

# Publication 54

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

For use in preparing  
**2022** Returns

Volume 2 of 4



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Department of the Treasury **Internal Revenue Service** [www.irs.gov](http://www.irs.gov)

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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 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 Commonwealth of the Northern Mariana Islands, American Samoa, or the U.S. Virgin Islands), 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. Residents of Puerto Rico may file the Spanish-language Formulario 1040-PR.

If you are not enclosing a check or money order, file your return with:

Department of the Treasury  
Internal Revenue Service  
Austin, TX 73301-0215

If you are enclosing a check or money order, file your return with:

Internal Revenue Service  
P.O. Box 1303  
Charlotte, NC 28201-1303

# 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. See *Bilateral Social Security (Totalization) Agreements* in chapter 2 under *Social Security and Medicare Taxes*. 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.

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 and Housing: Exclusion – Deduction**

## **Topics**

This chapter discusses:

- Who qualifies for the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction;

- The requirements that must be met to claim either of the exclusions or the deduction;
- How to determine the amount of the foreign earned income exclusion; and
- How to figure the foreign housing exclusion and the foreign housing deduction.

## Useful Items

You may want to see:

### Publication

- ☐ **519** U.S. Tax Guide for Aliens
- ☐ **570** Tax Guide for Individuals With Income From U.S. Possessions
- ☐ **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 and foreign housing exclusion or the foreign housing deduction.

If you are a U.S. citizen or resident alien and you live abroad, you are taxed on your worldwide income. However, you may qualify to exclude from income up to \$112,000 of your foreign earnings. In addition, you can exclude or deduct certain foreign housing amounts. See *Foreign Earned Income Exclusion* and *Foreign Housing Exclusion and Deduction*, 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, or the foreign housing deduction, you must meet all three of the following requirements.

1. Your tax home must be in a foreign country.
2. You must have foreign earned income.
3. You must be one of the following.
  - a. A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year.
  - b. 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 and who is a bona fide resident

of a foreign country or countries for an uninterrupted period that includes an entire tax year.

- c. A U.S. citizen or a resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months.

See [Pub. 519](#) to find out if you are a U.S. resident alien for tax purposes and whether you keep that alien status when you temporarily work abroad.

If you are a nonresident alien married to a U.S. citizen or resident alien, and both you and your spouse choose to treat you as a resident alien, you are a resident alien for tax purposes. For information on making the choice, see the discussion in chapter 1 under *Nonresident Alien Spouse Treated as a Resident*.

## **Waiver of minimum time 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. This is fully explained under Waiver of Time Requirements, later.

See Figure 4-A and information in this chapter to determine if you are eligible to claim either one of the exclusions or the deduction.

## **Tax Home in Foreign Country**

To qualify for the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, your tax home must be in a foreign country throughout your period of bona fide residence or physical presence abroad. See Bona Fide Residence Test and Physical Presence Test, later.

## **Tax Home**

Your tax home is the general area of your main place of business, employment, or post of duty, regardless of where you maintain your family home. Your tax home is the place where you are permanently or indefinitely engaged to work as an employee or self-employed individual. Having a “tax home” in a given location doesn’t necessarily mean that the given location is your residence or domicile for tax purposes.

If you do not have a regular or main place of business because of the nature of your work, your tax home may be the place where you regularly live. If you have neither a regular or main place of business nor a place where you regularly live, you are considered an itinerant and your tax home is wherever you work.

You aren’t considered to have a tax home in a foreign country for any period in which your abode is in the United States, unless you are

serving in support of the U.S. Armed Forces in an area designated as a combat zone. See *Service in a combat zone*, later. Otherwise, if your abode is in the United States, you will not meet the tax home test and cannot claim the foreign earned income exclusion.

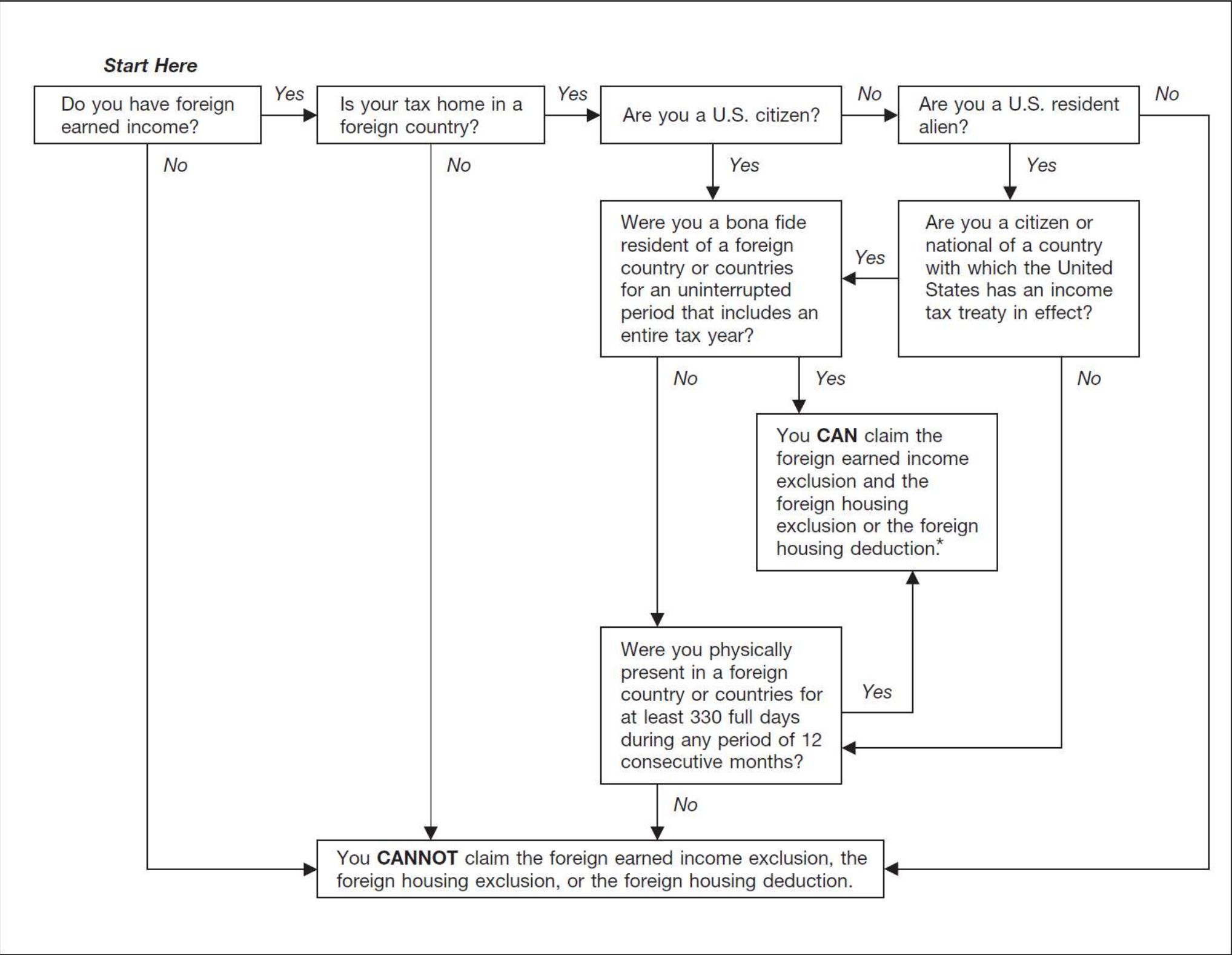
The location of your abode is based on where you maintain your family, economic, and personal ties. Your abode is not necessarily in the United States merely because you maintain a dwelling in the United States, whether or not your spouse or dependents use the dwelling. Your abode is also not necessarily in the United States while you are temporarily in the United States; however, these factors can contribute to your having an abode in the United States.

