

This Form is to be Used Only by United States Citizens and Certain Resident Aliens (See Instruction 1.)

Name of taxpayer Social security number

Foreign address (including Country) Your occupation

Name of employer

Employer's address U.S. Foreign

Give the latest year for which you filed a U.S. income tax return Office where filed

For an explanation of the provisions under which earned income of citizens abroad is exempt, see instructions. You may obtain forms from any Internal Revenue office, U.S. Embassy, or Consulate.

Check status under which you claim exemption of earned income from services abroad Bona fide residence. Complete Parts I and III. Physical presence. Complete Parts II and III.

Complete all items in the parts pertaining to your status. If an item does not apply, write "DOES NOT APPLY." Failure to submit required information may result in disallowance of the claimed exemption.

Part I To be Completed for Bona Fide Residence Only

1 Foreign country in which you claim bona fide residence Residence began, ended

2 Kind of living quarters in foreign country Purchased house Rented house or apartment Rented room Quarters furnished by employer

3 Did your family live with you abroad during any part of the taxable year? Yes No If "Yes," for what period?

4 (a) Have you made a statement to the authorities of the foreign country you claim bona fide residence in that you are not a resident of that country? Yes No

(b) Are you required to pay income tax to the country you claim bona fide residence in? Yes No If you made a statement to the authorities of the foreign country that you are not a resident, and the country holds you are not subject to its income tax, you do not qualify for this U.S. exemption. (See Instruction 8(c).)

5 Complete the following for days present in the U.S. or its possessions during the taxable year:

Table with 8 columns: Date arrived in U.S., Date departed from U.S., Number of days in U.S. on business, Amount earned in U.S. on business, Date arrived in U.S., Date departed from U.S., Number of days in U.S. on business, Amount earned in U.S. on business.

6 (a) State any contractual terms or other conditions relating to the length of your employment abroad.

(b) State the type of visa you entered the foreign country under.

(c) Did your visa contain any limitations as to the length of your stay or employment in the foreign country? Yes No If "Yes," attach explanation.

(d) List the places where you have resided and the dates of residence since you left the U.S. to establish residence abroad.

(e) Did you maintain a home in the U.S. while residing abroad? Yes No If "Yes," show address of your home, whether it was rented, and the names and relationships of the occupants.

Part II To be Completed for Physical Presence Only

7 The 18-month period the exemption for physical presence in a foreign country is based on is from through

8 Enter all travel abroad during the 18-month period the exemption is based on, except travel between foreign countries that did not involve travel on or over international waters for 24 hours or more. If the last entry is an arrival in a foreign country, insert number of full days to end of 18-month period. If there was no travel to report during the period, write in the schedule that you were physically present in a foreign country or countries during the entire 18-month period.

Table with 6 columns: Name of country (including U.S.), Date and time departed, Date and time arrived, Full days present in country, Number of days in U.S. on business, Amount earned in U.S. on business.

9 Enter the prior years you claimed exemption for income earned abroad under section 911

**Part III To be Completed for Both Bona Fide Residence and Physical Presence**

**10** Enter below your total earned income, including noncash remuneration. (See Instructions 7 and 8(d).)

Is part of the income (such as bonuses) attributable to services performed in past years or to be performed for years other than this year?  Yes  No  
 If "Yes," see Instructions 10(a) and 11.

Do not report exempt income on your Form 1040, but enter all taxable income in the appropriate sections of the form. If you received all or part of your income in foreign currency, translate its exchange value into terms of U.S. dollars at the rates prevailing at the time you actually or constructively received the income.

