

Publication 54

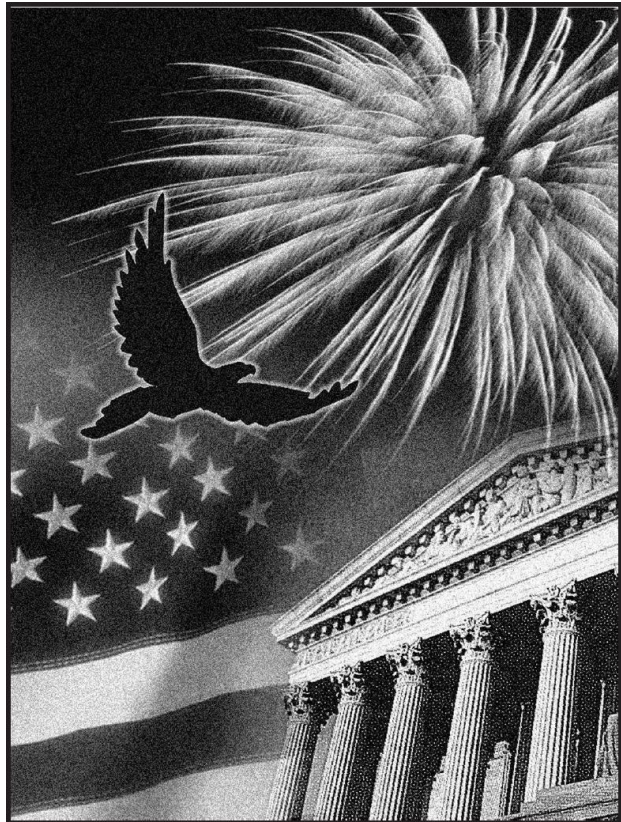
(Rev. December 2025)

Tax Guide for U.S. Citizens and Resident Aliens Abroad

For use in preparing

2025 Returns

Volume 2 of 3



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Generally, your employer can stop the withholding once you submit the statement that includes a declaration that the statement is made under penalties of perjury. However, if your employer has reason to believe that you will not qualify for either the foreign earned income or the foreign housing exclusion, your employer must continue to withhold.

Your employer must consider any information about pay you received from any other source outside the United States in determining whether your foreign earned income is more than the limit on either the foreign earned income exclusion or the foreign housing exclusion.

Foreign tax credit. If you plan to take a foreign tax credit, you may be able to adjust your withholding on Form W-4.

You can take these additional tax credits only for foreign tax credits attributable to taxable salary or wage income. For more information, see the instructions for Step 3 of Form W-4.

Withholding from pension payments.

U.S. payers of benefits from employer-deferred compensation plans, individual retirement plans, and commercial annuities must generally withhold income tax from payments delivered outside of the United States. You can choose exemption from withholding if you:

- Provide the payer of the benefits with a residence address in the United States or a U.S. territory, or
- Certify to the payer that you are not a U.S. citizen or resident alien or someone who left the United States to avoid tax.

Check your withholding. Before you report U.S. income tax withholding on your tax return, you should carefully review all

information documents, such as Form W-2 and the Form 1099 information returns. Compare other records, such as final pay records or bank statements, with Form W-2 or Form 1099 to verify the withholding on these forms. Check your U.S. income tax withholding even if you pay someone else to prepare your tax return. You may be assessed penalties and interest if you claim more than your correct amount of withholding allowances.

30% Flat Rate Withholding

Generally, U.S. source gross income that is not effectively connected to a U.S. trade or business, such as U.S. source dividends and royalties, is subject to withholding tax at a flat 30% (or lower treaty) rate if paid to nonresident aliens. If you are a U.S. citizen or resident alien and this tax is withheld in error from payments to you because you have a

foreign address, you should notify the payer of the income to stop the withholding. Use Form W-9 to notify the payer.

You can claim the tax withheld in error as a withholding credit on your tax return if the amount isn't adjusted by the payer. See the [*Instructions for Form 1040 and Form 1040SR*](#) for how to claim the credit.

Social security benefits paid to residents.

If you are a lawful permanent resident (green card holder) and a flat 30% tax was withheld in error on your social security benefits, you must file Form 1040 or 1040-SR with the Internal Revenue Service Center at the address listed under *How To File and Pay*, earlier, to determine if you are entitled to a refund. The following information must be submitted with your Form 1040 or 1040-SR.

- A copy of Form SSA-1042-S, Social Security Benefit Statement.
- A copy of your "green card."

- A signed declaration that includes the following statements.

“I am a U.S. lawful permanent resident and my green card has been neither revoked nor administratively or judicially determined to have been abandoned. I am filing a U.S. income tax return for the tax year as a resident alien reporting all of my worldwide income. I have not claimed benefits for the tax year under an income tax treaty as a nonresident alien.”

Social Security and Medicare Taxes

Social security and Medicare taxes may apply to wages paid to an employee regardless of where the services are performed.

General Information

In general, U.S. social security and Medicare taxes do not apply to wages for services you perform as an employee outside the United

States unless one of the following exceptions applies.

1. You perform the services on or in connection with an American vessel or aircraft (defined later) and either:
 - a. You entered into your employment contract within the United States, or
 - b. The vessel or aircraft touches at a U.S. port while you are employed on it.
2. The service is designated as employment for U.S. social security and Medicare tax purposes under Bilateral Social Security (Totalization) Agreements (discussed later).
3. You are working for an American employer (defined later).
4. You are working for a Foreign affiliate (defined later) of an American

employer under a voluntary agreement entered into between the American employer and the U.S. Department of the Treasury.

American vessel or aircraft. An American vessel is any vessel documented or numbered under the laws of the United States and any other vessel whose crew is employed solely by one or more U.S. citizens, residents, or corporations. An American aircraft is an aircraft registered under the laws of the United States.

American employer. An American employer includes any of the following.

- The U.S. Government or any of its instrumentalities.
- An individual who is a resident of the United States.
- A partnership of which at least two-thirds of the partners are U.S. residents.

- A trust of which all the trustees are U.S. residents.
- A corporation organized under the laws of the United States, any U.S. state, or the District of Columbia, Puerto Rico, the USVI, Guam, or American Samoa.

An American employer also includes any foreign person with an employee who is performing services in connection with a contract between the U.S. Government (or any instrumentality thereof) and a member of a domestically controlled group of entities which includes such foreign person.

Foreign affiliate. A foreign affiliate of an American employer is any foreign entity in which the American employer has at least a 10% interest, directly or through one or more entities. For a corporation, the 10% interest must be in its voting stock. For any other entity, the 10% interest must be in its profits.

Form 2032, Contract Coverage Under Title II of the Social Security Act, available at [IRS.gov/Form2032](https://www.irs.gov/Form2032), is used by American employers to extend social security coverage to U.S. citizens and resident aliens working abroad for foreign affiliates of American employers. Once you enter into an agreement, coverage cannot be terminated.

