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Top 5 Things Every U.S. Expat Needs to Know About Taxes

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Top 5 Things Every U.S. Expat Needs to Know About Taxes

Guest post by David McKeegan

There are approximately 7.6 million Americans living overseas, yet only half file their U.S. expat tax returns each year. One of the biggest reasons for that lack of filing is that expats simply aren't aware that they must file a U.S. tax return each year. So while we currently live in the 'information age', where information is available at our fingertips, American expats are largely uninformed about the latest happenings in regards to their U.S. tax obligations. Below are 5 things U.S. expats must know about their U.S. taxes:

- Filing requirements.** U.S. expats have the same filing requirement as those living in the U.S. If your income exceeds the minimum thresholds for filing, you are required to submit a tax return each year to the IRS. These thresholds adjust for inflation each year, and are based on your filing status. Expats have until June 15 to file their returns, or October 15 if they request an extension.
- FBAR.** FBAR is the Foreign Bank Account Report, which must be filed if you have \$10,000 or more in all of your foreign bank account, combined, at any point during a tax year. Even if you hit this balance for one day, you must file. FBAR is filed electronically to the Department of the Treasury by June 30 each year—there are no extensions available.
- FATCA.** This stands for the Foreign Account Tax Compliance Act. If you have offshore assets that exceed certain thresholds, you must report them on Form 8938. Foreign financial institutions are now being required to report on the accounts of their American clients, so if you don't report your assets, your bank likely will. Penalties can be steep for failing to file FATCA so it's important to do so if you are required.
- Use the Foreign Earned Income Exclusion to save.** U.S. expats can exclude the first \$99,200 from U.S. taxation with the Foreign Earned Income Exclusion. However, in order to qualify as an expat, one must pass one of two residency tests: the Physical Presence test (PPT) or the Bona Fide Residence test (BFR). Under the PPT, you must be inside a foreign country for 330 of any 365-day period. With the BFR, you must reside overseas for at least one year calendar year and have no intentions of permanently returning to the US.
- New law: No penalties so get caught up if you are behind.** If you are behind on your US tax filings, now is the time to get caught up. The IRS has made major changes to the Streamlined Filing Procedures, which allows taxpayers to file delinquent returns without any late filing, late payment or FBAR penalties. There is no end date for the program but the IRS could discontinue it at any time—take advantage of the program while you can!

ASK DAVID:

Dear David:
I have only spent 35 days in the U.S. this year. Does this mean I qualify for the Foreign Earned Income Exclusion? – Janie in Bogota

Dear Janie: The answer is maybe! While the Physical Presence test suggests that simply being in the U.S. for 35 days or less each year is sufficient to qualify, it's a bit trickier than that. You must actually be *inside a foreign country* for 330 days in any year. This is an important distinction and improper interpretation could lead to a huge tax bill. You must be physically present inside a foreign country for 330 FULL days, which the IRS defines as midnight one day until midnight the next. Time spent flying over international waters to/from the U.S. or even on a cruise in international waters does not count toward the 330-day total. You may need to prove your physical whereabouts to the IRS so it's important to keep detailed travel records in the event they question your status as an expat.



About The Author

David McKeegan, MBA, EA is Co-Founder of [Greenback Expat Tax Services](#). Since 2008, Greenback Expat Tax Services has provided expert U.S. expat tax preparation to thousands of Americans living in over 115 countries around the world.

Have a U.S. expat tax question you want answered in his next column? Contact him at info@GreenbackTaxServices.com.

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