| Earned income (for personal services rendered in foreign countries)   | Exchange rates used | Amount (In U.S. dollars) |
|---|---------------------|--------------------------|
| <b>11</b> (a) Total wages, salaries, bonuses, commissions, etc., received during this year. . . . .                                     |                     |                          |
| (b) Amount attributable to prior years or future years. (See Instructions 10(a) and 11.) . . . . .                                      |                     |                          |
| (c) Balance attributable to this year. (Subtract line 11(b) from line 11(a).) . . . . .   |                     |                          |
| <b>12</b> Pensions and annuities (See instruction 10(d).) . . . . .   |                     |                          |
| <b>13</b> Allowable share of income for personal services rendered. (See Instructions 7 and 10(a).)                                     |                     |                          |
| (a) In business (including farming) or profession. (Attach Schedule C or F (Form 1040).) . . . . .                                      |                     |                          |
| (b) In a partnership (Give name, address, and nature of income.) _____  |                     |                          |
| _____   |                     |                          |
| _____   |                     |                          |
| <b>14</b> Noncash remuneration (Market value of property or facilities furnished by employer. Attach statement showing how determined.) |                     |                          |
| (a) Home . . . . .  |                     |                          |
| (b) Car. . . . .  |                     |                          |
| (c) Other property or facilities (Specify.) _____   |                     |                          |
| _____   |                     |                          |
| <b>15</b> Other income (Specify.) _____   |                     |                          |
| _____   |                     |                          |
| <b>16</b> Allowances or reimbursements  |                     |                          |
| (a) Cost of living . . . . .  |                     |                          |
| (b) Overseas differential . . . . .   |                     |                          |
| (c) Family . . . . .  |                     |                          |
| (d) Education. . . . .  |                     |                          |
| (e) Home leave . . . . .  |                     |                          |
| (f) Quarters . . . . .  |                     |                          |
| (g) For any other purpose (Specify.) _____  |                     |                          |
| _____   |                     |                          |
| <b>17</b> Total earned income from sources outside the U.S. . . . .   |                     |                          |
| <b>18</b> Amount exempt (if exempt status changed during the taxable year, complete schedule below.) . . . . .                          |                     |                          |
| <b>19</b> Taxable income (Subtract line 18 from line 17. If less than zero, enter zero. Enter here and report on Form 1040.) . . . . .  |                     |                          |

**Schedule for Computation of Exemption Claimed in Part III, line 18, above.**

(The \$20,000 and \$25,000 exemptions are for full taxable years. Prorate them if your exempt status changes during the taxable year. See Instructions 8(a)(ii) and 10(c).)

|   | A        | B        |
|---|----------|----------|
| <b>20</b> Applicable exemption . . . . .  | \$20,000 | \$25,000 |
| <b>21</b> Number of exemption qualifying days in taxable year . . . . .   |          |          |
| <b>22</b> Total number of days in taxable year . . . . .  |          |          |
| <b>23</b> Percentage applicable (Divide the number of days on line 21 by the number of days on line 22.) . . . . .  | %        | %        |
| <b>24</b> Allowable exemption (Multiply the amount on line 20 by the percent on line 23.) . . . . .                 | \$       | \$       |
| <b>25</b> Total allowable exemption (Add amounts on line 24, columns A and B. Enter here and on line 18.) . . . . . |          | \$       |

(If more space is needed for any schedule, etc., attach statement.)

## Instructions

### Caution

**Effect on Foreign Tax Credit.**—If you exclude income earned abroad and choose to take the Foreign Tax Credit, you do not have to reduce your foreign taxes allowable for the credit by the earned income exclusion. Therefore, no entry for the exclusion should be made on Form 1116, Schedule B, column 5.

**1. General.**—To determine whether you must file Form 1040, see Who Must File on page 4 of that form's instructions. In determining whether you must file a return, be sure to include your income earned abroad even though it may qualify for tax exemption as explained below.

U.S. citizens in foreign countries are subject to the same U.S. income tax laws as those living in the U.S. However, there is an exception as to their **earned income** as defined in instruction 7, received for personal services rendered abroad. A limited amount of **earned income** may be exempt from tax if a citizen meets either the "bona fide residence" test or the "physical presence" test. (See Instructions 8 and 9.) Detailed information about these provisions may be found in a special edition of **Publication 54**, Tax Guide for U.S. Citizens Abroad, to be used only in preparing 1977 returns.

Resident aliens of the U.S. from certain foreign countries with whom tax treaties are in effect qualify for the benefits of section 911(a)(2) of the Code (physical presence) to the same extent as U.S. citizens under "nondiscrimination" clauses of such treaties. To determine whether the country of which you are a citizen contains such a "nondiscrimination" clause in its treaty with the U.S., please get **Publication 54**, Tax Guide for U.S. Citizens Abroad.

**2. How to file.**—If you qualify for exemption on any part of your **earned income** from sources outside the U.S., show your exempt income and information supporting it on this form. Then attach it to your completed Form 1040.

If you earned your only income **abroad** and all of it qualifies for exemption, you need only complete this form and attach it to a Form 1040 showing your name, address, social security number, and signature.

Report on your Form 1040, compensation earned in the U.S. for personal services performed before foreign residence began. Also report on Form 1040 all other items of gross income, including earned income that does not qualify for exemption (such as a pro rata part of your earned income if part of the personal services was rendered during temporary business trips to the U.S.).