***Example 1.*** You are employed on an offshore oil rig in the territorial waters of a foreign country and work a 28-day on/28-day off schedule. You return to your family residence in the United States during your off periods.

You are considered to have an abode in the United States and don't satisfy the tax home test in the foreign country. You can't claim either of the exclusions or the housing deduction.

***Example 2.*** For several years, you were a marketing executive with a producer of machine tools in Toledo, Ohio. In November of last year, your employer transferred you to London, England, for a minimum of 18 months to set up a sales operation for Europe. Before you left, you distributed business cards showing your business and home addresses in London. You kept ownership of your home in Toledo but rented it to another family. You placed your car in storage. In November of last year, you moved your spouse, children, furniture, and family pets to a home your employer rented for you in London.

Figure 4-A. Can I Claim Either Exclusion or the Deduction?



\* Foreign housing exclusion applies only to employees. Foreign housing deduction applies only to the self-employed.

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Shortly after moving, you leased a car and you and your spouse got British driver's licenses. Your entire family got library cards for the local public library. You and your spouse opened bank accounts with a London bank and secured consumer credit. You joined a local business league and both you and your spouse became active in the neighborhood civic association and worked with a local charity. Your abode is in London for the time you live there.

**Service in a combat zone.** U.S. citizens or residents serving in an area designated by the President of the United States by Executive Order as a combat zone for purposes of section 112 in support of the U.S. Armed Forces can qualify as having a tax home in a foreign country, even if they have an abode within the United States. For a list of IRS-recognized combat zones, go to [IRS.gov/Newsroom/CombatZones](https://www.irs.gov/Newsroom/CombatZones).

## **Temporary or Indefinite Assignment**

The location of your tax home often depends on whether your assignment is temporary or indefinite. If you are temporarily absent from your tax home in the United States on business, you may be able to deduct your away-from-home expenses (for travel, meals, and lodging), but you wouldn't qualify for the foreign earned income exclusion. If your new work assignment is for an indefinite period, your new place of employment becomes your tax home and you wouldn't be able to deduct any of the related expenses that you have in the general area of this new work assignment. If your new tax home is in a foreign country and you meet the other requirements, your earnings may qualify for the foreign earned income exclusion.

If you expect your employment away from home in a single location to last, and it does last, for 1 year or less, it is temporary unless facts and circumstances indicate otherwise.

If you expect it to last for more than 1 year, it is indefinite.

If you expect it to last for 1 year or less, but at some later date you expect it to last longer than 1 year, it is temporary (in the absence of facts and circumstances indicating otherwise) until your expectation changes. Once your expectation changes, it is indefinite.

## **Foreign Country**

To meet the bona fide residence test or the physical presence test, you must live in or be present in a foreign country. A foreign country includes any territory under the sovereignty of a government other than that of the United States.

The term “foreign country” includes the country's airspace and territorial waters, but not international waters and the airspace above them. It also includes the seabed and subsoil of those submarine areas adjacent to the country's territorial waters over which it

has exclusive rights under international law to explore and exploit the natural resources.

The term “foreign country” doesn’t include Antarctica or U.S. territories such as Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the U.S. Virgin Islands, and American Samoa. For purposes of the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction, the terms “foreign,” “abroad,” and “overseas” refer to areas outside the United States and those areas listed or described in the previous sentence.

## **American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands**

Residence or presence in a U.S. territory doesn’t qualify you for the foreign earned income exclusion. You may, however, qualify for an exclusion of your territory income on your U.S. return.

**American Samoa.** There is a territory exclusion available to individuals who are bona fide residents of American Samoa for the entire tax year. Gross income from sources within American Samoa may be eligible for this exclusion. Income that is effectively connected with the conduct of a trade or business within American Samoa may also be eligible for this exclusion. Use [Form 4563](#) to figure the exclusion.

**Guam and the Commonwealth of the Northern Mariana Islands.** An exclusion will be available to residents of Guam and the Commonwealth of the Northern Mariana Islands if, and when, new implementation agreements take effect between the United States and those territories.

For more information, see [Pub. 570](#).

## **Puerto Rico and the U.S. Virgin Islands**

Residents of Puerto Rico and the U.S. Virgin Islands can't claim the foreign earned income exclusion or the foreign housing exclusion.

**Puerto Rico.** Generally, if you are a U.S. citizen who is a bona fide resident of Puerto Rico for the entire tax year, you aren't subject to U.S. tax on income from Puerto Rican sources. This doesn't include amounts paid for services performed as an employee of the United States. However, you are subject to U.S. tax on your income from sources outside Puerto Rico. In figuring your U.S. tax, you can't deduct expenses allocable to income not subject to tax.

### **Bona Fide Residence Test**

You meet the bona fide residence test if you are a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year. You can use the

bona fide residence test to qualify for the exclusions and the deduction 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. If you go to a foreign country to work on a particular job for a specified period of time, you won't ordinarily be regarded as a bona fide resident of that country even though you work there for 1 tax year or longer. The length of your stay and the nature of your job are only two of the factors to be considered in determining whether you meet the bona fide residence test.

**Bona fide residence.** To meet the bona fide residence test, you must have established a bona fide residence in a foreign country.

Your bona fide residence isn't necessarily the same as your domicile. Your domicile is your permanent home, the place to which you always return or intend to return.

**Example.** You could have your domicile in Cleveland, Ohio, and a bona fide residence in Edinburgh, Scotland, if you intend to return eventually to Cleveland.