Excludable meals and lodging. Social security tax doesn't apply to the value of meals and lodging provided to you for the convenience of your employer if it is reasonable to believe that you will be able to exclude the value from your income.

Bilateral Social Security (Totalization) Agreements

The United States has entered into agreements with some foreign countries to coordinate social security coverage and taxation of workers who are employed in those countries.

These agreements are commonly referred to as “totalization agreements.” Under these agreements, dual coverage and dual contributions (taxes) for the same work are eliminated. The agreements generally make sure that you pay social security taxes to only one country.

Generally, under these agreements, you will only be subject to social security taxes in the country where you are working. However, if you are temporarily sent to work in a foreign country and your pay would otherwise be subject to social security taxes in both the United States and that country, you can generally remain covered only by U.S. social security.

For more information on specific agreements, go to

[SSA.gov/International/Agreement_Descriptions.html](https://ssa.gov/International/Agreement_Descriptions.html) and [IRS.gov/TotalizationAgreements](https://irs.gov/TotalizationAgreements).

Covered by United States only. If your pay in a foreign country is subject only to U.S. social security tax and is exempt from foreign social security tax, your employer should get a certificate of coverage from the SSA's Office of Earnings and International Operations. Employers can request a certificate of coverage online at [SSA.gov/international/CoC link.html](https://ssa.gov/international/CoC_link.html).

Covered by foreign country only. If you are permanently working in a foreign country with which the United States has a social security agreement and, under the agreement, your pay is exempt from U.S. social security tax, you or your employer should get a statement from the authorized official or agency of the foreign country verifying that your pay is subject to social security coverage in that country.

If the authorities of the foreign country will not issue such a statement, either you or your employer should get a statement from

the U.S. SSA's Office of Earnings and International Operations at the website listed earlier. The statement should indicate that your wages aren't covered by the U.S. social security system.

This statement should be kept by your employer because it establishes that your pay is exempt from U.S. social security tax.

Only wages paid on or after the effective date of the totalization agreement can be exempt from U.S. social security tax.

3.

Self-Employment Tax

Topics

This chapter discusses:

- Who must pay self-employment tax,
- Who is exempt from self-employment tax,

- Who can defer self-employment tax payments, and
- Which self-employed individuals can take the refundable income tax credits for sick and family leave.

Useful Items

You may want to see:

Publication

- ☐ **334** Tax Guide for Small Business
- ☐ **517** Social Security and Other Information for Members of the Clergy and Religious Workers

Form (and Instructions)

- ☐ **Form 1040-SS** U.S. Self-Employment Tax Return
- ☐ **Form 4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

□ **Schedule SE (Form 1040) Self-Employment Tax**

See chapter 7 for information about getting these publications and forms.

Who Must Pay Self-Employment Tax?

If you are a self-employed U.S. citizen or resident, the rules for paying self-employment tax are generally the same whether you are living in the United States or abroad.

The self-employment tax is a social security and Medicare tax on net earnings from self-employment. You must pay self-employment tax if your net earnings from self-employment are at least \$400.

For information on the maximum amount of self-employment net earnings that is subject to the social security portion of self-employment tax, see the instructions for

Schedule SE (Form 1040), available at [IRS.gov/ ScheduleSE](https://www.irs.gov/ScheduleSE). All net earnings from self-employment are subject to the Medicare portion of the tax. Additional Medicare Tax may apply to you if your net earnings from self-employment exceed a threshold amount (based on your filing status). See Form 8959, Additional Medicare Tax, available at [IRS.gov/Form8959](https://www.irs.gov/Form8959), for additional information.

Employed by a U.S. Church

If you were employed by a U.S. church or a qualified church-controlled organization that chose exemption from social security and Medicare taxes and you received wages of \$108.28 or more from the organization, the amounts paid to you are subject to self-employment tax. However, you can choose to be exempt from social security and Medicare taxes if you are a member of a recognized religious sect. See Pub. 517, Social Security and Other Information for Members of the

Clergy and Religious Workers, available at [IRS.gov/Pub517](https://www.irs.gov/pub517), for more information about church employees and self-employment tax.

Effect of Exclusion

You must take all of your self-employment income into account in figuring your net earnings from self-employment, even income that is exempt from income tax because of the foreign earned income exclusion.

Example. You are in business abroad as a consultant and qualify for the foreign earned income exclusion. Your foreign earned income is \$95,000, your business deductions total \$27,000, and your net profit is \$68,000. You must pay self-employment tax on your net profit of \$68,000, even though you are qualified for the foreign earned income exclusion.

Members of the Clergy

If you are a member of the clergy, you are treated as self-employed for self-employment

tax purposes. Your U.S. self-employment tax is based upon net earnings from self-employment figured without regard to the foreign earned income exclusion or the foreign housing exclusion.

You can receive exemption from coverage for your ministerial duties if you conscientiously oppose public insurance due to religious reasons or if you oppose it due to the religious principles of your denomination. You must file Form 4361, Application for Exemption From Self-Employment Tax for Use By Ministers, Members of Religious Orders and Christian Science Practitioners, available at [IRS.gov/Form4361](https://www.irs.gov/Form4361), to apply for this exemption.

This subject is discussed in further detail in [*Pub. 517*](#).

Income From U.S. Territories

If you are a U.S. citizen or resident alien and you own and operate a business in a U.S. territory (Puerto Rico, Guam, the CNMI, American Samoa, or the USVI), you must pay tax on your net earnings from self-employment (if they are \$400 or more) from those sources. You must pay the self-employment tax whether or not the income is exempt from U.S. income taxes (or whether or not you must otherwise file a U.S. income tax return). Unless your situation is described below, attach Schedule SE (Form 1040) to your U.S. income tax return.

If you do not have to file Form 1040 or 1040-SR with the United States and you are a resident of any of the U.S. territories listed in the preceding paragraph, figure your self-employment tax on Form 1040-SS, U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico), available at [IRS.gov/Form1040SS](https://www.irs.gov/Form1040SS), for additional information.

See *Filing options*, earlier, for filing information.

Exemption From Dual-Country Social Security and Medicare Taxes

The United States may reach agreements with foreign countries to eliminate dual coverage and dual contributions (taxes) to social security systems for the same work. As a general rule, self-employed persons who are subject to dual taxation will only be covered by the social security system of the country where they reside.

For more information on how a specific agreement affects self-employed persons, see *Bilateral Social Security (Totalization) Agreements* in chapter 2, earlier.

If your self-employment earnings should be exempt from foreign social security tax and subject only to U.S. self-employment tax, you should request a certificate of coverage from the U.S. SSA's Office of Earnings and International Operations. The certificate will establish your exemption from the foreign social security tax.

You can request a certificate of coverage online at [SSA.gov/international/CoC link.html](https://ssa.gov/international/CoC_link.html).

4.