**Note:** If you qualify for the benefits of section 911, you cannot claim the earned income credit.

**Caution:** If you qualify for the benefits of section 911 and you choose to take the Foreign Tax Credit you will be required to

itemize your deductions. If so, and your zero bracket amount is more than your total itemized deductions, fill in Part II, Schedule TC (Form 1040).

**3. Where to file.**—File Form 2555 with Form 1040 with the Internal Revenue Service Center, Philadelphia, PA 19255.

**4. When to file.**—April 15 is generally the due date for filing calendar year income tax returns. However, due to pending legislation which would have effected the amount of your exemption, the IRS had previously extended the due date for taxpayers residing or traveling outside the U.S.

This form has been revised to reflect recent passage of the law. If you have not filed your 1977 income tax return, complete this form and attach it to your Form 1040. No penalties will be assessed for failure to pay any tax due on the return if you file your return and pay the amount due by February 15, 1979.

If you have already filed your 1977 return, you should complete Form 1040X and this Form 2555. If your tax is more than the amount shown on the original return, you should file the amended return promptly to avoid further interest.

**5. Interest.**—As indicated in the prior news releases, interest will be charged on any unpaid tax from the due date of the return until the date of payment.

**6. Joint returns.—Alien spouse.**—You may file a joint return if both you and your spouse are U.S. citizens and you both use the same taxable year. If you file a joint return complete separate Forms 2555 if each of you has exempt earned income.

Married persons eligible to file a joint return under these rules may do so even if one of them has exempt earned income and the other does not.

Generally, you may not file a joint return if either you or your spouse was a nonresident alien at any time during the taxable year (for exceptions see "Special Election for Aliens" on page 6 of Form 1040 Instructions). However, you may claim an exemption for a nonresident alien spouse who had no gross income from U.S. sources and was not the dependent of another taxpayer.

For taxable years beginning after 1976, certain community property laws do not apply for income tax purposes in the case of a citizen or resident of the U.S. who is married to a nonresident alien individual, and who has community income for the taxable year, if they do not elect to file a joint return. Detailed information may be found in **Publication 54**, Tax Guide for U.S. Citizens Abroad.

**7. Earned Income.**—Earned income from sources outside the U.S. means wages, salaries, professional fees, and other compensation for personal services actually rendered. It does not include compensation for personal services to a corporation that consists of a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services. It does not include dividends, capital gains, interest, etc.

If you engaged in a non-corporate trade or business in which both personal services

and capital were material income-producing factors, a reasonable allowance as compensation for your personal services will be considered earned income. This earned income amount, however, cannot be more than 30 percent of your share of the net profits from the trade or business.

### 8. Bona Fide residence (sec. 911(a)(1) Internal Revenue Code).

#### (a) General.—

(i) If you are a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year, you can, subject to the rules in Instruction 10, exclude up to \$20,000 or \$25,000 of your earned income from personal services rendered abroad for each taxable year. For each of the first 3 consecutive years of your bona fide foreign residence, you can exclude no more than \$20,000 earned income for each year. The maximum exclusions for each year of bona fide foreign residence after the first 3 consecutive years is \$25,000.

(ii) Use the following example to determine the exclusion amount when the third consecutive year does not end with the last day of the taxable year:

Assuming the third consecutive year for a calendar year taxpayer ends on June 30, prorate both the \$20,000 and \$25,000 during that year. The \$20,000 limitation will apply for January 1 through June 30, and the \$25,000 limitation will apply for July 1 through December 31.

(b) *Determination of residence.*—No specific rule can be stated for determining whether you are a bona fide resident of a foreign country, because the determination involves your intention as to the length and nature of your stay. Your intention to establish a bona fide residence in a foreign country may be evidenced by words and acts. If these conflict, more emphasis will be placed on acts than words. Generally, if you go to a foreign country for a definite purpose of a temporary nature and return to the U.S. after that purpose has been accomplished, you are not a bona fide resident of the foreign country. However, if accomplishing the purpose requires an extended and indefinite stay, and you therefore make your home in the foreign country, you may be a bona fide resident of the foreign country for Federal income tax purposes.

(c) *Statement of nonresidence.*—If you made a statement to the authorities of a foreign country in which you have earned income that you are not a resident of that country, and you have been held not subject to its income tax, you will not be considered a bona fide resident of that foreign country. If you made such a statement and a determination is being made as to whether you qualify as a bona fide foreign resident, provided no adverse determination has been made by the authorities of the foreign country on your nonresidence status, you will be considered not subject to the income tax of that foreign country.

(d) *Treatment of noncash remuneration.*—If you qualify as a bona fide resident and received noncash remuneration in the form of a right to use property or facilities (such as a home or car), it will be taxable in the same manner as any other compensation, subject to the \$20,000 or \$25,000 exclusion.