The fact that you go to Scotland does not automatically make Scotland your bona fide residence. If you go there as a tourist, or on a short business trip, and return to the United States, you haven't established bona fide residence in Scotland. But if you go to Scotland to work for an indefinite or extended period and you set up permanent quarters there for yourself and your family, you have probably established a bona fide residence in



a foreign country, even though you intend to return eventually to the United States.

You are clearly not a resident of Scotland in the first instance. However, in the second, you are a resident because your stay in Scotland appears to be permanent. If your residency is not as clearly defined as either of these illustrations, it may be more difficult to decide whether you have established a bona fide residence.

***Determination.*** Questions of bona fide residence are determined according to each individual case, taking into account factors such as your intention, the purpose of your trip, and the nature and length of your stay abroad.

To meet the bona fide residence test, you must show the IRS that you have been a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year. The IRS decides whether you are a bona fide resident of a

foreign country largely on the basis of facts you report on Form 2555. The IRS cannot make this determination until you file Form 2555.

**Statement to foreign authorities.** You aren't considered a bona fide resident of a foreign country if you make a statement to the authorities of that country that you aren't a resident of that country, and the authorities:

- Hold that you aren't subject to their income tax laws as a resident, or
- Haven't made a final decision on your status.

**Special agreements and treaties.** An income tax exemption provided in a treaty or other international agreement won't in itself prevent you from being a bona fide resident of a foreign country. Whether a treaty prevents you from becoming a bona fide resident of a foreign country is determined

under all provisions of the treaty, including specific provisions relating to residence or privileges and immunities.

**Example 1.** You are a U.S. citizen employed in the United Kingdom by a U.S. employer under contract with the U.S. Armed Forces. You aren't subject to the North Atlantic Treaty Status of Forces Agreement. You may be a bona fide resident of the United Kingdom.

**Example 2.** You are a U.S. citizen in the United Kingdom who qualifies as an "employee" of an armed service or as a member of a "civilian component" under the North Atlantic Treaty Status of Forces Agreement. You aren't a bona fide resident of the United Kingdom.

**Example 3.** You are a U.S. citizen employed in Japan by a U.S. employer under contract with the U.S. Armed Forces. You are subject to the agreement of the Treaty of Mutual Cooperation and Security between the United States and Japan. Being subject to the

agreement doesn't make you a bona fide resident of Japan.

**Example 4.** You are a U.S. citizen employed as an "official" by the United Nations in Switzerland. You are exempt from Swiss taxation on the salary or wages paid to you by the United Nations. This doesn't prevent you from being a bona fide resident of Switzerland.

**Effect of voting by absentee ballot.** If you are a U.S. citizen living abroad, you can vote by absentee ballot in any election held in the United States without risking your status as a bona fide resident of a foreign country.

However, if you give information to the local election officials about the nature and length of your stay abroad that does not match the information you give for the bona fide residence test, the information given in connection with absentee voting will be considered in determining your status, but won't necessarily be conclusive.

**Uninterrupted period including entire tax year.** To meet the bona fide residence test, you must reside in a foreign country or countries for an uninterrupted period that includes an entire tax year. An entire tax year is from January 1 through December 31 for taxpayers who file their income tax returns on a calendar year basis.

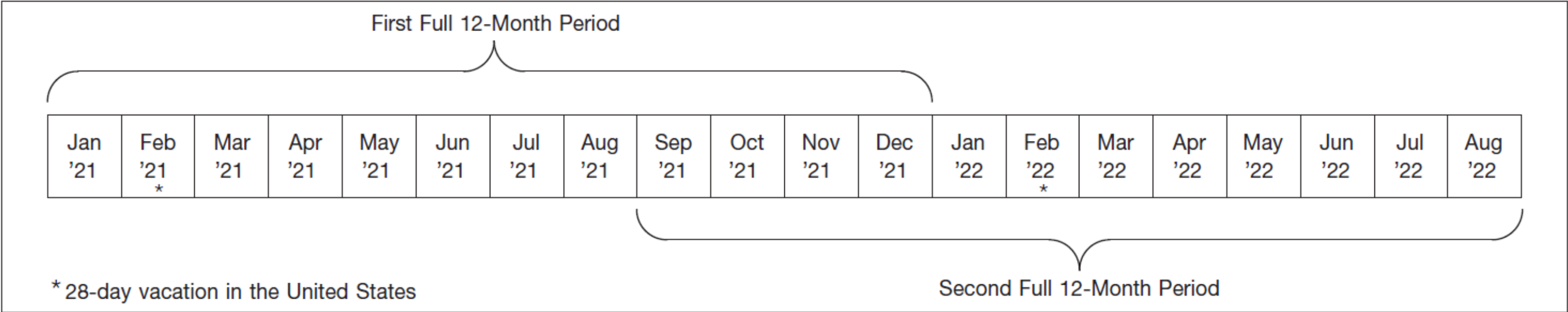
During the period of bona fide residence in a foreign country, you can leave the country for brief or temporary trips back to the United States or elsewhere for vacation or business. To keep your status as a bona fide resident of a foreign country, you must have a clear intention of returning from such trips, without unreasonable delay, to your foreign residence or to a new bona fide residence in another foreign country.

**Example 1.** You arrived with your family in Lisbon, Portugal, on November 1, 2021. Your assignment is indefinite, and you intend to live there with your family until your company

sends you to a new post. You immediately established residence there. You spent April of 2022 at a business conference in the United States. Your family stayed in Lisbon. Immediately following the conference, you returned to Lisbon and continued living there. On January 1, 2023, you completed an uninterrupted period of residence for a full tax year (2022), and you meet the bona fide residence test.

***Example 2.*** Assume the same facts as in *Example 1*, except that you transferred back to the United States on December 13, 2022. You would not meet the bona fide residence test because your bona fide residence in the foreign country, although it lasted more than a year, didn't include a full tax year. You may, however, qualify for the foreign earned income exclusion or the housing exclusion or deduction under the physical presence test (discussed later).

Figure 4-B. **How To Figure Overlapping 12-Month Periods**  
This figure illustrates Example 2 under *How to figure the 12-month period*.



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**Bona fide resident for part of a year.** Once you have established bona fide residence in a foreign country for an uninterrupted period that includes an entire tax year, you are a bona fide resident of that country for the period starting with the date you actually began the residence and ending with the date you abandon the foreign residence. Your period of bona fide residence can include an entire tax year plus parts of 2 other tax years.

***Example.*** You were a bona fide resident of Singapore from March 1, 2020, through September 14, 2022. On September 15, 2022, you returned to the United States. Since you were a bona fide resident of a foreign country for all of 2021, you were also a bona fide resident of a foreign country from March 1, 2020, through the end of 2020 and from January 1, 2022, through September 14, 2022.

