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SHERRY SAUCERMAN: OK, I see it is the top of the hour. So, let's get started with our webinar. I want to welcome you again to our IRS presentation, Foreign Earned Income Exclusion. I'm really glad you're joining us. My name again, for those who are just joining us is Sherry Saucerman. I am a stakeholder liaison with the IRS and I'll be your moderator for today's webinar for 100 minutes, but in order to answer your questions, we may extend a little past the 100-minute mark. Before we begin, if we have anyone in the audience with the media, please send us an e-mail message to the address provided on the slide. In that e-mail, if you would, please include your contact information and the news publication that you're with, that way, our relations or our stakeholder liaison staff can assist you or answer any questions you might have. Now, I know the e-mail address is a little small on the screen, so I'm going to read it. CL.SL.Web.Conference.Team@IRS.gov. And in your e-mail, again, please include your contact information and the news publication you're with. OK, so for those of you who just joined, I'll review a few items. If you experience a technology issue during the webinar, this slide shows some helpful tips and reminders. We've also posted a technical help document. You can download it from using the materials button on the left side of your screen. It provides you what the minimal system requirements are for viewing the webcast, also it gives you some practices and some quick solutions. If you completed and you passed your system check and you still have problems, then you might want to try one of the following. You can close the webinar you're viewing the webinar and relaunch it, or your second option is to click the gear icon on your viewing screen. You'll find it in the top-right corner of the slide and photo boxes. You have choices. Now, unless you're viewing the webinar from a mobile device, you're going to want to select flash instead of HLS. HLS is the option you use with mobile devices. If you do use HLS and relaunching your viewing screen doesn't fix your problem, then we recommend trying to use a different browser to launch and view the webinar. You may also want to close other apps you have open on your viewing device to reduce bandwidth competition. Now, we do hope that you received the PDF version of the PowerPoint in a reminder e-mail, but if you didn't, just click on the materials button on the left side of your screen. Also, we have included the Form 2555 and 2555-EZ in the materials button and it might be a good idea to download them and have a couple of copies on hand because our presenters will be going over those forms later in the presentation. Closed captioning is available for today's presentation. If you're having trouble hearing the audio through your computer speakers, please click that CC button on the left side of your screen and this feature will be available throughout the broadcast. In this presentation, we're going to take a few breaks to share some knowledge-based questions with you.

At those times, the polling feature will pop up on your screens with a question and multiple-choice answers. Just select the response that you believe is correct by clicking on the response button. Your selection and then don't forget, you need to click Submit. As a note, you might need to turn off your pop-up blocker in order to get these questions. Now, if you don't get the poll question, then would you please enter your response timely in the Ask Question feature, in that way we can track your participation. If you have any topic specific questions for us, please submit them by clicking on the Ask Question button also on the left side of your screen. You enter the question in the text box and then click Submit. And please, please, please do not provide sensitive or taxpayer specific information.

We also ask that you wait for your specific topics to be addressed before submitting your question because, so that, it might be answered during the presentation. But one more thing, we appreciate your questions, so please don't be shy. You've got questions, go ahead and submit them. OK. Now, moving along with our presentation, let me introduce today's presenter, Tracy McPhee. Tracy is a senior revenue agent with Withholding and International Individual Compliance in the Large Business and International Division. Tracy McPhee is a senior revenue agent with the Large Business and International Division. As technical specialists, they both facilitate and coordinate the identification, development, and implementation of international issues. Both have expertise with tax issues of non-resident aliens and U.S. citizens working abroad. And with that, I'm going to turn it over to Bethany to begin the presentation. Bethany? KRAUSE: Thank you, Sherry. And I want to add my welcome to everyone who's attending today, and I want to say thank you for attending today's webinar. During our discussion, we will be defining foreign-earned income, explaining the concept of tax home as it applies to the foreign-earned income exclusion, summarizing the bona fide residence and the physical presence tests, and we will specify the effect of the foreign-earned income exclusion on other credits and deductions. U.S. citizens and resident aliens are taxed on their worldwide income. The first question that we received today had to do with that. Someone was asking what were the basic requirements for American citizens relative to the taxation of their foreign income. In response to that, some of that other types of income besides foreign-earned income are probably beyond the scope of this webinar today, but I do want to explain to that person that the responsibility is for you to report your worldwide income to the IRS as a U.S. citizen whether you're living abroad or in the United States. So that is the most basic requirement. And today, if you live and work in a foreign country, then you may be eligible to exclude your foreign-earned income under the provisions that we are discussing today. And you may also be able to exclude or deduct certain foreign housing cost amounts. I want to make it clear, and this answers another question that has already come in, the exclusion is available only to U.S. citizens and resident aliens. And another member of the audience had just been asking via the question feature about a client of theirs who's a Green Card holder and is currently in the process of becoming a U.S. citizen. If that is the case, they certainly meet the requirement of being a resident alien. A person with a Green Card is a lawful permanent resident of the United States and is considered a U.S. resident. And so, such an individual, if they meet all the qualifications, could in fact be eligible to claim the foreign-earned income exclusion. I also want to point out that the exclusion is available to non-resident aliens. The foreign-earned income exclusion is claimed on Form 2555 or 2555-EZ.

And as Sherry mentioned earlier, there is a materials tab that has those forms attached to this presentation if you needed to pull it up and look at it, which might not be a bad idea. The foreign-earned income exclusion is indexed each year for inflation. For 2018, it was \$103,900 and in 2019, it is \$105,900. I also want to make it clear that if you make the choice to exclude your foreign-earned income, then you need to exclude all of your foreign-earned income up to that threshold amount that I just mentioned, in other words, the lesser of the threshold amount or your earned income. In addition to the foreign-earned income exclusion, you may also be able to exclude or deduct foreign housing expenses in excess of a base amount and subject to a limit. Information about the base amount and the limit are contained in the Form 2555 and its instructions. Now the housing exclusion applies to employees because it applies only to amounts considered paid for with employer-provided funds, which would be your wages, your salaries, any allowances you might receive, any form of compensation that you get from your employer. The foreign housing exclusion is applicable to employees. And I also want to point out, you may get a housing allowance and let's say your housing allowance is 10,000 and let's say that your housing expenses are 20,000, well, it doesn't have to be only funds that were earmarked for housing, so obviously if you have salary enough to cover the 20,000 in housing expenses, the exclusion and a limit, you would be able to exclude those as an employee. The housing deduction on the other hand applies only to amounts that are paid for with self-employment earnings. If you are a self-employed individual, you don't take the housing exclusion instead you would be taking the foreign housing deduction. And when we talk about housing costs or housing expenses, we're talking about reasonable expenses that you actually paid or incurred for your housing in a foreign country. So that would include things like rent, any utilities that you had to pay there, renter's insurance, your own home, homeowner's insurance, and residential parking costs. Housing expenses do not include the principal amount of mortgage payments, home improvements, the cost of cable television, or the cost of purchasing furniture or appliances and furnishings for your residence in a foreign country. And in order to claim the housing exclusion or the housing deduction, there are certain requirements. To claim the foreign-earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, there are certain requirements.

you need to meet. First of all, you have to have foreign-earned income. That's the most basic requirement. It's a foreign-earned income exclusion, you would've had to have had foreign-earned income. Your tax home has to be in a foreign country. You have to meet either the bona fide residence or the physical presence test. And you have to make a valid election. OK, so this might be a good time for our first polling question for those of you who are taking this course for continuing professional education. SAUCERMAN: Absolutely. So, our first poll which of the following is a requirement for an individual to claim the FEIE? And that stands for foreign-earned income exclusion. Please take a minute, click in the radio button that closely answers this question. So based on what Bethany has been saying, do you think the correct is A, the individual must pay foreign taxes on income earned outside the United States; B, the individual must meet either the bona fide residence test or the physical presence test; C, the individual must be in a foreign country for at least six months during the year; or D, the individual must travel to the United States during the tax year. Give you a couple more seconds to make your selection. Which of the following is a requirement for the individual to claim the foreign-earned income exclusion? OK.