Foreign Earned Income Exclusion, Foreign Housing Exclusion, and Foreign Housing Deduction

Topics

This chapter discusses:

- Requirements for the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction,
- How to determine the amount of the foreign earned income exclusion,
- How to determine the amount of the foreign housing exclusion and the foreign housing deduction,
- Effect of making valid exclusions and taking the deduction, and

- Effect of revocation of exclusions.

Useful Items

You may want to see:

Publication

- ☐ **514** Foreign Tax Credit for Individuals
- ☐ **516** U.S. Government Civilian Employees Stationed Abroad
- ☐ **519** U.S. Tax Guide for Aliens
- ☐ **570** Tax Guide for Individuals With Income From U.S. Territories
- ☐ **596** Earned Income Credit (EIC)

Form (and Instructions)

- ☐ **1040-X** Amended U.S. Individual Income Tax Return
- ☐ **2555** Foreign Earned Income

See chapter 7 for information about getting these publications and forms.

Who Qualifies for the Exclusions and the Deduction?

If you meet certain requirements, you may qualify for the foreign earned income exclusion, the foreign housing exclusion, and/or the foreign housing deduction.

If you are a U.S. citizen or resident alien living and working abroad, you are taxed on your worldwide income. However, you may qualify to exclude from income a portion of your foreign earnings. In addition, you may qualify to exclude or deduct certain foreign housing amounts. See Foreign Earned Income Exclusion and Foreign Housing Exclusion, later.

You may also be entitled to exclude from income the value of meals and lodging provided to you by your employer. See Exclusion of meals and lodging, later.

Requirements

To claim the foreign earned income exclusion, the foreign housing exclusion, and/or the foreign housing deduction, you must meet the following requirements.

1. **Tax home.** You must have a tax home in a foreign country (or countries). Generally, your tax home is your principal place of business, employment, or post of duty, regardless of where you maintain your family home. For more details on the concept of tax home, see [IRS.gov/FEIE-TaxHome](https://www.irs.gov/FEIE-TaxHome).
2. **Foreign country (or countries).** You must live in or be present in a foreign country (or countries). A foreign country includes any territory under the sovereignty of a government other than that of the United States. However, a foreign country does not include international waters and the

airspace above them. For details on the definition of a foreign country, see [IRS.gov/FEIE-TaxHome](https://www.irs.gov/FEIE-TaxHome).

3. **Foreign earned income.** You must have wages, salaries, self-employment income, etc., received for performing personal services in a foreign country (or countries). For details on the classification of earned income, see [IRS.gov/FEIE-FEI](https://www.irs.gov/FEIE-FEI).

4. **Bona fide residence and physical presence tests.**

a. **Bona fide residence.** You must be a bona fide resident of a foreign country (or countries) for an uninterrupted period that includes an entire tax year. You use the bona fide residence test only if you are either:

- a U.S. citizen, or

- a U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect.

You do not automatically acquire bona fide resident status merely by living in a foreign country or countries for 1 year. For more details and examples, see

[IRS.gov/FEIEBonaFideResidence.](https://www.irs.gov/FEIEBonaFideResidence)

- Physical presence.** Alternatively, U.S. citizens and resident aliens must be physically present in a foreign country (or countries) for 330 full days during a period of 12 consecutive months. The 330 days don't have to be consecutive. The physical presence test is based only on how long you stay in a foreign country or countries. This test doesn't depend on the kind of residence you establish, your intentions about returning, or the

nature and purpose of your stay abroad. For details and examples, see [IRS.gov/FEIEPhysicalPresence](https://www.irs.gov/FEIEPhysicalPresence).

- c. **Exceptions to the bona fide residence and physical presence requirements.** The minimum time requirements for bona fide residence and physical presence can be waived if you must leave a foreign country because of war, civil unrest, or similar adverse conditions in that country. For more information, see *People who failed to meet eligibility requirements because of adverse conditions in a foreign country*, earlier, and also [IRS.gov/Individuals/ International-Taxpayers/Exceptions-To-The-Bona-Fide-Residence-And-The-Physical-Presence-Tests](https://www.irs.gov/Individuals/International-Taxpayers/Exceptions-To-The-Bona-Fide-Residence-And-The-Physical-Presence-Tests).

5. **Valid election.** You must make, or have in effect, a valid election by attaching Form 2555, Foreign Earned Income, with your income tax return or amended income tax return. For details, see the instructions for Form 2555, available at [IRS.gov/Form2555](https://www.irs.gov/Form2555).

Effect of Choosing the Exclusions and Deduction

Once you choose the foreign earned income exclusion election or foreign housing exclusion election, that choice remains in effect for that year and all later years unless you revoke it. This means you must make the same choice in a subsequent year. Otherwise, it will be considered as a revocation of your foreign earned income exclusion election or foreign housing exclusion election for that year.

Foreign tax credit or deduction. Once you've made a foreign earned income exclusion election or foreign housing

exclusion election, you can't take a foreign tax credit or deduction for foreign taxes on income you choose to exclude. See Pub. 514, Foreign Tax Credit for Individuals, available at [IRS.gov/Pub514](https://www.irs.gov/pub514), for more information.

Note: If you're a high wage earner, it is possible to take the foreign earned income exclusion up to the limitation for the year. Then, you can take a foreign tax credit for any foreign taxes paid on the portion of the wage that wasn't excluded under the foreign earned income exclusion.

Additional child tax credit. Similarly, if you've made a foreign earned income exclusion election, or foreign housing exclusion election, or taken the foreign housing deduction, you can't take the additional child tax credit in the same year. For more information on this credit, see Schedule 8812 (Form 1040), Credits for Qualifying Children and Other Dependents, available at [IRS.gov/ Schedule8812](https://www.irs.gov/schedule8812).

Earned income credit. If you elect the foreign earned income exclusion, you don't qualify for the earned income credit for the year. For more information on this credit, see Pub. 596, Earned Income Credit, available at [IRS.gov/ Pub596](https://www.irs.gov/pub/irs596).

Note: Should you decide to take a foreign tax credit or deduction, the additional child tax credit, or the earned income credit in a subsequent year, your foreign earned income exclusion election or foreign housing exclusion election would be considered revoked for that year. For more details on other deductions and credits, see *Deductions and Credits*, later.

Effect of Revoking the Exclusions

You can revoke your choice for any year. You may revoke in several different ways. You may revoke by attaching a statement that you are revoking one or more previously made choices to your return or amended return for the first year that you do not wish

to claim the exclusion(s). You must specify which choice(s) you are revoking. You must revoke separately a choice to exclude foreign earned income and a choice to exclude foreign housing amounts. Alternatively, if you decide to take the foreign tax credit, additional child tax credit, or earned income credit in a subsequent year, you will be considered to have revoked your prior choice.

Note: You do not need to revoke a prior choice just because you have no foreign earned income or foreign housing costs for the year.

