



DIGITAL NOMAD TAXES 2020 FOR US CITIZENS – TAX GUIDE & TIPS

 [TL GUEST \(HTTPS://WWW.TRAVELINGLIFESTYLE.NET/AUTHOR/TRAVELINGLIFESTYLE/\)](https://www.travelinglifestyle.net/author/travelinglifestyle/), ✖ MAY 27, 2020

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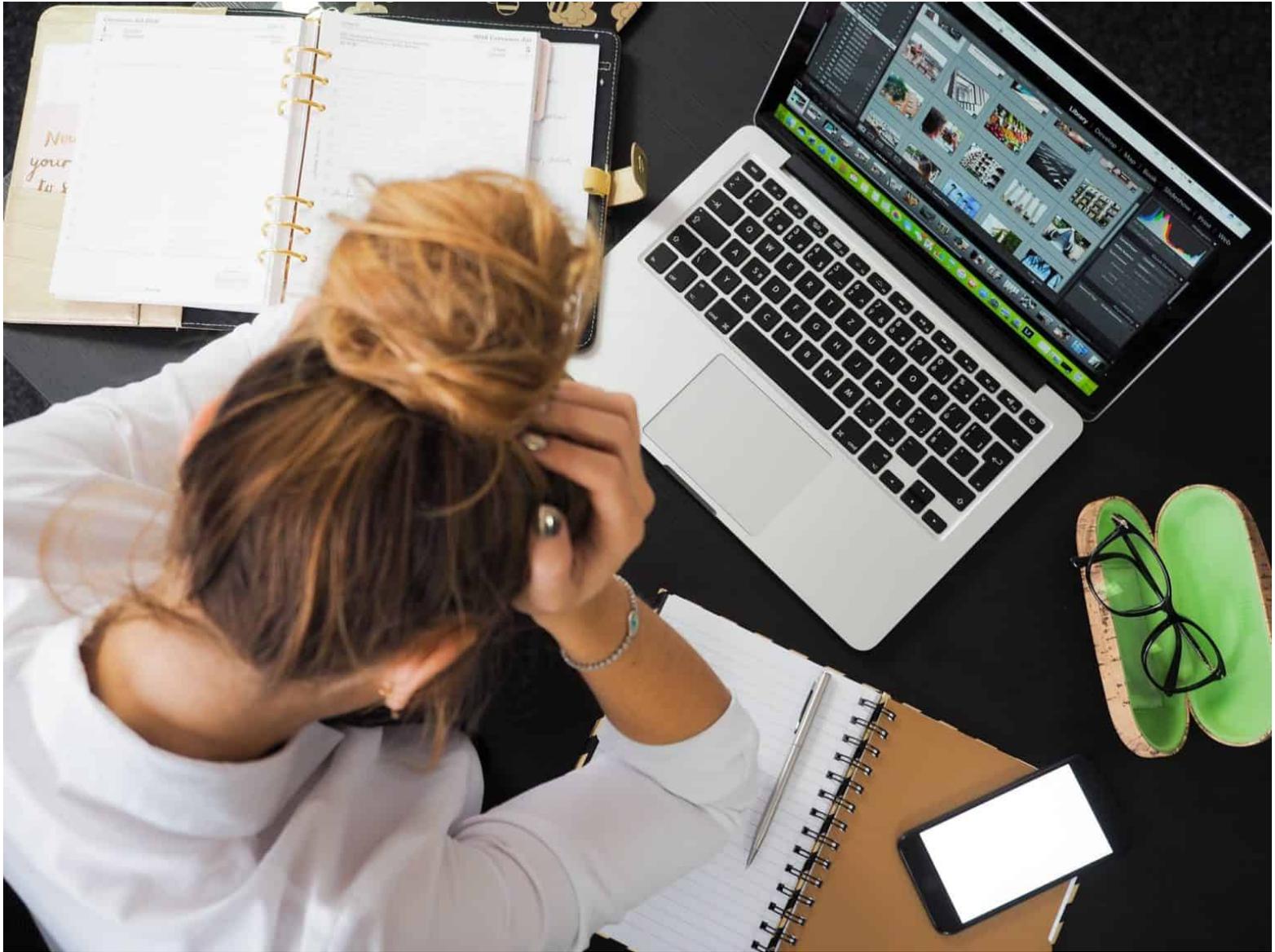
Becoming a digital nomad is a dream come true for many Americans.