We're going to stop the polling now. And we will share the correct answer on the next slide.

And the correct response is B, individual must meet either the bona fide residence test or the physical presence test. I see that 86 of you 86 percent of you responded correctly. TI OK, Bethany, back to you to cover what is foreign-earned income. KRAUSE: Thank you, Sherry. OK. What is foreign-earned income? It's the income that you receive for services in a foreign country. So that's the key, it's where you were when the services were performed. Foreign-earned income is earned in the year you actually performed the services regardless of when you received the income. So, if you performed services in a foreign country and you receive income for that at a later date, the question is, what is which services is that income tying it to? It's tying to the income earned in the foreign country, the services you provided there, then it would be foreign-earned. It's also important to note you can receive the income anywhere you leave the foreign country and come back to the U.S. and your last few checks are arriving to you while you're here, but you earned it while you were there. So as long as you were in a foreign country when you performed the services that gave rise to the income, that is the key. So, let's just say, for example, that you worked in a foreign country for a number of years as a bona fide resident there. You'd been there for quite a long time qualifying for the foreign-earned income exclusion each year, so you meet all the requirements. In December of 2017, you were done with this foreign assignment. And in 2018, you got a bonus for the work that you had done back in 2017.

Let's say it took your company a while to figure out their books and decide what all the bonuses for the prior year would be. And now, let's say in March or something, you opened up and got this nice bonus. And it was for the work that you did before in the foreign country. You can exclude that bonus from your 2018 federal income tax return to the extent that you were between what you already excluded for 2017 and the threshold amount for 2017, which was \$102,100. That was the maximum foreign-earned income exclusion in 2017. So, if you earned 100,000 that year and you opened your mail in March and got a check for a \$5,000 bonus, then remember, you would have excluded a hundred for 2017, you still got 2100 left. That bonus would be eligible for exclusion on your 2018 return because that's the year you received it in, but you're excluding it because you made it in 2017. You actually earned it in 2017, so you would not fill out a Form 2555 per se for that year, but you would put down on Line 21 that this was additional income received in 2018 excluded under 2017. So you would make a statement on your return to that effect. OK. And moving on to the next slide, if you're an employee let's talk about what foreign-earned income is. An employee, examples of foreign-earned income for an employee would include wages, salaries, commissions, bonuses like I just talked about, tips, allowances, reimbursements, employer might give you. Sometimes they do that, they reimburse you for some of the cost of living. Overseas differentials, education allowances, and other allowances and reimbursements also include severance pay, sick leave pay, and vacation pay provided that that pay is allocable to your services rendered in the foreign country. And it goes without saying that an employee going to exclude under the foreign-earned income exclusion would first have to have been reported to us as wages. You have to report it as income first in order to take it back off. That's obvious to most of us, but I just want to point it out to clarify that. Foreign-earned income can also include non-cash items such as the fair market value of lodging. Perhaps if you live in an apartment in a foreign country, the use of a car, employer-provided meals, but only to the extent again that you included that in and reported it as income. If you're self-employed, foreign-earned income would include professional fees for personal services that you rendered while you were in a foreign country. If you're engaged in a trade or business there, capital is a material income-producing factor in that business, then a reasonable allowance as compensation for personal services that you actually rendered while in that country is what you would consider foreign-earned income, but this cannot exceed 30 percent of the net profits of the business. And I guess a real simple way for you to know if your capital is a material income-producing factor, the way I like to think of it is, if you're selling items, that means you probably have an inventory or cost of goods sold or some machinery to convert those items into a marketable good, that would be where capital is a material investment. If, on the other hand, your business is a service business, then you don't have to worry about this consideration of it being capital being a material income-producing factor. So, what is not foreign-earned income? We've talked about what is, how about what is not? Income paid by the United States or any of its agencies to a government employee or a member of U.S. Armed Forces is not considered foreign-earned income nor is income earned in U.S. territories, because we don't consider those foreign countries or in places that are not under the sovereignty of any government such as Antarctica or international waters or international waters again, because they're not foreign countries. Listed here are some other examples of things that do not constitute foreign-earned income. And first on the list here you see is pensions, annuities, or Social Security benefits that you receive are not foreign-earned income even if the services that gave rise to that pension or that Social Security benefit or annuity, even if they had been performed in the past in a foreign country. That does not qualify as foreign-earned income, a pension, an annuity, or a Social Security benefit. Another item that is not included in foreign-earned income would be the value of meals and lodging that your employer provides for your convenience. And, again, usually if it's meals or lodging that the employer is providing for your convenience, the employer is not including that in your salary nor are you, and therefore it would not be excludable. Any payment that you receive after the end of the tax year, in the tax year in which you earned it is not excludable.

So, a couple minutes ago I had an example about getting a bonus in 2018 for work you did in 2017. Well, if it took them a really long time to balance the books and you didn't get it until 2019, which I doubt would happen, but if it did, unfortunately, then you would not be able to exclude it because you earned it in '17 and if it takes longer than 2018 and you're into 2019, back to the year before, the year before. So that's the rules around that.

OK. Moving to the next slide to claim a foreign-earned income exclusion. I told you that there were a number of requirements. First one, as we just discussed, is you have to have foreign-earned income. The second one is you have to have a foreign tax home. Your tax home is the general area of your main place of business or employment. So, it's a place where you're permanently working as an employee or a self-employed individual. Having a tax home in a given location doesn't necessarily mean that that's your residence or domicile, I just want to be clear, too. We don't want to confuse those concepts. Here where we're talking about tax home, we're talking about your main place of business or employment. If you don't have a place of business, maybe because of the nature of your work, you don't have that, then your tax home would be where you regularly live. And I realize there are some individuals who are regular or main place of business, nor do they have excuse me, a place where you regularly live. So those people are considered itinerant and, in that case, your tax home is where you are working at the moment. You're also not considered to have a tax home in a foreign country for any period in which your abode is in the U.S. unless for tax years beginning after 2017, you were serving in support of the Armed Forces of the United States in an area designated by Executive Order as a combat zone.

Again, that only applies to tax years after December 31st of 2017 and it only applies to people serving in the Armed Forces in a combat zone. I also want to mention, and the code says to point that your abode is not necessarily in the United States when you're just here temporarily or because you're maintaining a dwelling here. So those factors do not necessarily mean your abode is in the United States. They are factors that do get considered in the concept of abode, but by themselves alone, they don't necessarily mean your abode is in the U.S.

And we're going to talk a little more about abode in a few minutes. SAUCERMAN: Bethany?

KRAUSE: Also, you can have only one tax home at any given time. OK. SAUCERMAN: Bethany?

KRAUSE: Going into a little bit more detail on abode. It's a subjective term and it's been defined by the courts as where your economic, familial, and personal ties are the strongest.

Economic ties what do we mean by that? Well, the location of bank accounts, locations of any property that you might own. In some situations, the courts have looked to whether you incurred excess or duplicate housing costs in the foreign country, meaning if they were paying for housing in the foreign country, then the courts weigh that as a factor in your favor.