If you revoked a choice and within 5 years again wish to choose the same exclusion, you must apply for IRS approval. You do this by requesting a ruling from the IRS. Requests can be submitted by fax, encrypted email, or mail. See section 8.05(6).04(1)–(3) of Revenue Procedure 2024-1, 2024-01 I.R.B. 42, available at [IRS.gov/irb/ 2024-01 IRB#REV-PROC-2024-1](https://www.irs.gov/irb/2024-01_IRB#REV-PROC-2024-1). For fax requests,

transmissions of full packages with a cover sheet can be faxed to 844-249-6231. For email requests, the IRS encourages use of secure electronic facsimile method, or encrypted email attachment to lbi.irt.info@irs.gov.



Mail your request for a ruling, in duplicate, to:

Associate Chief Counsel (International)
Internal Revenue Service
Attn: CC:PA:LPD:DRU
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

In deciding whether to approve your request to re-elect, the IRS will consider any facts and circumstances that may be relevant. These may include a period of residence in the United States, a move from one foreign country to another foreign country with different tax rates, a substantial change in the tax laws of the foreign country of residence or

physical presence, and a change of employer.
For more information, go to

[IRS.gov/Individuals/ International-Taxpayers/Revoking-Your-Choice-ToExclude-Foreign-Earned-Income](https://www.irs.gov/Individuals/International-Taxpayers/Revoking-Your-Choice-ToExclude-Foreign-Earned-Income).



If a private delivery service is used,
the address is:

Associate Chief Counsel (International)
Internal Revenue Service
Attn: CC:PA:LPD:TSS, Room 5336
1111 Constitution Ave. NW
Washington, DC 20224

Foreign Earned Income Exclusion

Limit on Excludable Amount

You may be able to exclude up to the
maximum amount allowed for the specific tax
year of your foreign earned income.

You cannot exclude more than the smaller of:

- The maximum annual exclusion amount allowed for the specific tax year, or
- Your foreign earned income for the tax year minus your foreign housing exclusion (discussed later).

If both you and your spouse work abroad and have a tax home in a foreign country, and each of you meets either the bona fide residence test or the physical presence test, you can each choose the foreign earned income exclusion. You both don't need to meet the same test. Each of you can exclude up to the maximum annual exclusion amount allowed for the year, for a total of twice the maximum annual exclusion amount for that year.

Foreign Housing Exclusion and Deduction

In addition to the foreign earned income exclusion, you can also claim an exclusion and/or a deduction from gross income for

your housing amount if your tax home is in a foreign country and you qualify for the exclusions and deduction under either the bona fide residence test or the physical presence test.

The housing exclusion applies only to amounts considered paid for with employer-provided amounts. The housing deduction applies only to amounts paid for with self-employment earnings.

If you are married and you and your spouse each qualifies under one of the tests, see *Married Couples*, later.

Housing Amount

Your housing amount is the total of your housing expenses for the year minus the base housing amount.

Base housing amount. The computation of the base housing amount is tied to the maximum foreign earned income exclusion.

That amount is 16% of the maximum annual exclusion amount allowed for the specific tax year, or the daily amount (maximum annual exclusion amount allowed, divided by 365 days, or 366 days for leap years), multiplied by the number of days in your qualifying period that fall within your tax year.

See the Limit on Housing Expenses Worksheet in Part IV of the [*Instructions for Form 2555*](#).

U.S. Government allowance. You must reduce your housing amount by any U.S. Government allowance or similar nontaxable allowance intended to compensate you or your spouse for the expenses of housing during the period for which you claim a foreign housing exclusion or deduction.

Exclusion of meals and lodging. You don't include in your income the value of meals and lodging provided to you and your family by your employer at no charge if the following conditions are met.

1. The meals are furnished:
 - a. On the business premises of your employer, and
 - b. For the convenience of your employer.
2. The lodging is furnished:
 - a. On the business premises of your employer,
 - b. For the convenience of your employer, and
 - c. As a condition of your employment.

If these conditions are met, don't include the value of the meals or lodging in your income, even if a law or your employment contract says that they are provided as compensation.

Amounts you don't include in income because of these rules aren't foreign earned income.

If you receive a Form W-2, excludable amounts shouldn't be included in the total reported in box 1 as wages.

Housing expenses. Housing expenses include your reasonable expenses paid or incurred for housing in a foreign country for you and (if they live with you) for your spouse and dependents.

Consider only housing expenses for the part of the year that you qualify for the foreign earned income exclusion. For a list of eligible housing expenses, see Part VI of the Instructions for Form 2555.

Caution: No double benefit. You can't include in housing expenses the value of meals or lodging that you exclude from gross income (see *Exclusion of meals and lodging*, earlier).

Limit on housing expenses. The amount of qualified housing expenses eligible for the housing exclusion and housing deduction is

limited. The standard limit is generally 30% of the maximum foreign earned income exclusion (computed on a daily basis), multiplied by the number of days in your qualifying period that fall within your tax year.

However, the limit will vary depending upon the location of your foreign tax home.

A qualified individual incurring housing expenses in a high-cost locality during a specific tax year can use housing expenses that total more than the standard limit on housing expenses to determine the housing amount. An individual who does not incur housing expenses in a high-cost locality is limited to the standard limit.

The limits for high-cost localities are listed in the Instructions for Form 2555.

Tip: You can elect to apply the current year housing cost limits to figure your prior year housing exclusion instead of using the prior

year limits. The IRS and the Department of the Treasury anticipate that you will be able to elect to apply the subsequent year limits to figure your current year housing exclusion instead of using the current year limits.

Second foreign household. Ordinarily, if you maintain two foreign households, your reasonable foreign housing expenses include only costs for the household that bears the closer relationship (not necessarily geographic) to your tax home. However, if you maintain a second, separate household outside the United States for your spouse or dependents because living conditions near your tax home are dangerous, unhealthful, or otherwise adverse, include the expenses for the second household in your reasonable foreign housing expenses. You can't include expenses for more than one second foreign household at the same time. For details, see the [Instructions for Form 2555](#).

Foreign Housing Exclusion

If you do not have self-employment income, all of your earnings are employer-provided amounts and your entire housing amount is considered paid for with those employer-provided amounts. This means that you can exclude (up to the limits) your entire housing amount.

Employer-provided amounts. These include any amounts paid to you or paid or incurred on your behalf by your employer that are taxable foreign earned income (without regard to the foreign earned income exclusion) to you for the year. Employer-provided amounts include:

- Your salary,
- Any reimbursement for housing expenses,
- Amounts your employer pays to a third party on your behalf,
- The fair rental value of company-owned housing furnished to you unless that value

is excluded under the rules explained earlier under exclusion of meals and lodging,

- Amounts paid to you by your employer as part of a tax equalization plan, and
- Amounts paid to you or a third party by your employer for the education of your dependents.

Choosing the exclusion. You can choose the foreign housing exclusion by completing the appropriate parts of Form 2555. Rules about choosing the foreign earned income exclusion also apply to the foreign housing exclusion.

Your foreign housing exclusion is the lesser of:

- That part of your housing amount paid for with employer-provided amounts, or
- Your foreign earned income.

