



PGA OF AMERICA—TAX BRIEFING FOR U.S. CITIZENS AND RESIDENT ALIENS WORKING ABROAD

2018

QUICK GUIDE TO U.S. TAX IMPLICATIONS FOR EMPLOYEES WORKING ABROAD

Working overseas offers an opportunity for business and personal growth. However, if you're considering working abroad, you need to be aware of the tax implications that apply to U.S. citizens and resident aliens. If you are a U.S. citizen or resident alien, the rules for filing income tax returns and paying estimated tax are generally the same whether you are in the United States or abroad. It is imperative that while working abroad, you stay compliant with your U.S. tax obligations. Your worldwide income is subject to U.S. income tax, regardless of where you reside.

By working with RSM firms throughout the world, we can ensure appropriate pre-assignment planning opportunities are implemented effectively to minimize the tax burden for expatriates. Our tax professionals across the globe work together on complex multijurisdictional issues to assist U.S. taxpayers abroad in planning for their specific U.S. and foreign tax issues. We want to ensure that employees are treated fairly and are clear about the implications of going on assignment.

Foreign earned income exclusion, foreign housing exclusion and foreign tax credits

Persons maintaining a tax home outside of the United States may be eligible to reduce U.S. taxable income by using the foreign earned income exclusion (FEIE) and foreign housing exclusion/deduction (FHE/FHD). In order to claim the FEIE and FHE, you must meet all three of the following requirements:

- 1) Your tax home must be in a foreign country.
- 2) You must have foreign-earned income.

3) You must be one of the following:

- a. A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes the entire tax year
- b. A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect, and who is a bona fide resident of a foreign country for an uninterrupted period that includes an entire year
- c. A U.S. citizen or a U.S. resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months

For the 2018 tax year, the FEIE allows up to \$104,100 U.S. dollars of foreign wages to be excluded from taxation in the United States.

The FHE is generally 30 percent of the maximum FEIE, and the limit on housing expenses varies depending upon the location of your house. The foreign housing deduction has the same limitations as the exclusion. Qualified housing expenses for the exclusion or deduction include rent, utilities (not including telephone charges or pay TV subscriptions), property insurance, nonrefundable fees paid to obtain a lease, rental of furniture, residential parking and household repairs.

While these provisions may allow significant tax benefits, it is important to remember that income earned abroad is frequently subject to foreign income taxes. Should any foreign income not be fully offset by the FEIE and FHE/FHD, the foreign tax paid on it may be used as a deduction or credit on the U.S. tax return to reduce U.S. federal income tax liability.

Compensation

Compensation is sourced between U.S. and non-U.S. workdays in order to determine the amount of income eligible for the exclusions or foreign tax credit. Allowances (i.e. housing, education benefits, auto, home leave, etc.) and other benefits paid by the employer should be included in your taxable compensation.

U.S. Social Security and Medicare

If your U.S. employer sends you on foreign assignment, you may be eligible to continue to contribute to U.S. Social Security and Medicare and be exempted from the social taxes of the foreign country. Your U.S. employer can apply through the U.S. Social Security Administration to obtain a U.S. Certificate of Coverage.

FBAR and Form 8938

The Department of the Treasury requires that every U.S. citizen or resident alien with an interest in or signature authority over foreign bank accounts, securities or other financial accounts that exceed \$10,000 U.S. dollars in aggregate value at any time during the calendar year, report such accounts or securities using a specific form. For more information and to file online, please use the following website: <https://bsaefiling.fincen.treas.gov/main.html>.

Additional reporting of specified foreign financial assets may be required as part of the individual's tax return by attaching Form 8938, Statement of Specified Foreign Financial Assets. Form 8938 applies to certain individuals holding an interest in specified foreign financial asset(s) over the applicable Form 8938 reporting threshold for the underlying tax year.

State taxes

Most U.S. states base an individual's residency on the concept of domicile. Domicile is the place which an individual intends to be his permanent home and intends to return to after a period of absence. Most states do not recognize foreign assignments as breaking domicile unless the individual can prove that they have the right to permanently remain and live in that country. States can retain the right to tax an individual on their income earned while on a foreign assignment.

Tax deadlines for expats

Just like most taxpayers in the United States are required to file U.S. tax returns and pay any taxes due by April 15, expats living and working in another country as a U.S. citizen are also required to file. However, if you're living abroad, you are allowed an automatic two-month extension to file your return.

Note: If income tax is due, interest will start accruing if not paid by April 15.

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