But while you're busy building your career, traveling and working from anywhere (<https://www.travelinglifestyle.net/digital-nomad-jobs/>), in the world, it's easy to neglect more mundane tasks, like taxes.

This is especially true for digital nomads, whose tax situation is a bit more complex than it is for most US citizens working abroad.

These seven facts will tell you what digital nomads need to know to meet tax requirements and maximize savings (https://www.greenbacktaxservices.com/tax-webinars/digital-nomad-tax-webinar/?utm_source=Travel%20Lifestyle&utm_medium=Article&utm_campaign=2020) so you can enjoy your adventure abroad.

Wherever you go, you'll still have to pay US taxes



Many Americans living abroad—including digital nomads—aren't aware that they'll need to continue to file annual tax returns while traveling overseas. Even if you don't owe taxes, you'll still need to file an informational return with the IRS.

Why are you still on the hook for taxes even when you don't live in the US? The United States uses a system of taxation that is based on citizenship. This means that, as long as you retain your US citizenship, you'll have to pay taxes—regardless of where you reside.

If you're thinking it may be easier to renounce your citizenship, keep in mind that this process is complex and your decision will be final, which means you can never again be a US citizen.

To renounce, your taxes must be up-to-date, you'll have to pay a fee, and, typically, you'll need to become a citizen of another country first. So before you consider this option, you'll need to decide if it's the right fit for your nomadic lifestyle.

You get a 2-month extension on your taxes

April 15th is Tax Day in the US. However, Americans living abroad get an automatic two-month extension to file their taxes—which means digital nomads will need to file by June 15th.

During this extension, digital nomads won't be subject to any late filing or late payment penalties. However, if you owe any taxes, interest will still accrue after the April deadline.

If you take advantage of this extension, you'll need to include a statement with your return to let the IRS know that you were living outside of the country on April 15th. If you need more time to file your taxes, digital nomads should file Form 4868 by the June 15th deadline to get an additional extension to October 15th.

Digital nomads might have to pay state taxes, too

Depending on the state you used to live in, digital nomads may need to [file state taxes](https://www.greenbacktaxservices.com/blog/tax-for-expats-state-taxation/?utm_source=Travel%20Lifestyle&utm_medium=Article&utm_campaign=2020) (https://www.greenbacktaxservices.com/blog/tax-for-expats-state-taxation/?utm_source=Travel%20Lifestyle&utm_medium=Article&utm_campaign=2020) as well.

Typically, this will depend on which state you're from and whether you have any remaining ties to that state—for instance, if you maintain a residence, hold a driver's license, or return to the state each time you go back to the US.

Make sure you understand the tax rules and deadlines for your state.

Don't want extra taxes? Location matters



Want to avoid being taxed in the US and your host country? Pay attention to the tax rules of the countries you choose to visit. Most countries will consider you a resident for tax purposes after about six months.

So, generally speaking, you can avoid double taxation by limiting your trip to a few months. But this isn't always the case—so do your homework to learn the tax rules for each new country.

Location is particularly important for self-employed digital nomads. Because of the freedom it grants them, many digital nomads work as freelancers and contractors. If you fall into this category, where you decide to live will have a big impact on your taxes. Taxation rates for businesses and self-employed individuals vary widely across countries.

For instance, the United Arab Emirates doesn't charge any corporate taxes. However, in certain European countries, digital nomads could find themselves paying over 40% in self-employment taxes.

Digital nomads can also prevent double taxation by traveling to a country that has a tax treaty with the US (<https://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z>). So before you plan your next adventure, make sure to find out how it will affect your US taxes.

Take advantage of tax savings for digital nomads

Even though you'll still need to file taxes while living overseas, there are several tax-saving tools for digital nomads (https://www.greenbacktaxservices.com/tax-webinars/digital-nomad-tax-webinar/?utm_source=Travel%20Lifestyle&utm_medium=Article&utm_campaign=2020). You can minimize your tax bill using tax credits, exclusions, and deductions, such as:

Foreign Earned Income Exclusion (FEIE) – Arguably the most popular tax-saving tool for Americans living abroad, the FEIE allows you to exclude a portion of your foreign earned income from your US taxes—the first \$105,900 for 2019 and \$107,600 for 2020.