***Reassignment.*** If you are assigned from one foreign post to another, you may or may not have a break in foreign residence between your assignments, depending on the circumstances.

***Example 1.*** You were a resident of Pakistan from October 1, 2021, through November 30, 2022. On December 1, 2022, you and your family returned to the United States to wait for an assignment to another foreign country. Your household goods were also returned to the United States.

Your foreign residence ended on November 30, 2022, and did not begin again until after you were assigned to another foreign country and physically entered that country. Since you weren't a bona fide resident of a foreign country for the entire tax year of 2021 or 2022, you don't meet the bona fide residence test in either year. You may, however, qualify for the foreign earned income exclusion or the

housing exclusion or deduction discussed under Physical Presence Test, later.

**Example 2.** Assume the same facts as in *Example 1*, except that upon completion of your assignment in Pakistan you were given a new assignment to Turkey. On December 1, 2022, you and your family returned to the United States for a month's vacation. On January 2, 2023, you arrived in Turkey for your new assignment. Because you didn't interrupt your bona fide residence abroad, you meet the bona fide residence test.

## **Physical Presence Test**

You meet the physical presence test if you are 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. Any U.S. citizen or resident alien can use the physical presence test to qualify for the exclusions and the deduction.

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.

**330 full days.** Generally, to meet the physical presence test, you must be physically present in a foreign country or countries for at least 330 full days during a 12-month period. You can count days you spent abroad for any reason. You don't have to be in a foreign country only for employment purposes. You can be on vacation.

You don't meet the physical presence test if illness, family problems, a vacation, or your employer's orders cause you to be present for less than the required amount of time.

***Exception.*** You can be physically present in a foreign country or countries for less than 330 full days and still meet the physical presence

test if you are required to leave a country because of war or civil unrest. See *Waiver of Time Requirements*, later.

**Full day.** A full day is a period of 24 consecutive hours, beginning at midnight.

**Travel.** When you leave the United States to go directly to a foreign country or when you return directly to the United States from a foreign country, the time you spend on or over international waters doesn't count toward the 330-day total.

**Example.** You leave the United States for France by air on June 10. You arrive in France at 9:00 a.m. on June 11. Your first full day of physical presence in France is June 12.

***Passing over foreign country.*** If, in traveling from the United States to a foreign country, you pass over a foreign country before midnight of the day you leave, the first day you can count toward the 330-day total is

the day following the day you leave the United States.

**Example.** You leave the United States by air at 9:30 a.m. on June 10 to travel to Kenya. You pass over western Africa at 11:00 p.m. on June 10 and arrive in Kenya at 12:30 a.m. on June 11. Your first full day in a foreign country is June 11.

**Change of location.** You can move about from one place to another in a foreign country or to another foreign country without losing full days. If any part of your travel is not within any foreign country and takes less than 24 hours, you are considered to be in a foreign country during that part of travel.

**Example 1.** You leave Ireland by air at 11:00 p.m. on July 6 and arrive in Sweden at 3:00 a.m. on July 7. Your trip takes less than 24 hours and you lose no full days.

**Example 2.** You leave Norway by ship at 10:00 p.m. on July 6 and arrive in Portugal at 6:00 a.m. on July 8. Since your travel isn't within a foreign country or countries and the trip takes more than 24 hours, you lose as full days July 6, 7, and 8. If you remain in Portugal, your next full day in a foreign country is July 9.

***In United States while in transit.*** If you are in transit between two points outside the United States and are physically present in the United States for less than 24 hours, you aren't treated as present in the United States during the transit. You are treated as traveling over areas not within any foreign country.

**How to figure the 12-month period.** There are four rules you should know when figuring the 12-month period.

- Your 12-month period can begin with any day of the month. It ends the day

before the same calendar day, 12 months later.

- Your 12-month period must be made up of consecutive months. Any 12-month period can be used if the 330 days in a foreign country fall within that period.
- You don't have to begin your 12-month period with your first full day in a foreign country or end it with the day you leave. You can choose the 12-month period that gives you the greatest exclusion.
- In determining whether the 12-month period falls within a longer stay in the foreign country, 12-month periods can overlap one another.

**Example 1.** You are a construction worker who works on and off in a foreign country over a 20-month period. You might pick up the 330 full days in a 12-month period only



during the middle months of the time you work in the foreign country because the first few and last few months of the 20-month period are broken up by long visits to the United States.

***Example 2.*** You work in New Zealand for a 20-month period from January 1, 2021, through August 31, 2022, except that you spend 28 days in February 2021 and 28 days in February 2022 on vacation in the United States. You are present in New Zealand for at least 330 full days during each of the following two 12-month periods: January 1, 2021 – December 31, 2021, and September 1, 2021 – August 31, 2022. By overlapping the 12-month periods in this way, you meet the physical presence test for the whole 20-month period. See Figure 4-B.

## **Waiver of Time Requirements**

Both the bona fide residence test and the physical presence test contain minimum time

requirements. The minimum time requirements can be waived, however, if you must leave a foreign country because of war, civil unrest, or similar adverse conditions in that country. You must be able to show that you could have reasonably expected to meet the minimum time requirements if not for the adverse conditions. To qualify for the waiver, you must actually have your tax home in the foreign country and be a bona fide resident of, or be physically present in, the foreign country on or before the beginning date of the waiver.

Early in 2023, the IRS will publish in the Internal Revenue Bulletin a list of the only countries that qualify for the waiver for 2022 and the effective dates. If you left one of the countries on or after the date listed for each country, you can meet the bona fide residence test or physical presence test for 2022 without meeting the minimum time requirement. However, in figuring your

exclusion, the number of your qualifying days of bona fide residence or physical presence includes only days of actual residence or presence within the country.

## **U.S. Travel Restrictions**

If you are present in a foreign country in violation of U.S. law, you will not be treated as a bona fide resident of a foreign country or as physically present in a foreign country while you are in violation of the law. Income that you earn from sources within such a country for services performed during a period of violation does not qualify as foreign earned income. Your housing expenses within that country (or outside that country for housing your spouse or dependents) while you are in violation of the law cannot be included in figuring your foreign housing amount.

At the time this publication was released, the only country to which travel restrictions

applied during 2022 was Cuba. However, individuals working at the U.S. Naval Base at Guantanamo Bay in Cuba are not in violation of U.S. law. Personal service income earned by individuals at the base is eligible for the foreign earned income exclusion, provided the other requirements are met.



For current information about travel restrictions go to [Travel.state.gov/content/travel/en/internationaltravel.html](https://travel.state.gov/content/travel/en/internationaltravel.html).

