IRS Tax Seminar
For U.S. Citizens Residing Abroad

Welcome

This seminar will cover:

- Resources—How to get forms and tax information
- Filing Requirements
- Foreign Issues
- Tax Law Changes
- Questions

NEED HELP?

Check www.irs.gov for:

- Forms and publications
- Refund information
- Help with tax law questions

Or Call Customer Service at

215-516-2000 (not toll free)

(Mon – Fri 6:00 a.m. – 11:00 p.m. EST)

Helpful Publications:

- Pub 54, Tax Guide for US Citizens and Resident Aliens Abroad.
- Pub 519, US Tax Guide for Aliens
- Pub 514, Foreign Tax Credit
- Pub 17, Your Federal Income Tax
- All Publications are available at: www.irs.gov
- Order by Phone: (880)829-3676

  (not toll free)

Refund Information:

- Go to www.irs.gov
- Click on “Individuals”
- Click on “Where’s my refund?”
- Follow the prompts

Tax Law Questions

- Go to www.irs.gov
- Click on “Individuals”
- Click on “International Taxpayers”
- Scroll to bottom of page.

  Click on “Help with Tax Questions – International Taxpayers”

Who Must file?

- All U.S. Citizens and resident aliens whose income exceeds certain thresholds based on filing status.

- Self-Employed individuals earning over $400.

Who Must File

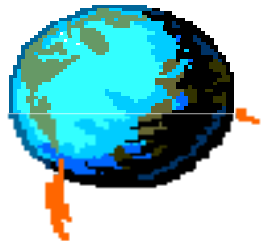
- **Green Card Holders**: Unless you have formally abandoned your green card or had it judicially revoked, you are still considered a U. S. resident for tax purposes.

FILING REQUIREMENTS U.S. CITIZENS AND RESIDENT ALIENS ARE REQUIRED TO REPORT WORLDWIDE INCOME FROM ALL SOURCES, IRRESPECTIVE OF RESIDENCE. USE THE CHART (BELOW) TO DETERMINE IF YOU ARE REQUIRED TO FILE A 2006 U.S. INCOME TAX RETURN.

If your filing status is…	AND at the end of 2006 you were…	THEN file a return if your gross income was at least…
Single	Under 65	$8,450
	65 or older	$9,700
Married filing jointly	Under 65 (both spouses)	$16,900
	65 or older (one spouse)	$17,900
	65 or older (both spouses)	$18,900
Married filing separately	Any age	$3,300
Head of Household	Under 65	$10,850
	65 or older	$12,100
Qualifying widow(er) with dependent child	Under 65	$13,600
	65 or older	$14,600

WHAT TO REPORT:

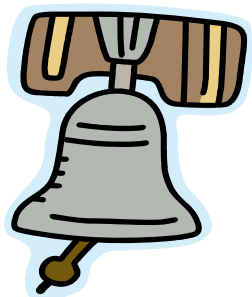
- Must report your worldwide income from all sources.



- Must be reported in U.S. dollars.

WHERE TO FILE:

- Austin, TX 73301
  - If you have a foreign, APO, or FPO address or
  - If you file Form 2555 or 2555EZ to claim the foreign earned income exclusion or
  - If you file Form 1040NR or 1040NR-EZ



WHERE TO FILE

Service Center Address:

IRS
3651 S. IH 35
Austin, Texas 78741
Phone: (512) 460-7948

WHEN TO FILE:

- **U.S. citizen residing overseas?**

  Automatic extension to June 15

- **Need additional extension?**

  File Form 4868

  (Provides additional extension to October 15)

WHEN TO PAY:

- Extension to file is **not an extension to pay.**
- Payment must be **received** by IRS by April 17.

Electronic Payment **Website:** www.eftps.gov

FOREIGN ISSUES

FOREIGN EARNED INCOME EXCLUSION

- May be able to exclude up to $82,400 of EARNED income.
- Must be EARNED income (not dividends, interest, pensions, social security).
- Wages must be earned on foreign soil.
- Compensation from US Government or Military does not qualify for exclusion

Two requirements must be met:

- Tax home in foreign country (generally one's place of business) <u>and</u>

- Meet either…..
  A. Bona Fide Residence Test <u>or</u>
  B. Physical Presence Test

Bona Fide Residence Test

- Must be a resident of a foreign country for an uninterrupted period that includes an entire tax year.
- Brief trips to U.S. okay.