Foreign Tax Credit – Have you paid taxes for a foreign government while working abroad? If so, you can lower your US tax bill by the amount of foreign income tax paid. If you choose to use the FEIE and Foreign Tax Credit together, you'll exclude your amount for the FEIE first, and then apply the Foreign Tax Credit on any remaining income.

Foreign Housing Exclusion – Digital nomads can also exclude from their taxable income certain household expenses incurred from living abroad. This is particularly helpful to digital nomads living in expensive cities, like Hong Kong, Tokyo, or Moscow.

How you qualify for tax breaks depends on what type of digital nomad you are

To claim tax breaks like the FEIE, digital nomads will need to qualify by passing one of two tests:

The Physical Presence Test

Were you physically present in a foreign country (or multiple countries) for at least 330 days within a 365-day window (does not have to be a calendar year)? If so, you pass the test!

Once you establish your qualifying period, you count the number of days within the actual tax year (the calendar year) to figure out what portion of the FEIE you qualify for.

The Physical Presence Test is very strict so digital nomads will have to track their travel carefully. If you miss qualifying by just one day, you can't claim any part of the FEIE.

The Bona Fide Resident Test

This test is less straightforward. To pass the bona fide resident test, you'll need to be considered a true resident of a foreign country for one full tax year (the calendar year—from January 1 to December 31). Whether a digital nomad qualifies as a bona fide resident depends on your circumstances. To determine this, the IRS asks questions like:

- Do you intend to return to the USA to live in the foreseeable future?
- Have you integrated yourself into society?

- Have you made any statements or declarations to the foreign government that you are not subject to their taxes or laws?

As a digital nomad, you can change your country of residence and still qualify for the bona fide resident test, but you'll have to establish yourself as a true resident in each country where you choose to live.

What does this mean for digital nomads? Let's look at some examples:

If you are the type of digital nomad who moves to in a new country whenever the mood strikes and returns to the US for only a few days at a time for special occasions, you'll want to make sure you pass the Physical Presence Test.

Because you don't stay in any one country too long, you won't be able to establish yourself as a bona fide resident. So make sure your total days abroad add up to the magic number of 330 (out of any 365-day period) to qualify under the Physical Presence Test.

If, on the other hand, you're a digital nomad who has a "home base" in a foreign country—a place you call home and regularly travel back to outside the US—you may prefer to qualify under the Bona Fide Residence Test. The advantage of this test is that you won't have to limit the number of days you spend in the US—though you will need to establish a residence, which may not fit with your digital nomad lifestyle.

To maximize savings, establish a "tax home"

If you want to take full advantage of digital nomad tax breaks, there's one other requirement you'll need to meet: you'll have to establish a tax home outside the US.

What is a tax home? Essentially, your tax home is where you do business. If you work remotely, your tax home is where you live. However, if you're constantly traveling and don't have a primary place where you live or work, the IRS might consider you an itinerant.

Being an itinerant is bad news tax-wise because it means you're no longer eligible for the FEIE, the Foreign Housing Exclusion, or tax deductions for business travel. So even though digital nomads tend to travel frequently, you'll still want to establish a primary place of

business for tax purposes.

Don't let taxes stand in the way of your digital nomad adventure



The [digital nomad lifestyle](https://www.travelinglifestyle.net/category/nomading/) is both rewarding and challenging. As you begin your journey, your new tax situation may seem daunting.

However, with a little help, you'll find that you can navigate your [digital nomad tax return](https://www.greenbacktaxservices.com/us-taxes-digital-nomads/?utm_source=Travel%20Lifestyle&utm_medium=Article&utm_campaign=2020) the same way that you adapt to new cultures, languages, and customs throughout the world.

This post was written by David McKeegan, co-founder of Greenback Expat Tax Services. Greenback specializes in the preparation of US expat taxes for Americans living abroad. Greenback offers straightforward pricing, a simple, hassle-free process, and CPAs and IRS

Enrolled Agents who have extensive experience in the field of expat tax preparation. For more information about filing taxes as a Digital Nomad or Greenback, please visit greenbacktaxservices.com (<http://greenbacktaxservices.com/>).