OK. Another consideration is familial ties. Where is your family? What is your cultural background? So where do your immediate family members live, your spouse, your children, your parents? And do any of them live with you in the foreign country? And who do you visit or stay with when you're not working in the foreign country, if you come back here for a visit?

What is your cultural background? Is it the same as that of the foreign country or were you born and raised in the United States? And, again, these are just all factors that are considered in determining where one's abode is. Another consideration is your personal ties. Where are you registered to vote, in which jurisdiction do you have a driver's license? Do you go to church? Do you do that? In which country do you participate in social activities? What

organizations are you active in? And where are those located? Do you speak the language of the country that you're in? And have you kind of assimilated into their culture? Have you adopted the culture of that foreign country in which you're living and working? And, again, I want to emphasize these are all considerations. Tax home is a very subjective test, so it's based on facts and circumstances. In addition to the tax home test, there are also a couple of other tests that we look at. And I will let Tracy talk now about the bona fide residence and the physical presence test. Tracy? MCPHEE: Thank you, Bethany. OK. Next, I'm going to talk about the bona fide residence test. You meet the bona fide residence test if you're a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year, which for most individuals is a calendar year that means that is January 1st through December 31st. Once you are a bona fide resident of a particular country for an uninterrupted period that includes an entire tax year, then you are considered a bona fide resident of that country for that period beginning on the date you actually started residing in that country. Now, it's important to realize that you do not automatically acquire bona fide residence merely by living in a foreign country for one year. So, if you go to a foreign country to work on a particular job for a specified period of time, you ordinarily would not be considered to be regarded as a bona fide resident even though you worked there for one tax year or longer. So, for example, you have an 18-month assignment and you go to work on that foreign country for 18 months. Just simply being in a foreign country for 18 months on that limited term assignment does not mean that you're a bona fide resident of that country. There's more factors that are considered in determining bona fide resident status. The length of the of your stay and the nature of your job are only two of the factors that are considered in determining whether you need the bona fide residence test.

OK, audience, our second polling question is an individual moved to a foreign country in November of 2017 and had to leave in July of 2018 because the employer went out of business that qualifies for a waiver? So, please take a minute, click on the radio button that you believe most closely answers this question based on the information that Tracy just think that the correct answer is yes, it does qualify for a waiver or no, it does not qualify for a waiver? And remember, if you're not getting the pop-up box, you can always use the feature to submit your response to the polling question. Don't forget to hit, submit, if you're using the, ask question, box. OK. The question is an individual moved to the foreign country in 2017, had to leave in July of 2018 because the employer went out of business. Does this situation qualify for a waiver? If you think it does, click on A. If you think it does not, select another couple of seconds without me talking. OK. We're going to stop the polling question now. And we'll share the correct answer on the next slide. And the correct answer is B, it does not qualify for a waiver. OK. I see that 70 percent of you responded correctly, not so little but low. Tracy, can you expand on the question a little bit? MCPHEE: Certainly, Sherry, I'll be happy to have missed what I said, but basically, in order to waive the minimum time requirements which is one tax year for people claiming bona fide residency status, they have to have been present in another country for a period that covers an entire tax year or the 330-day requirement in a 12 consecutive month period for the physical presence test. You must waive those time requirements where you don't have to; you can have less time than the amount specified, you have to have left the foreign country because of war, civil unrest or other conditions. And simply having your employer close up operations in a foreign country is not considered a similar adverse condition to war or civil unrest that would cause you to qualify. Each year, remember, the IRS publishes a list of countries and the dates that qualify for the waiver in the Internal Revenue Bulletin and only if you're in the country that you are claiming on that list can you actually possibly qualify for the waiver. So, hopefully that helps clarify things a little more. SAUCERMAN: Go back and then you can finish up, yes. MCPHEE: Yes, I'll say a little bit more about the waiver so it does seem to cause some confusion. Another condition for claiming a waiver is that to qualify for the waiver, you must be able to show that you were in the foreign country and that you reasonably could have been expected to meet minimum time requirements on the physical presence test or the bona fide residence test except for the fact that you had to leave the country. You must actually have had a tax home in the country and be a bona fide resident or physically present in the foreign country on or before the beginning date specified in the bulletin. If you established residency or physically present in the foreign country after the date that the waiver is slated to begin, you're not going to be eligible for claiming a waiver, the minimum time requirement, you submit a statement with your tax return explaining that you expected to meet the applicable time requirement but that the circumstances of the foreign country prevented you from the normal conduct of business and you write the words, "claiming waiver," in the top margin on page one of either the Form 2555 or 2555-EZ that you file with that return. And now, moving on. So, we've talked about waivers, now, how do you actually claim a foreign-earned income exclusion? Well, first of all, you must file a tax return claiming a foreign-earned income exclusion. This is true even if your foreign earnings are below the foreign-earned income exclusion threshold; you still have to file your U.S. income tax return claiming a foreign-earned income exclusion, you attach either a Form 2555 or Form 2555-EZ to your U.S. income tax return to claim the exclusion. Now, Sherry, I know that we just finished discussing the question, but I think it's time to stop here again for our next polling question. SAUCERMAN: OK. That's fine with me, Tracy. Let's see how you've been paying attention. OK, audience, our third polling question is a true/false question. An individual must file a return even if there's no tax liability after claiming the foreign-earned income exclusion. Please take a minute, click on the radio button you believe most closely answers this question. So, based on what Tracy has been telling you, do you think that statement is true, if so, click A or false. If you think it's false, click B. Of course, the statement is an individual must file a return even if there's no tax liability after claiming foreign-earned income exclusion. Don't forget, if you're not getting these pop-up boxes, you can put your answer in the, ask question, box. A for true; B for false or you can type in true or false. All right. I'll give you just another couple of seconds to make your selection and then we're going to stop the polling now and share the correct answer on the next slide. And the correct response is A, that statement is true. So, let's see how you all did. Oh, that's excellent. We got that correct. Wonderful. OK, Tracy, back to you. MCPHEE: Great job, everyone. OK. Let's go on and continue our discussion of how you elect to take the foreign-earned income exclusion election to exclude foreign-earned income and the election to exclude the cost of foreign housing as separate elections. You make one or both elections by attaching a Form 2555 to your tax return for the first year for which it's effective. On the Form 2555, be sure to provide the Social Security number of the individual who's making the election. Once you choose to exclude foreign-earned income, your choice remains in effect for that year and for all later years unless you revoke it. Also, please keep in mind that once you choose to exclude foreign-earned income, you cannot take a foreign tax credit or deduction for taxes on income that you can exclude under the foreign-earned income exclusion. If you do take a credit or deduction for any of the taxes on the subsequent year, your election for the foreign-earned income exclusion will be revoked beginning with that year and you will not be allowed to claim the foreign-earned income exclusion for the next five years. The timing of the foreign-earned income exclusion is that you have to make your initial choice of the exclusion on Form 2555 or Form 2555-EZ and you have to make that choice when you file your return including any extension, a return amending a timely filed return, or a late filed return filed within one year from the original due date of the tax return which is determined to be the filing deadline. Now, since today is June 6, here's a timely reminder. Most taxpayers in the United States are required to file their tax returns with the IRS by April 15. However, if you work in a foreign country, you are granted an automatic two-month deadline extension to file your U.S. income tax return. This means that U.S. citizens and resident aliens who reside abroad until June 17, 2019, to file your 2018 U.S. individual income tax return which is the Form 1040. If you live abroad and can't meet the June 17 deadline, you can still get more time to file but you need to ask for it. This is done by filing an extension request which is Form 4868 and this can be filed either on paper or electronically, but you have to do it by June 17. Filing Form 4868 will not extend the time you have to pay any tax due, but will give you an extension until October 15, 2019 to file your return. There's a limit to the amount of foreign-earned income an individual is allowed to exclude. Now, Bethany already mentioned earlier, but I want to remind you again that the maximum foreign-earned income exclusion is adjusted annually for inflation and for 2018, the maximum exclusion has increased to \$103,900. You cannot exclude more than the lesser of the maximum exclusion or your foreign-earned income.