## **Foreign Earned Income**

To claim the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, you must have foreign earned income.

Foreign earned income is generally income you receive for services you perform during a period in which you meet both of the following requirements.

- Your tax home is in a foreign country.
- You meet either the bona fide residence test or the physical presence test.

To determine whether your tax home is in a foreign country, see *Tax Home in Foreign Country*, earlier. To determine whether you meet either the bona fide residence test or the physical presence test, see *Bona Fide Residence Test* and *Physical Presence Test*, earlier.

Foreign earned income does not include the following amounts.

- The value of meals and lodging that you exclude from your income because the meals and lodging were furnished for the convenience of your employer.
- Pension or annuity payments you receive, including social security benefits (see *Pensions and annuities*, later).

- Pay you receive as an employee of the U.S. Government. (See U.S. Government Employees, later.)
- Amounts you include in your income because of your employer's contributions to a nonexempt employee trust or to a nonqualified annuity contract.
- Payments you receive after the end of the tax year following the tax year in which you performed the services that earned the income.

**Earned income.** This is pay for personal services performed, such as wages, salaries, or professional fees. The list that follows classifies many types of income into three categories. The column headed *Variable Income* lists income that may fall into either the earned income category, the unearned income category, or partly into both. For more information on earned and unearned

income, see *Earned and Unearned Income*, later.

<b>Earned Income</b>	<b>Unearned Income</b>	<b>Variable Income</b>
Salaries and wages	Dividends	Business profits
Commissions	Interest	Royalties
Bonuses	Capital gains	Rents
Professional fees	Gambling winnings	Scholarships and fellowships
Tips	Alimony	
	Social security benefits	
	Pensions	
	Annuities	

In addition to the types of earned income listed, certain noncash income and allowances or reimbursements are considered earned income.

**Noncash income.** The fair market value of property or facilities provided to you by your employer in the form of lodging, meals, or use of a car is earned income.

**Allowances or reimbursements.** Earned income includes allowances or reimbursements you receive, such as the following amounts.

- Cost-of-living allowances.
- Overseas differential.
- Family allowance.
- Reimbursement for education or education allowance.
- Home leave allowance.
- Quarters allowance.



- Reimbursement for moving or moving allowance (unless excluded from income as discussed later in *Reimbursement of employee expenses* under *Earned and Unearned Income*).

## **Source of Earned Income**

The source of your earned income is the place where you perform the services for which you received the income. Foreign earned income is income you receive for working in a foreign country. Where or how you are paid has no effect on the source of the income. For example, income you receive for work done in Austria is income from a foreign source even if the income is paid directly to your bank account in the United States and your employer is located in New York City.

***Example.*** You are a U.S. citizen, a bona fide resident of Canada, and working as a mining engineer. Your salary is \$76,800 per year. You also receive a \$6,000 cost-of-living

allowance, and a \$6,000 education allowance. Your employment contract did not indicate that you were entitled to these allowances only while outside the United States. Your total income is \$88,800. You work a 5-day week, Monday through Friday. After subtracting your vacation, you have a total of 240 workdays in the year. You worked in the United States during the year for 6 weeks (30 workdays). The following shows how to figure the part of your income that is for work done in Canada during the year.

Number of days worked in Canada during the year (210)

Number of  
days worked  
in Canada  
during the  
year (210)

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$$\begin{array}{l} \text{Number of} \\ \text{days of work} \\ \text{during the} \\ \text{year for} \\ \text{which} \\ \text{payment} \\ \text{was made} \\ (240) \end{array} \times \begin{array}{l} \text{Total income} \\ (\$88,800) \end{array} = \$77,700$$

Your foreign source earned income is \$77,700.

## **Earned and Unearned Income**

Earned income was defined earlier as pay for personal services performed. Some types of income are not easily identified as earned or unearned income. Some of these types of income are further explained here.

**Income from a sole proprietorship or partnership.** Income from a business in which capital investment is an important part of producing the income may be unearned income. If you are a sole proprietor or partner and your personal services are also an important part of producing the income, the part of the income that represents the value of your personal services will be treated as earned income.

***Capital a factor.*** If capital investment is an important part of producing income, no more than 30% of your share of the net profits of the business is earned income.

If you have no net profits, the part of your gross profit that represents a reasonable allowance for personal services actually performed is considered earned income. Because you do not have a net profit, the 30% limit does not apply.

**Example 1.** You are a U.S. citizen and meet the bona fide residence test. You invest in a partnership based in Cameroon that is engaged solely in selling merchandise outside the United States. You perform no services for the partnership. At the end of the tax year, your share of the net profits is \$80,000. The entire \$80,000 is unearned income.

**Example 2.** Assume that in *Example 1* you spend time operating the business. Your share of the net profits is \$80,000; 30% of your share of the profits is \$24,000. If the value of your services for the year is \$15,000, your earned income is limited to the value of your services, \$15,000.

***Capital not a factor.*** If capital is not an income-producing factor and personal services produce the business income, the 30% rule does not apply. The entire amount of business income is earned income.

***Example.*** You and Lou Green are management consultants and operate as equal partners in performing services outside the United States. Because capital is not an income-producing factor, all the income from the partnership is considered earned income.

***Income from a corporation.*** The salary you receive from a corporation is earned income only if it represents a reasonable allowance as compensation for work you do for the corporation. Any amount over what is considered a reasonable salary is unearned income.

***Example 1.*** You are a U.S. citizen and an officer and stockholder of a corporation in Honduras. You perform no work or service of any kind for the corporation. During the tax

year, you receive a \$10,000 “salary” from the corporation. The \$10,000 clearly is not for personal services and is unearned income.

**Example 2.** You are a U.S. citizen and work full time as secretary-treasurer of your corporation. During the tax year, you receive \$100,000 as salary from the corporation. If \$80,000 is a reasonable allowance as pay for the work you did, then \$80,000 is earned income.

**Stock options.** You may have earned income if you disposed of stock that you got by exercising a stock option granted to you under an employee stock purchase plan.

If your gain on the disposition of stock you got by exercising an option is treated as capital gain, your gain is unearned income.

However, if you disposed of the stock less than 2 years after you were granted the option or less than 1 year after you got the stock, part of the gain on the disposition may

be earned income. It is considered received in the year you disposed of the stock and earned in the year you performed the services for which you were granted the option. Any part of the earned income that is due to work you did outside the United States is foreign earned income.

See [Pub. 525](#), Taxable and Nontaxable Income, for a discussion of the treatment of stock options.

**Pensions and annuities.** For purposes of the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction, amounts received as pensions or annuities are unearned income.