Physical Presence Test

- Must be physically present in foreign country 330 full days during any period of 12 consecutive months.
- Any 12 months can be used, as long as they are consecutive.
- Can use Form 2350 for extension to qualify for physical presence test.

Requirements are applied separately to each individual

- Husband and wife could be eligible to exclude up to $82,400 of income each for a total exclusion of $164,800.

How do I claim the exclusion?

Complete Form 2555 or 2555-EZ

Can use Form 2555-EZ if:

- Total foreign income less than $82,400
- No business or moving expenses
- Earn only wages, no self employment income

New This Year

- Any income above the $82,400 amount is taxed at higher rate (the tax is computed as if the foreign earned income exclusion was not taken).

FOREIGN HOUSING EXCLUSION

- May claim exclusion or deduction for housing amount
- Must meet same criteria as for Foreign Earned Income Exclusion
- New: limitations on maximum housing expenses based on geographic location. IRS guidance forthcoming.

FOREIGN EARNED INCOME EXCLUSION LIMITS

- Foreign Earned Income Exclusion is limited to the foreign earned income minus any foreign housing exclusion.

Foreign Tax Credit

- Eliminates double taxation of same income.
- Must have income from a foreign source on which you are taxed by a foreign country.
- Tax imposed must be an income tax, and must have been paid
- Must not derive any benefit from the tax.

Generally, you will claim the Foreign Tax Credit on Form 1116

Some situations allow you to report credit directly

On Form 1040, line 47:

- When all foreign source income is from dividends or interest and
- Total foreign taxes less than $300, or $600 if Married Filing Jointly.

Otherwise, use Form 1116

- Separate Form 1116 is used for different categories of income (wages, passive income such as interest, dividends, and rents, etc.).
- Cannot claim foreign tax credit for tax related to income excluded on Form 2555 (Foreign Income Exclusion).

Foreign Financial Accounts and Trusts

- Must be reported on **Schedule B, Part III of Form 1040.**
- **Form TD F 90-22.1**: Must also file if aggregate value of financial accounts exceed $10,000 at any time during the year.
- **Form TD F 90-22.1 filed to**: Dept. of Treasury by June 30, 2007 (not filed with 1040).
- Civil Penalty of up to $10,000 applies to failure to report foreign financial accounts. For **willful** failure, penalty is up to $100,000.

What About Social Security Taxes?

- U. S. has entered into **Totalization Agreements** with several countries.

Totalization Agreements:

- Eliminate dual Social Security taxation.
- Help fill gaps in benefit protection for workers who have divided their careers between U.S. and another country.

Want more info?

- Contact the Social Security Administration at: **www.ssa.gov**

Tax Treaties

A Tax Treaty is intended to:

- Further enhance U.S. economic interests **and**
- Enhance investment **by**
- Providing for mutual cooperation and exchange of information
- Prevent double taxation

TAX TREATIES

- Most US Tax Treaties contain a **Savings Clause** which prevents US citizens residing abroad from using Tax Treaty articles to simultaneously exempt their income from both US and Foreign tax

- Want more information on Tax Treaties?

  See **Publication 901.**

Highlights of 2006 Tax Law Changes

- Personal exemption deduction increased to $3,300.
- Maximum IRA contribution is $4,000 (or $5,000 if age 50 or older).
- Maximum net self-employment earnings subject to social security portion of SE tax is $94,200.
- Standard mileage rates for:
  - business use of vehicle: 44 ½ cents a mile
  - using vehicle for medical care or to move: 18 cents a mile

Highlights of 2006 Tax Law Changes

- **Telephone Excise Tax Refund**

  Did you pay US Federal Excise Tax on long distance service between 2/28/03 and 8/01/2006?

  Claim a refund on:

  Form 1040, line 71
  Form 1040A, line 42 or
  Form 1040EZ, line 9
  Form 1040NR, line 69
  Form 1040NREZ, line 21

Having Difficulty Getting An IRS Problem Resolved?

- Contact the **International Taxpayer Advocate** at:

Phone: (787) 622-8931

Fax: (787) 622-8933

IRS
San Patricio Office Center, Room 200
7 Tabomico Street
Guaynabo, Puerto Rico 00966