amount of \$103,900 or your foreign-earned income for 2018 minus your foreign housing exclusion amount. If your qualifying period is less than a year, the limitation amount has to be that, you take the number of qualifying days in the tax year and divide that by the total number of days in the year and multiply it by the exclusion amount for that year which as I mentioned is \$103,900. Choosing to exclude foreign-earned income and/or your foreign housing cost affects credits and deductions for which you may otherwise be eligible. For example, your foreign tax credit or deduction for taxes that are allocable on excluded income. So, if you have \$100,000 in foreign-earned income and you paid \$10,000 in foreign tax on that income excluding the whole \$100,000, you cannot take a foreign tax credit or deduction for that \$10,000 in foreign tax that you paid because you're excluding the income associated with it.

If you do take a credit or deduction for any of those taxes in a subsequent year, as I mentioned previously, your election for the foreign-earned income exclusion will be revoked for that year. In addition to the restrictions on taking a foreign tax credit or deduction allocable to excluded income, you are also not eligible to claim certain other credits such as the earned income credit and the additional child tax credit when taking the foreign-earned income exclusion. And in addition, you must add back the excluded foreign-earned income exclusion amount when computing your modified adjusted gross income for some tax purposes. The exclusion amount is figured in Part A of the Form 2555 and then it gets carried to line 21 of Schedule 1 of Form 1040. For the year 2018, because as of 2018, the 1040 was revised and there's no longer a Form 1040-EZ or 1040-A and some of the lines where that you and schedules where you reported it may have changed. So, take a good look at the current year version of the 1040 when completing it; there's additional forms and schedule and some things may have moved around. Foreign-earned income exclusion is recorded on line 21 of Schedule 1 of the 2018 Form 1040 and it's subject to the limitations we discussed earlier, which, again, is the lesser of the maximum foreign-earned income exclusion amount for the year or the amount of your foreign-earned income minus your foreign housing cost. Now, you must also subtract deductions that are allocable to excluded income to arrive at your foreign-earned income exclusion. The result is the amount that should be entered on line 21 of Schedule 1 of the Form 1040. And when you enter that on Schedule 1, you need to notate on that line Form 2555. So, what if you had foreign-earned income from both wages and self-employment? In that case, the income you exclude is deemed to include a pro rata amount of both your wage income and your income from self-employment. So, the foreign-earned income exclusion must be a pro rata portion of the deductible expenses attributable to your self-employment income as well as any foreign housing exclusion you may have claimed if during the year you were also self-employed. Let's talk a little bit more about if you're a self-employed individual. So, if you're a self-employed individual and you're qualified, you can deduct the lesser of your foreign housing cost or your foreign-earned income. So you will need to look at the instructions of Form 2555 or your foreign-earned income minus the foreign-earned income exclusion you're claiming, minus any foreign housing exclusion you're claiming if, for example, you were also an employee with foreign-earned income for the year. So, let's give you an example. Let's say you pay \$20,000 in housing cost. Your housing cost is \$20,000 minus the base amount which for 2018 is \$16,624 and the Form 2555 provides this number for each year and also, it's included in the instructions, so you will always be able to find information if you have the instructions in the form. So, \$20,000 is your housing cost minus the base amount of \$16,624, that equals \$3,376. This \$3,376 is well below the \$31,107 limit for individuals living in areas that are not listed in the Form 2555 instructions as high cost housing areas. So, you would be allowed to deduct the lesser of \$3,376 of your foreign-earned income minus your foreign-earned income exclusion if any. So, in figuring this, your housing amount is less so in this case it's the lesser of \$3,376 which is your foreign housing cost minus your foreign-earned income minus your foreign-earned income exclusion if any and that would be your deduction for foreign housing cost.

Any part of your housing cost deduction that is not allowed because of this limitation may be carried forward to the subsequent year. This carryover is limited to the subsequent year.

So, if you don't use it, it's going to be lost after the next year. Calculating the foreign housing deduction and foreign housing exclusion are a little beyond the scope of what we can cover in this presentation, however, we do have a couple of practice units which are available on [irs.gov](https://www.irs.gov) that address these topics in detail. We have a link and a citation as far as that goes. The link would be for these as well as other units that we have and material we have on the topic relating to the foreign-earned income exclusion that will be provided in a slide at the end of the presentation. Next, Bethany is going to talk to you about how a sole proprietor computes for foreign-earned income exclusion. Bethany? KRAUSE: Thank you, Tracy. OK. There are a number of things that a self-employed individual has to know upfront in order to calculate the foreign-earned income exclusion. The first of these is your foreign-earned gross receipts. You need to know your gross receipts for foreign-earned income, the amount of expenses definitely related to the foreign-earned gross receipts, that's the second thing you would need to know. And then you would need to know the deduction for one half of self-employment tax. Our focus today is going to be on the sole proprietor of a service business. And for those of you who might be in an area where capital is a material income-producing factor, we do have a practice unit available on [irs.gov](https://www.irs.gov) that goes into a lot greater depth on that and gives you the details that you may need. The foreign-earned income exclusion for a person in a business where capital is a material income-producing factor. And Tracy is going to mention those at the end of this session. So, let's talk further about how to compute the foreign-earned income exclusion for a sole proprietor of a service business. OK, for purposes of this example and just to keep things very simple, let's say that the Schedule C gross receipts for this particular sole proprietor are \$150,000. And their expenses for that are \$50,000 and, in this case, we're keeping it very simple, they ran a business in the foreign country all year. So, all of their income and expenses for that business were in the foreign country. They earned all the money there and they, all the expenses relate to that money. For a Schedule C net profit of \$100,000, you can see here they've got the \$150,000 receipts minus the \$50,000 they incurred in expenses that were related to that and their Schedule C net profit is \$100,000. So, this is important to understand. They're going to precompute their Schedule C exactly as they would have if they were operating a business here. They're going to put all their gross receipts on there. They're going to put all expenses on there and then they'll have their Schedule C net income of \$100,000. Then we would go to the Schedule SE and, of course, we don't have the time or the space here to walk you through all of these steps. So, we've computed it for you and did the computations off screen. The employment tax comes to \$14,130, the self-employment tax so the deduction for half of that would be \$7,065. Again, on the Schedule C net income and then taking the deduction for half of that self-employment tax. Now, as I mentioned earlier, when calculating the exclusion amount, you have to take deductions allocable to the excluded income. So, in this case, there were \$50,000 of Schedule C business expenses and a \$7,065 deduction for half of self-employment tax. So, the total amount of expenses allocable to the excluded income is \$57,065. That's the amount of expenses allocable to the \$103,900 of excluded income and that amount goes to line 21 of Form 2555, OK? And that reduces that \$103,900. So, now that we have all the necessary amounts, let's calculate the foreign-earned income exclusion for this sole proprietor. OK. So, the amount of foreign-earned income eligible for exclusion is the lesser of foreign-earned income which in this case is the Schedule C gross receipts of \$150,000 or the maximum amount for the year which for 2018 is \$103,900.