If you choose the foreign housing exclusion, you must figure it before figuring your foreign earned income exclusion. You cannot claim less than the full amount of the housing exclusion to which you are entitled.

Foreign Housing Deduction

If you don't have self-employment income, you can't take a foreign housing deduction.

How you figure your foreign housing deduction depends on whether you have only self-employment income or both self-employment income and employer-provided income. In either case, the amount you can deduct is subject to the limit described later.

Self-employed, no employer-provided amounts. If none of your housing amount is considered paid for with employer-provided amounts, such as when all of your income is from self-employment, you can deduct your foreign housing amount, subject to the limit described later.

Take the deduction by including it on line 24j of Schedule 1 (Form 1040).

Self-employed and employer-provided amounts. If you are both an employee and a self-employed individual during the year, you can exclude the portion of your foreign housing cost amount related to wage income and deduct the portion of your foreign housing cost related to self-employment income. To find the part that you can exclude, multiply your foreign housing amount by the employer-provided amounts (discussed earlier) and then divide the result by your foreign earned income. This is the amount you can use to figure your foreign housing exclusion. You can deduct the balance of the foreign housing amount, subject to the limitation described later.

Example. Your foreign housing amount for the year is \$18,000. During the year, your total foreign earned income is \$100,000, of which half (\$50,000) is from self-employment

and half is from your services as an employee. Half of your foreign housing amount ($\$18,000 \div 2$) is considered provided by your employer. You can exclude \$9,000 as a foreign housing exclusion. You can deduct the remaining \$9,000 as a foreign housing deduction subject to the following limit below.

Limitation

Your foreign housing deduction cannot be more than your foreign earned income minus the total of:

- Your foreign earned income exclusion, plus
- Your foreign housing exclusion.

Carryover. You can carry over to the next year any part of your foreign housing deduction that is not allowed because of the limitation. You are allowed to carry over your excess foreign housing deduction to the next year only.

If you can't deduct it in the next year, you can't carry it over to any other year. You deduct the carryover in figuring adjusted gross income. The amount of carryover you can deduct is limited to your foreign earned income for the year of the carryover minus the total of your foreign earned income exclusion, foreign housing exclusion, and foreign housing deduction for that year.

Married Couples

If both you and your spouse qualify for the foreign housing exclusion and/or the foreign housing deduction, how you figure the benefits depends on whether you maintain separate households.

Separate Households

If you and your spouse live apart and maintain separate households, you both may be able to claim the foreign housing exclusion and/or the foreign housing deduction.

You both can claim the exclusion and/or the deduction if both of the following conditions are met.

- You and your spouse have different tax homes that aren't within reasonable commuting distance of each other.
- Neither spouse's residence is within reasonable commuting distance of the other spouse's tax home.

Housing exclusion. Each spouse claiming a housing exclusion must figure separately the part of the housing amount that is attributable to employer-provided amounts, based on the separate foreign earned income.

One Household

If you and your spouse live in the same foreign household and file a joint return, you may figure your housing amounts jointly or separately.

However, if you and your spouse live in the same foreign household and you choose to file separate returns, you must figure your housing amounts separately.

In computing the housing amounts jointly, you can combine your housing expenses and figure one base housing amount. Either spouse (but not both) can claim the housing exclusion and/or housing deduction. However, if you and your spouse have different periods of residence or presence and the one with the shorter period of residence or presence claims the exclusion and/or deduction, you can claim as housing expenses only the expenses for that shorter period.

In computing housing amounts separately, spouses must figure the housing amounts separately using the spouse's respective base house amount. Spouses may allocate all housing expenses to one spouse or allocate housing expenses between the spouses so

long as there's no duplication of housing expenses being excluded or deducted.

Tip: Because each spouse must use their full base housing amount in the calculation, it may be advantageous for spouses residing together and filing jointly to allocate all housing expenses to one spouse and compute their housing cost amounts separately.

Example. Tom and Jane live together and file a joint return. Tom was a bona fide resident of and had his tax home in Ghana from August 17, 2024, through December 31, 2025. Jane was a bona fide resident of and had her tax home in Ghana from September 15, 2024, through December 31, 2025.

During 2024, Tom received \$75,000 of foreign earned income and Jane received \$50,000 of foreign earned income. Tom paid \$10,000 for housing expenses, of which \$7,500 was for expenses incurred from September 15 through the end of the year.

Jane paid \$3,000 for housing expenses in 2024, all of which were incurred during her period of residence in Ghana.

Tom and Jane figure their housing amount jointly. If Tom claims the housing exclusion, their housing expenses would be \$13,000 ($\$10,000 + \$3,000$) and their base housing amount, using Tom's 2024 period of residence (August 17–December 31, 2024), would be \$7,754 ($\56.60×137 days). Tom's housing amount would be \$5,246 ($\$13,000 - \$7,754$). If, instead, Jane claims the housing exclusion, their housing expenses would be limited to \$10,500 ($\$7,500 + \$3,000$) and their base housing amount, using Jane's period of residence (September 15–December 31, 2024), would be \$6,113 ($\56.60×108 days). Jane's housing amount would be \$4,387 ($\$10,500 - \$6,113$).

For more guidance on foreign earned income exclusion, foreign housing exclusion, and foreign housing deduction, see [Form 2555](#)

[and its instructions](#), and International practice units are available for help with questions and issues, earlier.

5.

Deductions and Credits

Topics

This chapter discusses:

- The rules concerning items related to excluded income,
- Contributions to foreign charitable organizations,
- Contributions to individual retirement arrangements (IRAs),
- Taxes of foreign countries and U.S. territories, and
- How to report deductions.

Useful Items

You may want to see:

Publication

- ☐ **501** Dependents, Standard Deduction, and Filing Information
- ☐ **514** Foreign Tax Credit for Individuals
- ☐ **523** Selling Your Home
- ☐ **526** Charitable Contributions
- ☐ **590-A** Contributions to Individual Retirement Arrangements (IRAs)
- ☐ **597** Information on the United States–Canada Income Tax Treaty

Form (and Instructions)

- ☐ **1116** Foreign Tax Credit
- ☐ **2106** Employee Business Expenses
- ☐ **2555** Foreign Earned Income

- ☐ **Schedule A (Form 1040)**
Itemized Deductions
- ☐ **Schedule C (Form 1040)** Profit or
Loss From Business
- ☐ **SS-5** Application for a Social
Security Card
- ☐ **W-7** Application for IRS Individual
Taxpayer Identification Number

See chapter 7 for information about getting these publications and forms.

Items Related to Excluded Income

U.S. citizens and resident aliens living outside the United States are generally allowed the same deductions as citizens and residents living in the United States.

If you choose to exclude foreign earned income or housing amounts, you cannot deduct, exclude, or claim a credit for any item that can be allocated to or charged against the excluded amounts. This includes any

expenses, losses, and other normally deductible items that are allocable to the excluded income. You can deduct only those expenses connected with earning includible income.

