portion of your income as a contribution toward retirement, contact TieTax ([stephen.boush@tietax.com](mailto:stephen.boush@tietax.com)) to determine how to qualify to make contributions to an IRA. If your employer provides a 401(k) plan, the 2022 allowance is \$20,500 (\$27,000 for people 50 or older).

**WHAT IS AN FBAR (FORM 114)?**

If you are an American living abroad, you must report your 'foreign' (non-US) financial account to the US government annually. A US person must file a Report of Foreign Bank and Financial Accounts (now form 114) if that person has a financial interest in, signature authority or other authority over financial accounts in a foreign country and the aggregate value of these account(s) exceeds \$10,000 at any time during the calendar year. The official due date is April 15th however there is an automatic six-month extension available making the final due date Oct 15th. For US residents abroad, the due date is April 15th with an automatic extension until October 15th.

This form is not part of the US person's tax return filing and penalties for non-reporting are extensive.

For 2012 and prior years, this was done using form TD F 90-22.1. The FBAR form is now obsolete. Instead, each American must file the new form 114-a process that can only be done online with the Financial Crimes Enforcement Network (FinCEN). The link to this network is <http://bsaefiling.fincen.treas.gov/NoRegFBARFiler.html> or contact TieTax representative for assistance.

**TIETAX specializes in expert tax preparation services for US citizens or resident aliens residing overseas.**