That's a different piece so I don't want to confuse you here but we're talking about the first piece which is the standard foreign-earned income exclusion. OK. So, in this example, the amount of foreign-earned income eligible for exclusion is the lesser of foreign-earned income which in this case is the Schedule C gross receipts of \$150,000 or the maximum amount for the year which for 2018 is \$103,900. So, I want to make this really clear, this sole proprietor doesn't complete a Schedule C and then say OK, my gross receipts are \$150,000 and I'm going to exclude that because it's less than \$103,900. No. That \$103,900 in this case was a self-employed individual comes off the top, it comes out of the gross receipts. So, the \$150,000 of gross receipts, what we consider it to be excluded from. Then, that \$103,900 gets reduced by the portion of expenses allocable to the excluded income and that's where you see this formula kind of at the bottom of the running across the slide there, the bottom of the slide where we're multiplying the \$57,065 of expenses, actually, \$50,000 and the \$7,065, we added them together, \$57,065 multiplied that by the ratio of excluded income which \$103,900 over total Schedule C gross receipts which is \$150,000. And when we do the math there, it gives us \$39,527. That's the amount of expenses that are allocable to the \$103,900 of excluded income. So, now that we have all the necessary amounts, let's calculate the foreign-earned income exclusion for this sole proprietor. OK. So, the amount of foreign-earned income eligible for exclusion is the lesser of foreign-earned income which in this case is the Schedule C gross receipts of \$150,000 or the maximum amount for the year which for 2018 is \$103,900.

So, we put on line 42 of the 2555 \$103,900. Then on line 44, that's where we're going to subtract the expenses that are allocable to that \$103,900 in excluded income. And we calculated that on the previous slide and as I mentioned, it's \$39,527. And so, the result after we subtract that is \$64,373. And that is what would be going on line 21 of Schedule 1 with the notation Form 2555. Of course, this person wasn't taking any housing deduction.

You file jointly but you have two separate forms 2555 or 2555-EZ. And depending on the circumstances, it could be that one spouse qualifies and one doesn't, in that case, there would be two 2555 or 2555-EZ. There could also be a situation where one spouse chooses to do a 2555 and the other one chooses to do a 2555-EZ or they both did the EZ form or they both did the 2555 form. And that reminds me, I did see a question come in earlier. Somebody was talking about doing away with the EZ, that would be the 1040-EZ that you can use with the 2555-EZ. That one is still in existence. Sherry, I think this might be a good time for our final polling question. SAUCERMAN: OK. Thanks, Bethany. That's an excellent question. So, if both spouses work abroad and each spouse meets all of the requirements, together they can exclude as much as \$207,800. Is that statement true or is it false? Take a minute, click on the radio button that you believe most closely answers this question based on the information that Bethany just shared is the statement that A, true or B, false if both spouses work abroad and each spouse meets all of the requirements, together they can exclude as much as \$207,800. Your answer is whether it's true or false. Remember, if you don't get the pop-up box, put your answer in the, ask question, button and hit, submit. Giving you a couple of minutes to finalize your answers, don't forget to submit them. And we are going to stop the polling question now and we will share the answer on the next slide. And the correct response to the question is true. So, I see 86 percent of you answered the question correctly. That's pretty good. So, Tracy, I'll turn it back over to you to talk about how to decide which form to file. MCPHEE: Thank you, Sherry.

OK. So, we've talked about the requirements that you have to meet in order to claim the foreign-earned income exclusion and we talked a little bit about how to figure that amount.

Next, we're going to talk about what form you need to file. So, in order to use the EZ version of the form, you have to meet certain requirements and the first is that you have to be a U.S. citizen or resident alien.

The next is that your wage or salary was earned in a foreign country and that your total foreign-earned income was less than the maximum exclusion amount for the year which is \$103,900. And you must have reported your total foreign-earned income on line 1 of your 2018 Form 1040. In addition, there are some other requirements. You must also file a return for a 12-month period, not have any self-employment income, have no business or moving expenses, not claim a foreign housing exclusion or deduction and not have any foreign tax credit or deduction carryover from the prior year. If you meet these requirements, you can use the 2555-EZ version of the form instead of the 2555. If you do not meet the requirements, you must complete a Form 2555 instead. The Form 2555-EZ has four parts and is two pages long while the Form 2555 which is the longer version has nine parts and is three pages long. The Form 2555-EZ are listed here on this slide. Part one will ask you if you meet the various tests. As we discussed earlier, you must meet either the bona fide residence or the physical presence test. You must also meet the tax home test meaning that your tax home is in a foreign country and you do not have a U.S. abode during that year. Part two of the form asks for general information about you and your family. Part three asks you to list any of the days you were present in the United States during the year and of those days, how many you were in the U.S. on business and how much income you had from that business. And finally, part four of the form helps you compute the amount of your foreign-earned income that you're eligible to exclude. So, let's look at the Form 2555 which provides more detail and more information about how you meet the bona fide residence test or the physical presence test and also provides information about how to figure the amount of your allowable housing exclusion or deduction. Part one of the Form 2555 will ask again for general information such as your name, address, and filing status.

address, your occupation, the name of your employer, your employer's address and whether your employer is a foreign or U.S. entity or if you're self-employed. If this is the first Form 2555-EZ you've filed and if not, when you first filed the form and whether you ever revoked your foreign-earned income exclusion election and if so, when. We also ask about which country you're national of and the location of your tax homes during the year and the day or date they were established. Now, the Form 2555 and the 2555-EZ are both available for you to access. You can find them on the IRS website. If you claim the exclusion under the bona fide residence test, you could claim two, four and five of the Form 2555. Part two of the form asks more specific questions about the bona fide residence test. When you fill out part two, be sure to give your visa type and your bona fide residence. Part two will ask for the dates the period of your bona fide residence when it began and ended and will ask about whether your family lived with you and period. Also, it asks whether you ever submitted a statement of non-residency to the foreign country and whether you were required to pay any income tax to the foreign country.

It also asks whether you were present in the United States during the year and if so, on what days. It also asks about any terms in your employment contract that would indicate how to work in the foreign country, what type of visa you have there and how long it's good for and whether you maintained a home in the United States and if so, who lived in it during the year. If you claim the foreign-earned income exclusion by meeting the physical presence test in addition to the other requirements, you should fill out part one, three, four and five of the Form 2555. The three of the form asks more detailed questions about the physical presence test. So, when filling out part three, be sure to insert the beginning and ending dates of your 12-month period. Remember, those can begin or end in the year before or after depending on when you start your 12-month period. It doesn't have to be a calendar year. It also asks about the date and departures as requested in the travel schedule in this section.

If you're claiming a foreign housing exclusion or deduction, you fill out part six of the Form 2555. And you can refer to the instructions for the amount of your housing expenses you can claim and they can claim, not complain and they will provide a lot more information about those housing expenses. If you're claiming the foreign-earned income exclusion, you have to fill out the form. If you're claiming the foreign-earned income exclusion, the foreign housing exclusion or both, then you will also complete part eight of the Form 2555. You will fill out part eight of the form because the foreign housing deduction is only available to individuals who are self-employed or have self-employment income. If you and your spouse live apart and maintain separate homes, you may be able to claim the foreign housing exclusion or the foreign housing deduction so long as you and your spouse have different tax homes that are not within a reasonable commuting distance of each other and neither spouse's residence is within reasonable commuting distance of the other spouse's tax home. Each spouse claiming a housing exclusion must figure separate housing amount that is attributable to employer provided amount based on his or her separate foreign-earned income.

