



Wood LLP

Tax Alert



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THE TAX LAWYER

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Like A Passport, The IRS Goes Everywhere

If you're a U.S. citizen or permanent resident you must annually file a tax return reporting your worldwide income. If you have "foreign"—meaning non-U.S.—accounts over \$10,000, you must annually file an FBAR. See [FBAR Penalties Just Got Even Worse](#). Starting in 2011, if your foreign financial assets exceed \$50,000 (subject to exceptions) your tax return must include a [Form 8938](#). See [IRS Form 8938 Or FBAR?](#)



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You do get some special perks. For example, if you are a U.S. citizen or resident alien residing overseas or in the military on duty outside the U.S., you get an [automatic 2-month extension](#) (to June 15) to file your tax return. If you need still more time, you can get until October 15 by filing [Form 4868](#).

Foreign Earned Income Credit? This is another good deal, allowing you to not pay tax on up to \$95,100 of income for 2012. To be entitled to it, your "tax home" must be in a foreign country, you must have "foreign earned income," and you must be:

1. A U.S. citizen who is a bona fide resident of a foreign country for the entire year; or

2. A U.S. resident alien who is a citizen or national of a country with which the U.S. has an income tax treaty, and who is a bona fide resident of a foreign country for the entire year; or
3. A U.S. citizen or a U.S. resident alien who is physically present in a foreign country for at least 330 full days during any 12 consecutive months.

If you claim the foreign earned income exclusion you cannot claim a foreign tax credit (or deduction) on the same income. To decide if you get more mileage out of the exclusion or credit, crunch the numbers both ways. Here is a guide:

1. If you pay no foreign tax, claim the foreign earned income exclusion;
2. If your foreign tax rate is lower than your U.S. rate, you should usually claim the exclusion; and
3. If your foreign tax rate is higher than your U.S. rate, you should probably claim the foreign tax credit instead. See [Foreign Earned Income Exclusion](#) (for U.S. citizens/residents living and working outside the U.S.).

Foreign Tax Credits? Another perk allow you to claim foreign tax credits for taxes paid abroad. Just be careful as the rules are complex. See [Foreign Tax Credit](#) (for U.S. citizens/residents who paid or accrued foreign taxes to a foreign country on foreign source income).

Didn't Comply? If you haven't been filing, consider the newest IRS program discussed here: [Newest Offshore IRS Amnesty Not For Everyone](#).

Here are some useful IRS links:

- [International FAQs for U.S. Citizens/Residents Abroad](#)
- [Pub. 54, Tax Guide for U.S. Citizens and Residents Abroad](#)
- [Pub. 519, U.S. Tax Guide for Aliens](#)

- [Pub. 4588, Basic Tax Guide for Green Card Holders: Understanding Your U.S. Tax Obligations](#)
- [Pub. 4732, Federal Tax Information for U.S. Taxpayers Living Abroad](#)
- [Reporting Foreign Bank Accounts](#) (FBAR)
- [Tax Information for Members of U.S. Armed Forces](#)

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