**Royalties.** Royalties from the leasing of oil and mineral lands and patents are generally a form of rent or dividends and are unearned income.

Royalties received by a writer are earned income if they are received:



- For the transfer of property rights of the writer in the writer's product, or
- Under a contract to write a book or series of articles.

**Rental income.** Generally, rental income is unearned income. If you perform personal services in connection with the production of rent, up to 30% of your net rental income can be considered earned income.

**Example.** Larry Smith, a U.S. citizen living in Australia, owns and operates a rooming house in Sydney. If he is operating the rooming house as a business that requires capital and personal services, he can consider up to 30% of net rental income as earned income. On the other hand, if he just owns the rooming house and performs no personal services connected with its operation, except perhaps making minor repairs and collecting rents, none of his net income from the house is considered earned income. It is all unearned income.

**Professional fees.** If you are engaged in a professional occupation (such as a doctor or lawyer), all fees received in the performance of these services are earned income.

**Income of an artist.** Income you receive from the sale of paintings you created is earned income.

**Scholarships and fellowships.** Any portion of a scholarship or fellowship grant that is paid to you for teaching, research, or other services is considered earned income if you must include it in your gross income. If the payer of the grant is required to provide you with a Form W-2, these amounts will be listed as wages.



*Certain scholarship and fellowship income may be exempt under other provisions. For more information, see [Pub. 970](#).*

**Use of employer's property or facilities.** If you receive fringe benefits in the form of the right to use your employer's property or facilities, the fair market value of that right is earned income. Fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being required to buy or sell, and both having reasonable knowledge of all the necessary facts.

**Example.** You are privately employed and live in Japan all year. You are paid a salary of \$6,000 a month. You live rent-free in a house provided by your employer that has a fair rental value of \$3,000 a month. The house is not provided for your employer's convenience. You report on the calendar-year, cash basis. You received \$72,000 salary from foreign sources plus \$36,000 fair rental value of the house, or a total of \$108,000 of earned income.

**Reimbursement of employee expenses.** If you are reimbursed under an accountable plan (defined later) for expenses you incur on your employer's behalf and you have adequately accounted to your employer for the expenses, do not include the reimbursement for those expenses in your earned income.

The expenses for which you are reimbursed are not considered allocable (related) to your earned income. If expenses and reimbursement are equal, there is nothing to allocate to excluded income. If expenses are more than the reimbursement, the unreimbursed expenses are considered to have been incurred in producing earned income and must be divided between your excluded and included income. (See chapter 5.) If the reimbursement is more than the expenses, no expenses remain to be divided between excluded and included income and

the excess reimbursement must be included in earned income.

These rules do not apply to the following individuals.

- Straight-commission salespersons.
- Employees who have arrangements with their employers under which taxes are not withheld on a percentage of the commissions because the employers consider that percentage to be attributable to the employees' expenses.

***Accountable plan.*** An accountable plan is a reimbursement or allowance arrangement that includes all three of the following rules.

- The expenses covered under the plan must have a business connection.
- The employee must adequately account to the employer for these

expenses within a reasonable period of time.

- The employee must return any excess reimbursement or allowance within a reasonable period of time.

**Reimbursement of moving expenses.** For tax years beginning after 2017, you can no longer deduct moving expenses. If you received a reimbursement of moving expenses, please note that, in most cases, reimbursement of moving expenses will be earned income. This section discusses reimbursements that must be included in earned income.

The rules for determining when the reimbursement is considered earned or where the reimbursement is considered earned may differ somewhat from the general rules previously discussed.

Although you receive the reimbursement in one tax year, it may be considered earned for services performed, or to be performed, in another tax year. You must report the reimbursement as income on your return in the year you receive it, even if it is considered earned during a different year.



*Moving expenses are only deductible for members of the U.S. Armed Forces who move pursuant to a military order and incident to a permanent change of station. Therefore, the exclusion from earned income for qualified moving expenses is, generally, only available to members of the U.S. Armed Forces.*

***Move from United States to foreign country.*** If you move from the United States to a foreign country, your moving expense reimbursement is generally considered pay for future services to be performed at the new location. The reimbursement is considered earned solely in the year of the move if you

qualify for the exclusion for a period that includes at least 120 days during that tax year.

If you are neither a bona fide resident of nor physically present in a foreign country or countries for a period that includes 120 days during the year of the move, a portion of the reimbursement is considered earned in the year of the move and a portion is considered earned in the year following the year of the move. To figure the amount earned in the year of the move, multiply the reimbursement by a fraction. The numerator (top number) is the number of days in your qualifying period that fall within the year of the move, and the denominator (bottom number) is the total number of days in the year of the move.

The difference between the total reimbursement and the amount considered earned in the year of the move is the amount considered earned in the year following the year of the move. The part earned in each



year is figured as shown in the following example.

**Example.** You are a U.S. citizen working in the United States. You were told in October 2021 that you were being transferred to a foreign country. You arrived in the foreign country on December 15, 2021, and you are a bona fide resident for the remainder of 2021 and all of 2022. Your employer reimbursed you \$2,000 in January 2022 for your moving expense. Because you did not qualify for the exclusion under the bona fide residence test for at least 120 days in 2021 (the year of the move), the reimbursement is considered pay for services performed in the foreign country for both 2021 and 2022.

You figure the part of the reimbursement for services performed in the foreign country in 2021 by multiplying the total reimbursement by a fraction. The fraction is the number of days during which you were a bona fide resident in 2021 (the year of the move)

divided by 365. The remaining part of the reimbursement is for services performed in the foreign country in 2022.

This computation is used only to determine when the reimbursement is considered earned. You would include the amount of the reimbursement in income in 2022, the year you received it.

***Move between foreign countries.*** If you move between foreign countries, any moving expense reimbursement that you must include in income will be considered earned in the year of the move if you qualify for the foreign earned income exclusion for a period that includes at least 120 days in the year of the move.

***Move to United States.*** If you move to the United States, the moving expense reimbursement that you must include in income is generally considered to be U.S. source income.

However, if under either an agreement between you and your employer or a statement of company policy that is reduced to writing before your move to the foreign country, your employer will reimburse you for your move back to the United States regardless of whether you continue to work for the employer, the includible reimbursement is considered compensation for past services performed in the foreign country. The includible reimbursement is considered earned in the year of the move if you qualify for the foreign earned income exclusion for a period that includes at least 120 days during that year. Otherwise, you treat the includible reimbursement as received for services performed in the foreign country in the year of the move and the year immediately before the year of the move.

See the discussion under *Move from United States to foreign country*, earlier, to figure the amount of the includible reimbursement

considered earned in the year of the move. The amount earned in the year before the year of the move is the difference between the total includible reimbursement and the amount earned in the year of the move.

