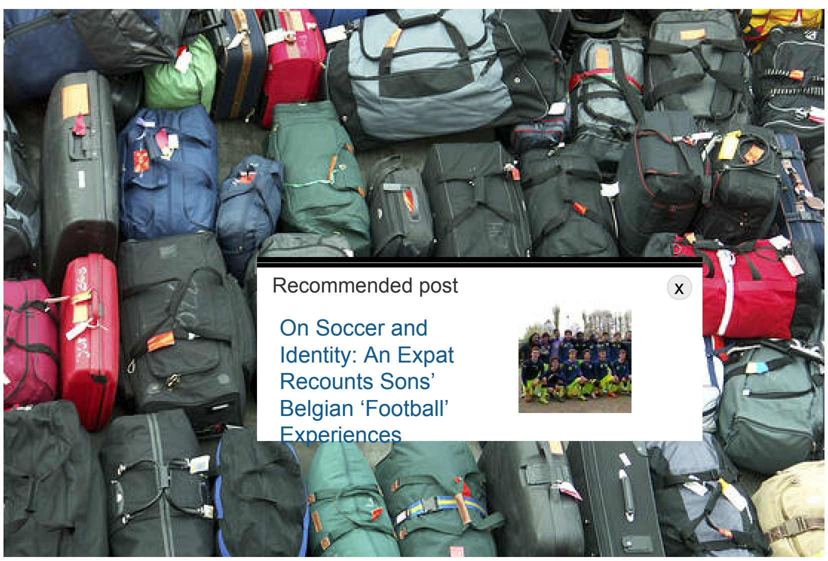
12:01 am ET
May 15, 2015 ASK AN EXPERT

How Expat Business Travel to the U.S. Can Cost You Big Time

By DAVID MCKEEGAN



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David McKeegan, co-founder of Greenback Expat Tax Services, weighs in on the financial pitfalls U.S. expats who make frequent trips home may encounter.

Expat business travelers take note: While you may be accruing a bounty of valuable frequent flyer miles with your overseas travel, the time you spend in the skies may actually *negate* your eligibility for the deductions, exclusions and credits that U.S. expats use to offset their U.S. tax liability. Surprised? Let's take a closer look to see how this occurs—and how to prevent it:

First, consider what constitutes official U.S. expat standing. In order to qualify as an official U.S. non-resident living outside the country, you must pass one of two residency tests.

- The **Physical Presence test**: Requires you to be physically present inside a foreign country for at least 330 of any 365-day period and have foreign earned income.
- The **Bona Fide Residence test**: Requires you to have lived overseas for at least one calendar year and have no immediate intention of moving back to the U.S .

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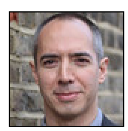
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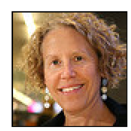
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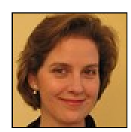
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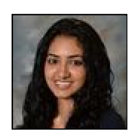
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If you are on a contract overseas, you won't pass the Bona Fide Residence test because the IRS assumes you'll be returning to the U.S. at the end of your contract. So you'll need to qualify via the Physical Presence test.

What it means to be a non-resident

When you are classified as a U.S. non-resident, you are eligible for money-saving deductions that can prevent the dreaded dual-taxation. Specifically, you can use the Foreign Earned Income Exclusion to exclude up to $100,800 of foreign income from U.S. taxation (in 2015).

Business travelers beware

Business travelers need to track their time in the U.S. carefully—as well as their travel time. The IRS says that you must be present inside a foreign country for 330 **full** days, which they define as a 24-hour period. So if you returned from the U.S. at 4 p.m. local time, the time spent in the air *and* the day you returned are excluded from your 330 days. In a nutshell, you could spend just 34 days in the U.S. but when you eliminate the days spent traveling, you haven't spent 330 full days in a foreign country—so you won't qualify for the Foreign Earned Income Exclusion and this could cost you thousands on your U.S. tax return.

Choices for traveling expats who don't qualify via the Physical Presence test

If you are earning foreign income but don't pass the Physical Presence test, you can use the Foreign Tax Credit to offset the taxes you pay to a foreign country, dollar for dollar. Since many countries have a higher tax rate than the U.S., you may be able to eliminate your U.S. taxes completely—even without the Foreign Earned Income Exclusion.

The big caveat

Taxes on the income you earn while you are in the U.S. cannot be offset with the Foreign Tax Credit. Why? Because the IRS doesn't see that as 'foreign earned' since it was earned on U.S. soil. This is another reason accurate travel records are critical when filing your U.S. expat taxes.

How to protect yourself

If you know there will be extensive U.S. travel for your job, shrewd negotiating of your expat package is the key. While an employer paying for travel costs is a no-brainer, you may want to ask your employer to bump up your salary in order to offset the additional U.S. taxes you may incur.

Another option is to spend some vacation time traveling abroad in order to satisfy the 330 day requirement. The 35 day rule only applies to time spent in and out of the U.S., so go ahead—travel! Explore other countries and protect your U.S. expat status at the same time!

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David McKeegan is Co-Founder of ***Greenback Expat Tax Services****, which specializes in the expert preparation of U.S. federal tax returns for Americans living abroad.*

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