If you claim the foreign-earned income exclusion, the housing exclusion or both, you must figure the tax on your non-excluded income using the tax rates that would have applied if you claimed the exclusion. See the instructions for Form 1040 and complete the foreign-earned income tax worksheet to figure the amount of your income tax to enter on the Form 1040 line 4.

For those of you that must attach Form 6251, alternative minimum tax for individuals to your return use the foreign-earned income tax worksheet provided in the instructions for the form. We've mentioned earlier, the foreign-earned income exclusion is claimed on a Form 2555 or Form 2555-EZ. These forms are available to be downloaded at [irs.gov](https://www.irs.gov) or if you prefer, electronically at the website shown here on this slide. Let's talk about some other resources that we have available for you. Listed here on this slide are a few resources that you may find useful. One of these is publication 54, which I mentioned earlier, which is the Tax Guide for U.S. citizens and Resident Aliens Abroad. We also have web pages about the foreign-earned income exclusion available on [irs.gov](https://www.irs.gov) at the web addresses listed here. And we've also included a couple of taxpayer assistance numbers, one for taxpayers inside the United States which is toll-free for individuals who are outside the United States which unfortunately is not a toll free number. There are a number of practice units and we talked about these throughout our presentation. The foreign-earned income exclusion. You can find them at the web addresses listed on this slide. Included in the types of materials that we have available for you that more fully explain the items we talked about today are a practice unit on the concept of the tax home for purposes of the foreign-earned income exclusion.

We also have materials on the physical presence test and the bona fide residence test as well as several units on how to compute the foreign-earned income exclusion, one for if you're an employee; another, on the topic of computing the foreign-earned income exclusion if you're self-employed and one that talks about partners and partnerships and how to compute the foreign-earned income exclusion. We also have units available about making or revoking the election to exclude foreign-earned income and/or the cost of foreign housing and unit housing exclusion and the foreign housing deduction that go into more detail on how those would be computed. So, this concludes the presentation portion of today's webinar. Now we'll go back to Sherry for the question and answer session. Sherry?

SAUCERMAN: Great. Thank you, Tracy. Thank you, Tracy and Bethany and hello everybody. It's me again, Sherry Saucerman. I'm going to be moderating the question and answer session. Before we start our Q&A session, I do want to thank everyone for attending today's presentation on the foreign-earned income exclusion. Bethany and Tracy are staying on and they'll be answering your questions. But before we begin the Q&A session, I do want to mention that we might not have time to answer all the questions because there are a lot of questions in the chat.

But be assured we will answer as many as we are able to. Also, if you're participating to earn a certificate and the related continuing education credit, you will qualify for two CE credits by participating for at least 100 minutes from the official start time of the webinar, which was at the top of the first hour. So, when we were chatting before the beginning of the webinar, that time does not count. You start counting your time at the top of the hour, just chatting about the In Case You Missed It and why you came to see the webinar. That time does not count. You start counting your time at the top of the hour.

If you stay on for at least 50 minutes during the webinar presentations starting at the top of the hour, you will qualify for one credit. Again, not the time before the official start time of the webinar. That doesn't count toward the 50 minutes. OK, Bethany and Tracy, I hope you're ready because as I told the participants we got a lot of questions. Bethany, I'd like to start with you. What is the availability of the foreign-earned income exclusion? So, is the foreign-earned income exclusion available to a missionary, living in a foreign country and receiving income from his or her organization? KRAUSE: Thank you, Sherry. Yes, it could be, provided that they meet the qualification. And again, it's where the services are performed, so if the services are being performed in a foreign country then that is so, and I do want to distinguish between a short-term missionary and a long-term or a career missionary. If a person is only there for a brief stint, let's say over this summer, clearly, they did not have a change in their tax home, clearly their abode would still be in the United States and that individual would likely not qualify. I do not think they meet any of the tests.

On the other hand, if you contrast that with what is known as a career missionary, a person who sets out for foreign country typically early in life and they are there for decades, they generally would be very likely to meet the qualifications for bona fide residency. And I believe that I did see one of the questions in the text chat where the person said that they changed their visa every five years. And we understand there are some countries that it is nigh unto impossible for an American to receive a permanent resident visa from that country.

Bona fide residency as Tracy mentioned is determined by a number of factors. And, well, visa type maybe one of those factors, otherwise include the intent the duration of time the person is assimilating into the culture, learning the language. So as I said many of them would indeed qualify as bona fide residents and if they do could appear and they do periodically to visit their families up in the U.S. that they haven't seen for say five or six years in some cases, and so they come up here for several months to see family and take a break from work because many of them do work seven days a week, 365 days a year for years on end, so they will take a vacation now and then. And that vacation is not necessarily going to be either in their period of bona fide residency. Again, it's all relative to the amount of time. If you've been in a foreign country for 40 years and you're a bona fide resident there and you've never needed to come to the United States for three months to pursue some medical treatment and then you go back, that is a brief and temporary visit relative to the 40 years you've spent in a foreign country. That was your home. You were a bona fide resident for all those years. Contrasting that with an individual who is in a position where they just come to the U.S. every three or four months and they keep coming back to the U.S. every a couple of months to visit, regardless of what career path they're on that we really are probably not a bona fide resident at all, nor would they would meet a physical presence test in the foreign country. So, it's very fact and circumstances based. SAUCERMAN: Thank you.

Thank you very much. So, this person writes that they have a client, who they guide tours abroad. He lives in the U.S. but he goes on international tours as a tour guide. Would that qualify for the exclusion? KRAUSE: I do not believe that it would just base on those bare facts. It sounds to me, Sherry, as though his abode would be in the United States and that's where he would be because this tour guide, it sounds like his or her home is still in the U.S. and they do maybe go for six weeks at a time to take people around, show them around foreign countries and then come back here at their home base. So that would be a completely different scenario because they would not meet the abode test. SAUCERMAN: That'd be a pretty long tour to be in a foreign country for long enough to meet the tests, right?

KRAUSE: Exactly. Now, on the other hand if they permanently lived in a foreign country and they said goodbye to the United States and relocated there and love it there and they live there and take people on tours and they are still a U.S. person, then that would be a different story. So, again, it's relative to the facts and circumstances in each case.

SAUCERMAN: OK. Excellent. And what about a defense contractor, they are working in an eligible country, but they haven't met the physical presence test as of tax filing deadline without an extension. Since they'd meet the test by the end of August, would it be acceptable for them to file an extension and then file the return after the extension to, of the extension to claim the exclusion that once they can verify that yes, they have met that test? KRAUSE: Yes. And I do want to point out that whenever anyone files an extension, we are required to file the return by the end of April 15th to the best of our ability as to what we practically think they would be. So, it doesn't preclude us from timely paying our taxes, but we may not be able to prepare the return because we don't know our facts yet. So, in this example, it sounds like what you're saying is this person has to wait until some point in August in their particular situation. They go and they are waiting until the following August to have that 12-month period in which they can identify 330 days that they were in a foreign country or countries. And so, yes, in that case they could file an extension.

They could use the normal form for filing an extension or there is a special form for this purpose specifically and it is Form 2350. And that is the form that individuals used to file an extension. I don't know yet if I meet the test. I mean, I'm expecting to but everything can happen and I might not. So, they have two options, file and amend or extend. And again, one of the options is Form 2350. SAUCERMAN: OK. That's 2350, good to know. KRAUSE: Yes. SAUCERMAN: One more question along these lines and then I'll have a few for you Tracy. If a flight attendant, so they're working for a foreign airline and they meet the presence test. Is their wage considered foreign-earned income and qualifying them for the FEIE? KRAUSE:

good question. Thank you. And I did see some others like that because there's business people who come back and forth to the U.S. and sometimes they have a few days when t business meetings but the rest of the year they were overseas.