**Example.** You are a U.S. citizen employed in a foreign country. You retired from employment with your employer on March 31, 2022, and returned to the United States on the same day, after having been a bona fide resident of the foreign country for several years. A written agreement with your employer entered into before you went abroad provided that you would be reimbursed for your move back to the United States.

In April 2022, your former employer reimbursed you \$4,000 for the cost of your move back to the United States. Because you were not a bona fide resident of a foreign country or countries for a period that included at least 120 days in 2022 (the year of the

move), the includible reimbursement is considered pay for services performed in the foreign country for both 2022 and 2021.

You figure the part of the moving expense reimbursement for services performed in the foreign country for 2022 by multiplying the total includible reimbursement by a fraction. The fraction is the number of days of foreign residence during the year (90) (January 1 to March 31, 2022, equals 90 days) divided by the number of days in the year (365). The remaining part of the includible reimbursement is for services performed in the foreign country in 2021. You report the amount of the includible reimbursement in 2022, the year you received it.



*In this example, if you met the physical presence test for a period that included at least 120 days in 2022, the moving expense reimbursement would be considered earned entirely in the year of the move.*

***Storage expense reimbursements.*** If you are reimbursed for storage expenses, the reimbursement is for services you perform during the period of time for which the storage expenses are incurred.

## **U.S. Government Employees**

For purposes of the foreign earned income exclusion, the foreign housing exclusion, and the foreign housing deduction, foreign earned income does not include any amounts paid by the United States or any of its agencies to its employees. This includes amounts paid from both appropriated and non-appropriated funds.

The following organizations (and other organizations similarly organized and operated under U.S. Army, Navy, or Air Force regulations) are integral parts of the Armed Forces, agencies, or instrumentalities of the United States.

- U.S. Armed Forces exchanges.

- Commissioned and noncommissioned officers' messes.
- Armed Forces motion picture services.
- Kindergartens on foreign Armed Forces installations.

Amounts paid by the United States or its agencies to persons who aren't their employees may qualify for exclusion or deduction.

If you are a U.S. Government employee paid by a U.S. agency that assigned you to a foreign government to perform specific services for which the agency is reimbursed by the foreign government, your pay is from the U.S. Government and doesn't qualify for exclusion or deduction.

If you have questions about whether you are an employee or an independent contractor, get [Pub. 15-A](#).

**American Institute in Taiwan.** Amounts paid by the American Institute in Taiwan aren't foreign earned income for purposes of the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction. If you are an employee of the American Institute in Taiwan, allowances you receive are exempt from U.S. tax up to the amount that equals tax-exempt allowances received by civilian employees of the U.S. Government.

**Allowances.** Cost-of-living and foreign-area allowances paid under certain acts of Congress to U.S. civilian officers and employees stationed in Alaska and Hawaii or elsewhere outside the 48 contiguous states and the District of Columbia can be excluded from gross income. Post differentials are wages that must be included in gross income, regardless of the act of Congress under which they are paid.



**More information.** [Pub. 516](#) has more information for U.S. Government employees abroad.

## **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.

**Family.** Your family, for this purpose, includes only your spouse and your dependents.

**Lodging.** The value of lodging includes the cost of heat, electricity, gas, water, sewer service, and similar items needed to make the lodging fit to live in.

**Business premises of employer.** Generally, the business premises of your employer is wherever you work. For example, if you work as a housekeeper, meals and lodging provided in your employer's home are

provided on the business premises of your employer. Similarly, meals provided to cowhands while herding cattle on land leased or owned by their employer are considered provided on the premises of their employer.

**Convenience of employer.** Whether meals or lodging are provided for your employer's convenience must be determined from all the facts and circumstances. Meals furnished at no charge are considered provided for your employer's convenience if there is a good business reason for providing them, other than to give you more pay.

On the other hand, if your employer provides meals to you or your family as a means of giving you more pay, and there is no other business reason for providing them, their value is extra income to you because they aren't furnished for the convenience of your employer.

**Condition of employment.** Lodging is provided as a condition of employment if you must accept the lodging to properly carry out the duties of your job. You must accept lodging to properly carry out your duties if, for example, you must be available for duty at all times or you could not perform your duties if the lodging wasn't furnished.

**Foreign camps.** If the lodging is in a camp located in a foreign country, the camp is considered part of your employer's business premises. The camp must be:

- Provided for your employer's convenience because the place where you work is in a remote area where satisfactory housing isn't available to you on the open market within a reasonable commuting distance,
- Located as close as reasonably possible in the area where you work, and

- Provided in a common area or enclave that isn't available to the general public for lodging or accommodations and that normally houses at least 10 employees.

## **Foreign Earned Income Exclusion**

If your tax home is in a foreign country and you meet the bona fide residence test or the physical presence test, you can choose to exclude from your income a limited amount of your foreign earned income. Foreign earned income was defined earlier in this chapter.

You can also choose to exclude from your income a foreign housing amount. This is explained later under Foreign Housing Exclusion. If you choose to exclude a foreign housing amount, you must figure the foreign housing exclusion before you figure the foreign earned income exclusion. Your foreign earned income exclusion is limited to your

foreign earned income minus your foreign housing exclusion.

If you choose to exclude foreign earned income, 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 allocable to the excluded income. For more information about deductions and credits, see chapter 5.

## **Limit on Excludable Amount**

You may be able to exclude up to \$112,000 of your foreign earned income in 2022.

You cannot exclude more than the smaller of:

- \$112,000, or
- Your foreign earned income (discussed earlier) for the tax year minus your foreign housing exclusion (discussed later).

If both you and your spouse work abroad 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. Together, you and your spouse can exclude as much as \$224,000.

**Paid in year following work.** Generally, you are considered to have earned income in the year in which you do the work for which you receive the income, even if you work in one year but are not paid until the following year. If you report your income on a cash basis, you report the income on your return for the year you receive it. If you work one year, but are not paid for that work until the next year, the amount you can exclude in the year you are paid is the amount you could have excluded in the year you did the work if you had been paid in that year. For an exception to this general rule, see Year-end payroll period, later.

**Example.** You were a bona fide resident of Brazil for all of 2021 and 2022. You report your income on the cash basis. In 2021, you were paid \$87,900 for work you did in Brazil during that year. You excluded all of the \$87,900 from your income in 2021.

In 2022, you were paid \$124,300 for your work in Brazil. \$23,800 was for work you did in 2021 and \$100,500 was for work you did in 2022. You can exclude \$20,800 of the \$23,800 from your income in 2022. This is the \$108,700 maximum exclusion in 2021 minus the \$87,900 actually excluded that year. You must include the remaining \$3,000 in income in 2022 because you could not have excluded that income in 2021 if you had received it that year. You can exclude all of the \$100,500 you were paid for work you did in 2022 from your 2022 income.

