

How to Exclude Taxable Income Earned in a Foreign Country

For many people finding a great job and being able to travel the world at the same time would be a dream come true. However, there are certain tax issues you need to consider during your time abroad. Most importantly, as a United States Citizen you are still required to file and pay income tax on your worldwide income. Fortunately, there is a loophole to get some of your foreign income excluded. You can elect the “foreign earned income exclusion” by simply completing the Form 2555 and attaching it to your tax return.

There are two ways to qualify for this exclusion. The first way is to pass the bona fide residence test. In order to be a bona fide resident, you must live in a foreign country from January thru December and intend to live there for a while. So, if you have a temporary assignment, you will not qualify for the exclusion.

The second way you would qualify is called the physical presence test. If you have lived in a foreign country for at least 330 days in a 12 month period, you would qualify for the exclusion; this is the easier of the two ways. For both tests, you can still take temporary trips back to the US for vacation or business and not lose your exemption.

If you meet either of the two tests and you have established a home in your new country, you will qualify to exclude up to \$91,500 from your 2010 tax return.

If you would like more information about reducing your taxable foreign income or you are interested in any other tax planning strategies, please feel free to call The Ruboyianes Company.