OK. First, of all, as far as the earnings, your earnings are going to either be foreign or U.S.

or neither, so in the case of this flight attendant, when you're over top of a foreign country that is you still have to pay tax on it as a U.S. person. You're taxed on your worldwide inc income you're making while you're over top of international waters that is not foreign income and for a flight attendant or anybody when we land in a foreign country, that first day c as Tracy pointed out as the first full day from midnight to midnight, so if you land in a foreign country at 12:02 in the morning, well, it doesn't count.

On the other hand, if you take off at 12:02, well, you were lucky that way because at least the prior they did count, so it's the full 24-hour days. As far as the income itself goes, the that do need to be made. So, in a situation where someone is in a foreign country some of the time and in the U.S. some of the time, they have to take the ratio of days worked in over total days worked for the year and then they allocate their income accordingly. So, they would if you made let's just make it real easy and say that a person, I mean, yes, I kn but let's say you make \$365,000 in a year and let's say that 300 of those days were in foreign countries, and that would be 300,000 that would be foreign-earned. And then, of cou other limitations in 2018, 103,900. But there has to be that allocation made. And also, likewise for things like sick pay. We have seen and been asked questions like that in the pas had a career as a flight attendant or something like that where part of their career was here and part of it was there and part of it was over international waters. Well, only the porti that was spent in foreign countries would be what gave rise to a portion of their sick pay, so if in a typical year, they always spent half the year or three quarters of the year, let's se countries and the remainder in the U.S. or international waters, then it would be three quarters or whatever the ratio is. I do also want to point out that in the case of someone like they are still always having to meet the very most basic thing which is, obviously first, what's your foreign-earned income but secondly, do you have a tax home in a foreign countr attendant and spend a lot of time overseas but if this is where my home base is and I keep coming back here then odds are I don't qualify at all, even though it's foreign-earned in able to exclude it. On the other hand, maybe I decide I like being in foreign countries. I stay there and that's my base. I'm based out of Paris or something. And maybe I do all my f of it in Europe. If that's the case and I don't go over the ocean as often, I guess I lucked out for the foreign-earned income exclusion.

So, again, I can't emphasize enough how it's really sitting down and looking at all the facts and circumstances. And while we're talking real briefly, Sherry, I do want to say I had nc questions that came in. Someone was asking about the definition of what's not foreign-earned income and maybe you have more in that and you want to ask that later, but I do we citations for that, someone in particular wondered about military. Well, military individuals cannot take, U.S. Armed Forces employees, are not able to take the foreign-earned inco that is because they are employed by the Federal Government. They work for the Department of Defense. That's an agency of the Federal Government. And so, their earnings as employee do not qualify for the foreign-earned income exclusion. Having said that, one could be a government employee and have a side job, maybe I work for the State Departm country and I drive something similar to an Uber at night. And I have my own little side business going. Well, then the Uber income could qualify if I meet all the other tests, but not are wages from the Federal Government. The cites for that is Internal Revenue Code 911(b), under there and paren capital B, under there you will see a list of what is not foreign- also, Treasury Regulation 1.911-3(b). Those are the cites that list what's not foreign-earned income and while I'm on the topic, someone was asking if the pension is being paid ou country, what about that? No, I'm sorry, pension income is passive income regardless of who is the payer, whether it's a foreign country or it could be a foreign Social Security type U.S. one. Someone else said, well, they don't always call it Social Security, regardless, if you're retired and you're getting income from your prior years of service, regardless of wf company or entity or a trust fund that's paying it or what have you. It is not foreign-earned income. SAUCERMAN: OK. And that citation was 1.911-3? KRAUSE: Treasury regulatic SAUCERMAN: (b). KRAUSE: And the revenue code that mirrors that is 911(b)(B). SAUCERMAN: OK. And that's also where what's excluded for it and also where more intentions excluded, the same citation, correct? KRAUSE: Yes. Whether it's U.S.

government wage, it's a listing of what is not included in foreign-earned income. SAUCERMAN: OK. OK... KRAUSE: And we also had a question about rental income. Oh, I'm sor SAUCERMAN: OK KRAUSE: Another question was rental income. That is passive income.

And it's never earned income regardless of whether you're in the U.S. or abroad, so, that's out.

If you have a residence in a foreign country or an apartment building there and you're renting it out, that is passive income and it's not earned income therefore it would not be exc foreign-earned income exclusion. SAUCERMAN: OK. Great. Let's ask let's let Tracy have a few questions next. So, Tracy, a lot of people are asking questions MCPHEE: Yes, Sh

SAUCERMAN: They are wanting to know if they should file two separate Forms 2555 when you have the same taxpayer. They worked for two separate employers in two separate the same tax year, would they need to file two Forms 2555? MCPHEE: Well, that's an excellent question and the answer is no. It's one Form 2555 per taxpayer who's eligible to cl earned income exclusion or deduct or elect to exclude foreign housing costs. So, for each tax year, you only complete one Form 2555 per qualifying individual. SAUCERMAN: OK married and both taxpayers were eligible for the exclusion, then you would file two Forms 2555 within each taxpayer's exclusion, correct? MCPHEE: That's absolutely correct, bec to exclude foreign-earned income or foreign housing costs is made by each individual taxpayer who meets the qualification, meaning that you have foreign-earned income.

You meet either the bona fide residence or physical presence test and you have a foreign tax home and do not have a U.S. abode unless you meet the exception for persons in su zone. So, each individual spouse would make that election for themselves and when completing the Form 2555, the individual who's making that election would report their own S number on that Form 2555. So, it's important that if it both you and your spouse are eligible to claim the foreign-earned income exclusion, that you attach a Form 2555 for yourself Social Security number and your spouse attaches a Form 2555 for themselves with their own Social Security number on it. And each would report your figured, foreign-earned inc separately. SAUCERMAN: OK. That's good to know. Now, when they're completing the 2555, they're receiving foreign income, so do they report the income or expenses in U.S. d country's currency? MCPHEE: The foreign-earned income needs to be reported in U.S. dollars and you're supposed to use the currency exchange rate available at the time you're income. SAUCERMAN: At the time and if it changes during the year you would have to take that into account or... MCPHEE: Yes, you would. SAUCERMAN: Oh, wow.

That would make it interesting. If you could clarify also, you did mention using the 2555-EZ, we got a few questions quite a few questions actually saying that they tell us that the F obsolete for the 2019 taxes, is that correct? MCPHEE: Actually, it is correct.

Yes, we know we spent some time talking about the 2555-EZ in this presentation and the 2555-EZ is still available for tax years 2018, but as of April 17th, 2019, the IRS has anno 2555-EZ no longer be available for tax years after 2018. So, I know we spent a little bit of time about it talking about it in this presentation, however, when preparing for these pres have our materials ready well in advance, so this was actually put together before that announcement was made. So, for 2018, you can use the 2555-EZ but 2019 forward as of t EZ will no longer be available. SAUCERMAN: . And, of course, it is still applicable at this time because people are still filing the 2018 tax return.

