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FISCAL & EXPATRIATE SERVICES

US Expats: *Foreign Tax Exclusions*

Two crucial provisions exist for US expats residing abroad to mitigate their US income tax liabilities: the "Foreign Tax Credit" and the "Foreign Earned Income Exclusion" (FEIE).

"Foreign Tax Credit"

The "Foreign Tax Credit" makes possible a reduction or even the elimination of US taxation to offset foreign taxes on earnings that are not sourced in the United States. The "Foreign Tax Credit" is available to expats who either work overseas or have investment income from a foreign source. Following the rules of the Bilateral Tax Treaty is essential with reporting done via Form 1116.

"Foreign Earned Income Exclusion"

This exclusion is only applicable to salaries or freelance income earned for services performed in a foreign country. You must have lived abroad for a full year, meeting either the bona fide residence test or physical presence test. Foreign earned income includes wages, commissions, bonuses in addition to self-employment income.

FEIE does not apply to:

- Investment income (e.g. interest, dividends and capital gains);
- Social Security benefits;
- Civil Service income;
- Employment on a ship or aircraft operated in international traffic;
- Self-employment taxes
  (*while you can exclude your self-employment income, your self-employment income is still subject to self-employment taxes* (Social Security and Medicare taxes).

The Foreign Earned Income Exclusion permits US expats to free up to $104,100 of foreign earnings from US assessment as long as specific requirements are met. This exclusion is indexed to inflation and increases annually.

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