These rules apply only to items definitely related to the excluded earned income and they do not apply to other items that aren't definitely related to any particular type of gross income. These rules don't apply to items such as:

- Qualified retirement contributions,
- Alimony payments,
- Charitable contributions,
- Medical expenses,
- Mortgage interest, or
- Real estate taxes on your personal residence.

For purposes of these rules, your housing deduction isn't treated as allocable to your excluded income, but the deduction for self-employment tax is.

If you receive foreign earned income in a tax year after the year in which you earned it, you may have to file an amended return for the earlier year to properly adjust the amounts of deductions, credits, or exclusions allocable to your foreign earned income and housing exclusions.

Example. In 2022, you had \$95,600 of foreign earned income and \$9,500 of deductions allocable to your foreign earned income. You did not have a housing exclusion. Because you excluded all of your foreign earned income, you would not have been able to claim any of the deductions on your 2022 return.

In 2023, you received an \$18,000 bonus for work you did abroad in 2022. You can exclude \$16,400 of the bonus because the limit on the

foreign earned income exclusion for 2022 was \$112,000 and you have already excluded \$95,600. Because you must include \$1,600 of the bonus (\$18,000 – \$16,400) for work you did in 2022 in income, you can file an amended return for 2021 to claim \$133.80 ($\$9,500 \times \$1,600 / \$113,600$) of the deductions. These are the deductions allocable to the foreign earned income (\$9,500) multiplied by the includible portion of the foreign earned income (\$1,600) and divided by the total foreign earned income for 2022 (\$113,600).

Contributions to Foreign Charitable Organizations

If you make contributions directly to a foreign church or other foreign charitable organization, you generally cannot deduct them. Exceptions are explained under Canadian, Mexican, and Israeli charities, later.

You can deduct contributions to a U.S. organization that transfers funds to a charitable foreign organization if the U.S. organization controls the use of the funds by the foreign organization or if the foreign organization is just an administrative arm of the U.S. organization.

Canadian, Mexican, and Israeli charities.

Under the income tax treaties with Canada, Mexico, and Israel, you may be able to deduct contributions to certain Canadian, Mexican, and Israeli charitable organizations.

Generally, you must have income from sources in Canada, Mexico, or Israel, and the organization must meet certain requirements. See Pub. 597, Information on the United States-Canada Income Tax Treaty, available at [IRS.gov/ Pub597](https://www.irs.gov/pub/irs-soi/12500101.pdf), and Pub. 526, Charitable Contributions, available at [IRS.gov/Pub526](https://www.irs.gov/pub/irs-soi/12500101.pdf), for more information.

Contributions to Individual Retirement Arrangements (IRAs)

Contributions to your IRAs that are traditional IRAs or Roth IRAs are generally limited to the lesser of the maximum annual amount for the specific tax year, or your compensation that is includible in your gross income for the tax year. In determining compensation for this purpose, don't take into account amounts you exclude under either the foreign earned income exclusion or the foreign housing exclusion. Don't reduce your compensation by the foreign housing deduction.

If you are covered by an employer retirement plan at work, your deduction for your contributions to your traditional IRAs is generally limited based on your MAGI. This is your adjusted gross income figured without taking into account the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction. Other modifications are also required.

For more information on contributions to IRAs, see Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs), available at [IRS.gov/Pub590A](https://www.irs.gov/pub590a).

Taxes of Foreign Countries and U.S. Territories

You can take either a credit or a deduction for income taxes paid to a foreign country or a U.S. territory. Taken as a deduction, foreign income taxes reduce your taxable income. Taken as a credit, foreign income taxes reduce your tax liability. You must treat all foreign income taxes the same way. If you take a credit for any foreign income taxes, you cannot deduct any foreign income taxes. However, you may be able to deduct other foreign taxes. See *Deduction for Other Foreign Taxes*, later.

There is no rule to determine whether it is to your advantage to take a deduction or a credit for foreign income taxes.

In most cases, it is to your advantage to take foreign income taxes as a tax credit, which you subtract directly from your U.S. tax liability, rather than as a deduction in figuring taxable income. However, if foreign income taxes were imposed at a high rate and the proportion of foreign income to U.S. income is small, a lower final tax may result from deducting the foreign income taxes.

In any event, you should figure your tax liability both ways and then use the one that is better for you.

You can choose to claim a credit or to change from claiming a deduction to claiming a credit at any time during the period within 10 years from the regular due date for filing the return (without regard to any extension of time to file) for the tax year in which the taxes were actually paid or accrued. You can also choose to claim a deduction or to change from claiming a credit to claiming a deduction at any time during the period within 3 years

from the time you filed the return or 2 years from when you paid the tax, whichever is later. This 10-year or 3-year (or 2-year) period may be extended by an agreement. You make or change your choice on your tax return (or on an amended return) for the year your choice is to be effective.

Foreign income taxes. These are generally income taxes you pay to any foreign country or U.S. territory.

Foreign income taxes on U.S. return.

Foreign income taxes can only be taken as a credit on Schedule 3 (Form 1040), line 1, or as an itemized deduction on Schedule A (Form 1040). These amounts cannot be included as withheld income taxes on Form 1040 or 1040-SR, line 25.

Foreign taxes paid on excluded income.

You cannot take a credit or deduction for foreign income taxes paid on earnings you exclude from tax under any of the following.

- Foreign earned income exclusion.
- Foreign housing exclusion.
- Territory exclusion.

If your wages are completely excluded, you can't deduct or take a credit for any of the foreign taxes paid on your wages.

If only part of your wages is excluded, you can't deduct or take a credit for the foreign income taxes allocable to the excluded part. You find the taxes allocable to your excluded wages by applying a fraction to the foreign taxes paid on foreign earned income received during the tax year. The numerator (top number) of the fraction is your excluded foreign earned income received during the tax year minus deductible expenses allocable to that income (not including the foreign housing deduction). The denominator (bottom number) of the fraction is your total foreign

earned income received during the tax year minus all deductible expenses allocable to that income (including the foreign housing deduction).

If foreign law taxes both earned income and some other type of income and the taxes on the other type can't be separated, the denominator of the fraction is the total amount of income subject to foreign tax minus deductible expenses allocable to that income.

Caution: If you take a foreign tax credit for tax on income you could have excluded under your choice to exclude foreign earned income or your choice to exclude foreign housing costs, one or both of the choices may be considered revoked.

Credit for Foreign Income Taxes

If you take the foreign tax credit, you may have to file Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), available at

[IRS.gov/Form1116](https://www.irs.gov/Form1116), with Form 1040 or 1040-SR. Form 1116 is used to figure the amount of foreign tax paid or accrued that can be claimed as a foreign tax credit. Don't include the amount of foreign tax paid or accrued as withheld federal income taxes on Form 1040 or 1040-SR, line 25.