MCPHEE: That's correct. SAUCERMAN: OK. So, Bethany... MCPHEE: And if you're late filing a return at least you still have them for 2017 and back as well. SAUCERMAN: OK. \ Bethany, a few questions came in regarding that example you had about the bonus. So, in your example that you had with the bonus, does that position need to be disclosed on t some way? KRAUSE: I mentioned and I'm not sure if they typed that before I mentioned that, but it actually is typed on line 21 of Schedule 1. It goes where you would normally pu there is a little blank there where you can type something and that's where they would say it's 2017 foreign-earned income. SAUCERMAN: OK. And that line is for something that backing out. You don't need to enter it as a negative number?

KRAUSE: You do enter it as a negative number there and you do describe it. And sometimes there may not be room to describe it. Sometimes people attach a statement because some cases people have more than one thing that's going on that line and it could become more than they can fit in that space. But sometimes they attach a statement to the retur what's going on with that line. And pertaining to that, I see that someone made a comment about when we said that it's not considered foreign-earned income we mean for purpos earned income exclusion that's not foreign-earned income if and this was the comment this person was making was the scenario where they got it in the year after the year followi other words, they did the work in 2017 and they didn't get paid for, they didn't get that bonus until 2019. In that case, it's not eligible for the foreign-earned income exclusion. Now, pointing out if they paid foreign taxes on it for some reason, then they might be able to get a tax credit. And that's beyond the scope of this particular presentation but here, we're f foreign-earned income exclusion, not the foreign tax credit. So as far as the foreign-earned income exclusion goes and that is also someone had wondered where in the instructio year following the year. Well, the one that talks about, if you got a bonus in 2019 for 2017, in that kind of scenario that's covered by the revenue code that I gave you earlier and th regulation that I cited earlier that we made note of earlier during this Q&A session. But as far as where in the instructions, there is on page 19 of publication 54 is where they talk : that I gave previously earlier in the presentation about the person who worked abroad in 2017 in a foreign country and then got a bonus in 2018. That scenario is spelled out in pu page 19. SAUCERMAN: OK. Let's go back to you, Tracy. Got some questions regarding where people work and so on. So, let's say they're working remotely from the U.S. but the foreign country for the whole year, would that income qualify as foreign-earned income?

MCPHEE: No. The rule on determining the source of foreign income for services you're performing income for the work you're doing is where you're doing the work. So, if you're w United States even if you're working for an employer, foreign employer, the income you received for the services you're performing in the U.S. is U.S. sourced. In order for an inco considered foreign sourced, you have to actually be working and providing the services in the foreign country. SAUCERMAN: OK. So that if they were living in a foreign country ar remotely for U.S. country and that company was only based in the U.S., that would be considered foreign income? MCPHEE: Potentially. However, there are some rules, you have allowed to perform those services in the foreign country. So say for example I am a trader in securities and I'm registered with as a trader for securities in the United States and I'm investments remotely but I'm not permitted to be a trader in that foreign country, under that foreign country's regulations and rules, then I can't say that that income, even though I' investments remotely while in a foreign country because I'm not allowed to perform that work in that foreign country, then it would not be considered eligible for the foreign-earned

in that circumstance. Generally, it's not an issue about where your employer is located though, overall. The general rule is where you're performing the services determines where sourced, whether it's U.S. or foreign. SAUCERMAN: OK.

And I think that answers this... MCPHEE: Yes? SAUCERMAN: OK. I was going to say I think that pretty much answers this question. Do I qualify for the exclusion if I live in a foreign bona fide resident and I receive a W-2 from a U.S. company, you're saying yes because you are in the foreign country. You would be a qualified... MCPHEE: That's correct as long as correct as long as the income that you're earning is for working in the foreign country. If you come back to the United States for a business trip and you attend some meetings, the while in the U.S. on that business trip would be considered U.S.

income and not subject to, not eligible to be excluded. SAUCERMAN: OK. Because it's a U.S.

company or because you're in the United States? , because you're in the United States working.

So, again, the rule is... SAUCERMAN: What about... MCPHEE: not who your employer is but where you're working. SAUCERMAN: OK. Great. What about Puerto Rico? Is income from Puerto Rico treated as foreign income or is it considered or is it not? MCPHEE: It is not considered foreign-earned income for purposes of the foreign-earned income exclusion. It may be Puerto Rico-sourced income that may not be reportable on a United States tax return but that's kind of beyond the scope of this presentation. IRS publication 570 has information on income from U.S. territory. SAUCERMAN: OK. I am told it should I need to ask just I can only ask one more question. So, this is for you, Tracy. Can a taxpayer who qualifies for the foreign-earned income exclusion exclude less than the maximum allowed, thereby having income to qualify it for certain credits like the earned income credit? MCPHEE: The answer to that is you're eligible to take the foreign-earned income exclusion, you must take the full amount of the income that you're eligible to exclude up to the maximum limitation. So, you can't take it piecemeal or separate or only take a portion of your foreign-earned income exclusion if you are electing a foreign-earned income exclusion. You have to take up to the maximum amount going to be either the maximum exclusion amount or your foreign-earned income, whichever is higher. SAUCERMAN: OK. Well, thank you and thank you, all. That's all the time I have all the time we do have for questions today. And we did go a little over the 100 minutes. I want to thank all of you for staying on.

And I want to thank Bethany and Tracy for sharing all their knowledge and expertise through the presentation and for answering your questions. So, Tracy, before we do close the presentation would you like to tell the audience what your key points are? The things you want the attendees to remember from today's web conference. MCPHEE: Yes, thank you, Sherry. We discussed during today's presentation and you ask some excellent questions in the audience, but there are a few key takeaways we'd like you to keep in mind as you're thinking about the foreign income exclusion. And the first is that you must file a tax return in order to claim the foreign-earned income exclusion. And that's true even if your foreign earnings are below the foreign income exclusion threshold. Also, you're not considered to have a tax home in a foreign country for any period in which your abode is in the United States unless the tax years begin on or after December 31st, 2017, you were serving in support of the U.S. Armed Forces in a designated combat zone. And, since we're talking about abode, your abode is going to be the location where your economic, familial and personal ties are the strongest. So, when determining the location of your abodes, we're going to compare your ties in the U.S. and your ties to a foreign country. If you choose to exclude the foreign-earned income under IRC which is Internal Revenue Code section 911, you cannot take a foreign tax credit or deductions for taxes on income that are allocable to the excluded income. And our final takeaway for today is if you claim the foreign-earned income exclusion, the housing exclusion or both, you must figure the tax on the excluded income using the tax rates that would have applied had you not claimed those exclusions. And the worksheets used to figure that tax are shown in the form instructions for Form 2555. Sherry, that's all I have for the key points for today. Back to you. SAUCERMAN: OK. Thank you very much, Tracy. I want to let you all know that we are planning additional webinars in the near future, so to register for any upcoming IRS webinar, just visit [irs.gov](https://www.irs.gov) using the key word, webinars, and you can select either webinars for tax practitioners or webinars for small business on your interest. And, yes, we will be offering certificates and CE credits for other upcoming webinars. Want to let you know that this webinar is being recorded and it will be available on a video portal in the near future. You can also visit the IRS video portal, that is at [irs-videos](https://www.irs.gov/irs-videos), one word, dot gov. The URL is on the screen. The IRS video portal contains video and audio recordings of topics of interest to small businesses, individuals and tax professionals. You'll also find video clips of tax topics and archived versions of webinars such as this one. Again, a great presentation. Bethany and Tracy for a wonderful webinar and for sharing your expertise and answering our questions today. I also want to thank you, our attendees for attending today's webinar on the foreign earned income exclusion.

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