Your total foreign earned income exclusion for 2022 is \$121,300 (\$20,800 for work you did in 2021 and \$100,500 for work you did in



2022). You would include in your 2022 income \$3,000 for the work you did in 2021.

**Year-end payroll period.** There is an exception to the general rule that income is considered earned in the year you do the work for which you receive the income. If you are a cash-basis taxpayer, any salary or wage payment you receive after the end of the year in which you do the work for which you receive the pay is considered earned entirely in the year you receive it if all four of the following apply.

- The period for which the payment is made is a normal payroll period of your employer that regularly applies to you.
- The payroll period includes the last day of your tax year (December 31 if you figure your taxes on a calendar-year basis).

- The payroll period is not longer than 16 days.
- The payday comes at the same time in relation to the payroll period that it would normally come and it comes before the end of the next payroll period.

**Example.** You are paid twice a month. For the normal payroll period that begins on the 1st of the month and ends on the 15th of the month, you are paid on the 16th day of the month. For the normal payroll period that begins on the 16th of the month and ends on the last day of the month, you are paid on the 1st day of the following month. Because all of the above conditions are met, the pay you received on January 1, 2022, is considered earned in 2022.

**Income earned over more than 1 year.**

Regardless of when you actually receive income, you must apply it to the year in which you earned it in figuring your

excludable amount for that year. For example, a bonus may be based on work you did over several years. You determine the amount of the bonus that is considered earned in a particular year in two steps.

1. Divide the bonus by the number of calendar months in the period when you did the work that resulted in the bonus.
2. Multiply the result of (1) by the number of months you did the work during the year. This is the amount that is subject to the exclusion limit for that tax year.

**Income received more than 1 year after it was earned.** You can't exclude income you receive after the end of the year following the year you do the work to earn it.

**Example.** You were a bona fide resident of Sweden for 2020, 2021, and 2022. You report your income on the cash basis. In 2020, you were paid \$69,000 for work you did in

Sweden that year, and in 2021, you were paid \$74,000 for that year's work in Sweden. You excluded all the income on your 2020 and 2021 returns.

In 2022, you were paid \$92,000; \$82,000 for your work in Sweden during 2022, and \$10,000 for work you did in Sweden in 2020. You cannot exclude any of the \$10,000 for work done in 2020 because you received it after the end of the year following the year in which you earned it. You must include the \$10,000 in income. You can exclude all of the \$82,000 received for work you did in 2022.

**Community income.** The maximum exclusion applies separately to the earnings of spouses. Ignore any community property laws when you figure your limit on the foreign earned income exclusion.

**Part-year exclusion.** If the period for which you qualify for the foreign earned income exclusion includes only part of the year, you must adjust the maximum limit based on the

number of qualifying days in the year. The number of qualifying days is the number of days in the year within the period on which you both:

- Have your tax home in a foreign country, and
- Meet either the bona fide residence test or the physical presence test.

For this purpose, you can count as qualifying days all days within a period of 12 consecutive months once you are physically present and have your tax home in a foreign country for 330 full days. To figure your maximum exclusion, multiply the maximum excludable amount for the year by the number of your qualifying days in the year, and then divide the result by the number of days in the year.

**Example.** You report your income on the calendar-year basis and you qualified for the foreign earned income exclusion under the bona fide residence test for 75 days in 2022. You can exclude a maximum of  $75/365$  of \$112,000, or \$23,014 of your foreign earned income for 2022. If you qualify under the bona fide residence test for all of 2023, you can exclude your foreign earned income up to the 2023 limit.

**Physical presence test.** Under the physical presence test, a 12-month period can be any period of 12 consecutive months that includes 330 full days. If you qualify for the foreign earned income exclusion under the physical presence test for part of a year, it is important to carefully choose the 12-month period that will allow the maximum exclusion for that year.

**Note.** See *How to figure the 12-month period* under *Physical Presence Test*, earlier, for the rules on figuring the 12-month period.

**Example.** You are physically present and have your tax home in a foreign country for a 16-month period from June 1, 2021, through September 30, 2022, except for 16 days in December 2021 when you were on vacation in the United States. You figure the maximum exclusion for 2021 as follows.

1. Beginning with June 1, 2021, count forward 330 full days. Do not count the 16 days you spent in the United States. The 330th day, May 12, 2022, is the last day of a 12-month period.
2. Count backward 12 months from May 12, 2022, to find the first day of this 12-month period, May 13, 2021. This 12-month period runs from May 13, 2021, through May 12, 2022.
3. Count the total days during 2021 that fall within this 12-month period. This is 233 days (May 13, 2021 – December 31, 2021).

4. Multiply \$108,700 (the maximum exclusion for 2021) by the fraction  $233/365$  to find your maximum exclusion for 2021 (\$69,389).

You figure the maximum exclusion for 2022 in the opposite manner.

1. Beginning with your last full day, September 30, 2022, count backward 330 full days. Do not count the 16 days you spent in the United States. That day, October 19, 2021, is the first day of a 12-month period.
2. Count forward 12 months from October 19, 2021, to find the last day of this 12-month period, October 18, 2022. This 12-month period runs from October 19, 2021, through October 18, 2022.
3. Count the total days during 2022 that fall within this 12-month period. This is 291 days (January 1, 2022 – October 18, 2022).



4. Multiply \$112, 000, the maximum limit, by the fraction  $291/365$  to find your maximum exclusion for 2022 (\$89,293).

## **Choosing the Exclusion**

The foreign earned income exclusion is voluntary. You can choose the exclusion by completing the appropriate parts of Form 2555.

## **When You Can Choose the Exclusion**

Your initial choice of the exclusion on Form 2555 must generally be made with one of the following returns.

- A return filed by the due date (including any extensions).
- A return amending a timely filed return. Amended returns must generally be filed by the later of 3 years after the filing date of the

original return or 2 years after the tax is paid.

- A return filed within 1 year from the original due date of the return (determined without regard to any extensions).

**Filing after the above periods.** You can choose the exclusion on a return filed after the periods described above if you owe no federal income tax after taking into account the exclusion. If you owe federal income tax after taking into account the exclusion, you can choose the exclusion on a return filed after the periods described earlier if you file before the IRS discovers that you failed to choose the exclusion. Whether or not you owe federal income tax after taking the exclusion into account, if you file your return after the periods described earlier, you must type or legibly print at the top of the first page of the Form 1040 or 1040-SR, "Filed pursuant to section 1.911-7(a)(2)(i)(D)."