The foreign income tax for which you can claim a credit is the amount of legal and actual tax liability you pay or accrue during the year. The amount for which you can claim a credit is not necessarily the amount withheld by the foreign country. You can't take a foreign tax credit for income tax you paid to a foreign country that would be refunded by the foreign country if you made a claim for refund.

Subsidies. If a foreign country returns your foreign tax payments to you in the form of a subsidy, you cannot claim a foreign tax credit based on these payments.

This rule applies to a subsidy provided by any means that is determined, directly or indirectly, by reference to the amount of tax, or to the base used to figure the tax.

Some ways of providing a subsidy are refunds, credits, deductions, payments, or discharges of obligations. A credit is also not allowed if the subsidy is given to a person related to you, or persons who participated in a transaction or a related transaction with you.

Limit

The foreign tax credit is limited to the part of your total U.S. tax that is in proportion to your taxable income from sources outside the United States compared to your total taxable income. The allowable foreign tax credit can't be more than your actual foreign tax liability.

Exemption from limit. You won't be subject to this limit and won't have to file Form 1116 if you meet all three of the following requirements.

- Your only foreign source income for the year is passive income (dividends, interest, royalties, etc.) that is reported to you on a payee statement (such as a Form 1099-DIV or 1099-INT).
- Your foreign taxes for the year that qualify for the credit are not more than \$300 (\$600 if you are filing a joint return) and are reported on a payee statement.
- You elect this procedure.

If you make this election, you can't carry back or carry over any unused foreign tax to or from this year.

Separate limit. You must figure the limit on a separate basis with regard to section 951A category income, foreign branch category income, passive category income, general

category income, section 901(j) income, certain income re-sourced by treaty, and any lump-sum distributions from an employer benefit plan for which the special averaging treatment is used to determine your tax (see the [*Instructions for Form 1116*](#)).

Figuring the limit. In figuring taxable income in each category, you take into account only the amount that you must include in income on your federal tax return. Don't take any excluded amount into account.

To determine your taxable income in each category, deduct expenses and losses that are definitely related to that income.

Other expenses (such as itemized deductions or the standard deduction) not definitely related to specific items of income must be apportioned to the foreign income in each category by multiplying them by a fraction. The numerator (top number) of the fraction is your gross foreign income in the separate limit category.

The denominator (bottom number) of the fraction is your gross income from all sources. For this purpose, gross income includes income that is excluded under the foreign earned income provisions but does not include any other exempt income. You must use special rules for deducting interest expenses. For more information on allocating and apportioning your deductions, see Pub. 514, Foreign Tax Credit for Individuals, available at [IRS.gov/Pub514](https://www.irs.gov/pub514).

Recapture of foreign losses. If you have an overall foreign loss and the loss reduces your U.S. source income (resulting in a reduction of your U.S. tax liability with respect to U.S. source income), you must recapture the loss in later years when you have taxable income from foreign sources. This is done by treating a part of your taxable income from foreign sources in later years as U.S. source income.

This reduces the numerator of the limiting fraction and the resulting foreign tax credit limit.

Recapture of domestic losses. If you have an overall domestic loss and the loss reduces your foreign source income (resulting in a reduction in the amount of foreign tax

credit you can claim for taxes paid during that year), you must recapture the loss in later years when you have U.S. source taxable income. This is done by treating a part of your taxable income from U.S. sources in later years as foreign source income. This increases the numerator of the limitation fraction and the resulting foreign tax credit limit.

Foreign tax credit carryback and carryover. The amount of foreign income tax not allowed as a credit because of the limit can be carried back 1 year and carried forward 10 years.

Schedule B (Form 1116) is used to reconcile your prior-year foreign tax carryover with your current year foreign tax carryover. The schedule replaces the previous attachment requirement for Part III, line 10, of Form 1116. For more information, see the Instructions for Schedule B and the instructions for Form 1116, line 10, at [Form 1116](#).

Deduction for Foreign Income Taxes

Instead of taking the foreign tax credit, you can deduct foreign income taxes as an itemized deduction on Schedule A (Form 1040), available at [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA).

You deduct only foreign income taxes paid on income that is subject to U.S. tax. You can't deduct foreign taxes paid on earnings you exclude from tax under any of the following.

- Foreign earned income exclusion.
- Foreign housing exclusion.

- Territory exclusion.

Example. You are a U.S. citizen and qualify to exclude your foreign earned income. Your excluded wages in Country X are \$70,000 on which you paid income tax of \$10,000. You received dividends from Country X of \$2,000 on which you paid income tax of \$600.

You can deduct the \$600 tax payment because the dividends relating to it are subject to U.S. tax. Because you exclude your wages, you cannot deduct the income tax of \$10,000.

If you exclude only a part of your wages, see the earlier discussion under foreign taxes paid on excluded income.

Deduction for Other Foreign Taxes

You cannot deduct other foreign taxes, such as real property or personal property taxes, unless you incurred the expenses in a trade or business or in the production of income.

On the other hand, you can generally deduct real property or personal property taxes when you pay them to U.S. territories. But if you claim the territory exclusion, see [*Pub. 570*](#).

The deduction for foreign taxes other than foreign income taxes isn't related to the foreign tax credit. You can take deductions for these miscellaneous foreign taxes and also claim the foreign tax credit for income taxes imposed by a foreign country.

How To Report Deductions

If you exclude foreign earned income or housing amounts, how you show your deductions on your tax return and how you figure the amount allocable to your excluded income depend on whether the expenses are used in figuring adjusted gross income (Form 1040 or 1040-SR, line 11) or are itemized deductions.

If you have deductions used in figuring adjusted gross income, enter the total amount for each of these items on the appropriate lines and schedules of Form 1040 or 1040-SR. Generally, you figure the amount of a deduction related to the excluded income by multiplying the deduction by a fraction, the numerator of which is your foreign earned income exclusion and the denominator of which is your foreign earned income. Enter the amount of the deduction(s) related to excluded income on line 44 of Form 2555.

If you have itemized deductions related to excluded income, enter on Schedule A (Form 1040) only the part not related to excluded income. You figure that amount by subtracting from the total deduction the amount related to excluded income.

Generally, you figure the amount that is related to the excluded income by multiplying the total deduction by a fraction, the numerator of which is your foreign earned

income exclusion and the denominator of which is your foreign earned income. Attach a statement to your return showing how you figured the deductible amount.

Example 1. You are a U.S. citizen employed as an accountant. Your tax home is in Germany for the entire tax year. You meet the physical presence test. Your foreign earned income for the year was \$129,875 and your investment income was \$8,890. After excluding \$120,000, your adjusted gross income is \$18,765.

Generally, mortgage interest is deductible on Schedule A (Form 1040). You paid mortgage interest on your foreign home of \$15,000. Your mortgage is under \$750,000. Reduce the \$15,000 of your mortgage interest by 92.3% (0.923) (\$13,845) because you excluded 92.3% (0.923) ($\$120,000/\$129,875$) of your foreign earned income.

The remaining mortgage interest of \$1,155 can be deducted on line 8a or 8b of Schedule A (Form 1040).

Example 2. You are a U.S. citizen, have a tax home in Spain, and meet the physical presence test. You are self-employed and personal services produce the business income. Your gross income was \$121,842, business expenses were \$67,695, and net income (profit) was \$54,147. You choose the foreign earned income exclusion and exclude \$120,000 of your gross income. Because your excluded income is 98.48% (0.9848) of your total income, 98.48% (0.9848) of your business expenses are not deductible. Report your total income and expenses on Schedule C (Form 1040). On Form 2555, you will show the following.

- Line 20a, \$121,842, gross income.
- Lines 42 and 43, \$120,000, foreign earned income exclusion.

- Line 44, \$66,666 ($98.48\% (0.9848) \times \$67,695$), business expenses attributable to the exclusion.

Example 3. Assume in *Example 2* that both capital and personal services combine to produce the business income. No more than 30% of your net income or \$16,244 ($\$54,147 \times 30\% (0.30)$), assuming that this amount is a reasonable allowance for your services, is considered earned and can be excluded. Your exclusion of \$16,244 is 13.33% of your gross income ($\$16,244 \div \$121,842$). Because you excluded 13.33% of your net income, \$9,024 ($13.33\% (0.1333) \times \$67,695$) of your business expenses is attributable to the excluded income and is not deductible.

Example 4. You are a U.S. citizen, have a tax home in Brazil, and meet the physical presence test. You are self-employed and both capital and personal services combine to produce business income.

Your gross income was \$146,000, business expenses were \$172,000, and your net loss was \$26,000. A reasonable allowance for the services you performed for the business is \$77,000. Because you incurred a net loss, the earned income limit of 30% of your net profit does not apply. The \$77,000 is foreign earned income. If you choose to exclude the \$77,000, you exclude 52.74% of your gross income ($\$77,000 \div \$146,000$), and 52.74% of your business expenses (\$90,713) is attributable to that income and is not deductible. Show your total income and expenses on Schedule C (Form 1040). On Form 2555, exclude \$77,000 and show \$90,713 on line 44. Subtract line 44 from line 43, and enter the difference as a negative (in parentheses) on line 45. Because this amount is negative, enter it as a positive (no parentheses) on line 8d of Schedule 1 (Form 1040), and combine it with your other income to arrive at total income on line 9 of Schedule 1 (Form 1040).

Tip: In Example 4, if this was the first year you were eligible to claim the foreign earned income exclusion, you probably would not want to do so because you have a net loss. However, if you have a valid election in place from an earlier year and decide not to take the exclusion, you will be considered to have revoked your election and cannot claim the exclusion again for the next 5 tax years without IRS approval. See *Effect of Choosing the Exclusions and Deduction* in chapter 4.

Example 5. You are a U.S. citizen, have a tax home in Panama, and meet the bona fide residence test. You have been performing services for clients as a partner in a firm that provides services exclusively in Panama. Capital investment is not material in producing the partnership's income. Under the terms of the partnership agreement, you are to receive 50% of the net profits.

The partnership received gross income of \$248,000 and incurred operating expenses of \$102,250. Of the net profits of \$145,750, you received \$72,875 as your distributive share.

You choose to exclude \$120,000 of your share of the gross income. Because you exclude 96.77% (0.9677) ($\$120,000 \div \$124,000$) of your share of the gross income, you cannot deduct \$49,474, which is 96.77% (0.9677) of your share of the operating expenses ($96.77\% (0.9677) \times \$51,125$).

Report \$72,875, your distributive share of the partnership net profit, on Schedule E (Form 1040). On Form 2555, show \$120,000 on line 42 and show \$49,474 on line 44. Your exclusion on Form 2555 is \$70,521.

6.

Tax Treaty Benefits

Topics

This chapter discusses:

- Some common tax treaty benefits,
- How to get help in certain situations, and
- How to get copies of tax treaties.

Useful Items

You may want to see:

Publication

- ☐ **597** Information on the United States–Canada Income Tax Treaty
- ☐ **901** U.S. Tax Treaties

See chapter 7 for information about getting these publications.

Purpose of Tax Treaties

The United States has bilateral income tax treaties, also known as conventions, with many countries. See Table 3 under the list of

tax treaty tables at [IRS.gov/TreatyTables](https://www.irs.gov/TreatyTables) for a list of countries with which the United States has an income tax treaty in effect.

Under these treaties, citizens and residents of the United States who are subject to taxes imposed by the foreign countries may be entitled to certain credits, deductions, exemptions, and reductions in the rate of taxes of those foreign countries. If a foreign country with which the United States has a treaty imposes a tax on you, you may be entitled to benefits under the treaty.

Treaty benefits are generally available to residents of the United States. They are generally not available to U.S. citizens who do not reside in the United States.

However, certain treaty benefits and safeguards, such as the nondiscrimination provisions, are available to U.S. citizens residing in the treaty countries. U.S. citizens residing in a foreign country may also be

entitled to benefits under that country's tax treaties with third countries.

Certification of U.S. residency. Use Form 8802, Application for United States Residency Certification, available at [IRS.gov/Form8802](https://www.irs.gov/Form8802), to request certification of U.S. residency for purposes of claiming benefits under a tax treaty. Certification can be requested for the current and any prior calendar years.

Tip: You should examine the specific treaty articles to find if you are entitled to a tax credit, tax exemption, reduced rate of tax, or other treaty benefit or safeguard.

For more information on tax treaties, go to [IRS.gov/ TreatyTables](https://www.irs.gov/TreatyTables).

Common Benefits

Some common tax treaty benefits are explained below. The credits, deductions, exemptions, reductions in rate, and other benefits provided by tax treaties are subject to conditions and various restrictions. Benefits

provided by certain treaties are not necessarily provided by others.

Personal service income. If you are a U.S. resident who is in a treaty country for a limited number of days in the tax year and you meet certain other requirements, the payment you receive for personal services performed in that country may be exempt from that country's income tax.

Professors and teachers. If you are a U.S. resident, the payment you receive for the first 2 or 3 years that you are teaching or doing research in a treaty country may be exempt from that country's income tax.

Students, trainees, and apprentices. If you are a U.S. resident, amounts you receive from the United States for study, research, or business, professional, and technical training in a treaty country may be exempt from a treaty country's income tax.

Some treaties exempt non-compensatory grants, allowances, and awards received from

governmental and certain nonprofit organizations. Also, under certain circumstances, a limited amount of pay received by students, trainees, and apprentices for the performance of services in a treaty country may be exempt from the income tax of many treaty countries.

Pensions and annuities. If you are a U.S. resident, nongovernment pensions and annuities you receive may be exempt from the income tax of treaty countries.

Investment income. If you are a U.S. resident, investment income, such as interest and dividends, that you receive from sources in a treaty country may be exempt from that country's income tax or taxed at a reduced rate.

Several treaties provide exemption for capital gains (other than from sales of real property in most cases) if specified requirements are met.