*(e) Definitions.—*

(i) Entire taxable year.—If you use the calendar year as your taxable year, your entire taxable year is the period beginning January 1 and ending December 31.

(ii) Uninterrupted period.—The term uninterrupted period in 8(a)(i), refers to a U.S. citizen's bona fide residence and not to his or her physical presence in the foreign country.

**9. Physical presence (sec. 911(a)(2)) Internal Revenue Code.**

(a) *General.*—If you are physically present in a foreign country or countries for a total of at least 510 days during any period of 18 consecutive months, you can, subject to the rules in Instruction 10, exclude up to \$20,000 of your **earned income** for each taxable year. You can do this provided the earned income is for personal services performed outside the U.S. and is attributable to the 18-month period.

(b) *Determination of 18-month period and application of 510-day rule.*—In figuring the minimum of 510 full days' presence in any foreign country or countries, add all separate periods of presence during the 18-month period. The 510 full days need not be consecutive, but may be interrupted by periods during which you are traveling over international waters or are otherwise not present in a foreign country. (For additional information and examples, please see the special edition of **Publication 54**, Tax Guide for U.S. Citizens Abroad, to be used only in preparing 1977 returns.)

(c) *Definition of a full day.*—Full day means a period of 24 consecutive hours beginning at midnight.

**10. Special rules that apply to bona fide residence and physical presence.—**

(a) *Rule of attribution.*—In general, a taxpayer receives earned income in the same taxable year he or she performs services. This taxable year is used to determine the exemption under the bona fide residence and physical presence tests.

A taxpayer may receive **earned income** in one taxable year for personal services performed in another. Under the rule of attribution, this **earned income** is considered as received in the taxable year in which the personal services are performed. However, to be exempt, **earned income** must be received before the close of the taxable year following the year in which the services are performed. For example, if a cash basis taxpayer received \$3,000 in 1977 for services performed in 1976 he or she would include this \$3,000 as 1976 **earned income** for determining the amount of exemption. If exempt, the \$3,000 would be excluded from his or her income in 1977. Any amount not exempt must be reported on Form 1040 for 1977.

This rule applies only in determining the amount of the exemption and does not affect the reporting time of any amounts not exempt. In no case can amounts be attributed to any year in which the services performed are insubstantial. (For additional information, please see the special edition of **Publication 54** mentioned previously, or contact any Internal Revenue Service office or representative.)

(b) *Treatment of amounts paid by U.S. Government, etc.*—Earned income paid to U.S. citizens by the U.S. or any of its instrumentalities is not exempt from tax under the bona fide residence or physical presence tests. This includes pay received from our Armed Forces' post exchanges, officers' and enlisted men's clubs and messes, motion picture services, and other similarly organized activities under the jurisdiction of the Armed Forces, even though they may be supported by nonappropriated funds.

(c) *Accrual of exemption.*—A U.S. citizen becomes entitled to the exemption on a daily basis throughout the taxable year. The number of days to be used in figuring the exemption is the number of days in the taxable year for which the exemption is claimed.

(d) *Treatment of pensions or annuities.*—In general, earned income received

as pensions or annuities is not exempt if attributable to employer contributions made after December 31, 1962, for services rendered outside the U.S. after that date. (For rules on the allocation of employer contributions under prefunded pension or annuity plans, please see section 1.72-8 of the Income Tax Regulations. For rules on the treatment of pensions or annuities received under unfunded plans, please see sections 1.911-1(c) and 1.911-2(d)(5) of the Regulations.)

(e) *Treatment of deductions.*—Exclude any expenses, losses, or items otherwise deductible (except deductions allowed for personal exemptions) that are properly allocable to or chargeable against earned income exempt from tax under the bona fide residence or physical presence tests, in figuring your taxable income. If expenses incurred for services performed abroad are attributable to both exempt and nonexempt earned income, attach a statement showing the amounts attributable to both for income items on lines 11, 13, 14, and 15. Prorate such expenses, based on the ratio that your exempt earned income bears to your total earned income for services performed abroad. Do not claim expenses allocable to exempt income.

(f) *Definition of foreign country.*—The term foreign country means territory under the sovereignty of a government other than that of the U.S. and includes the air space over the territory. It does not include U.S. possessions.

**11. Amounts attributable to services performed on or before December 31, 1962.**—If you received an amount after December 31, 1962, for services performed on or before that date, you may be able to exclude it from your gross income on the ground that a right to receive it existed on March 12, 1962. Such a right (whether forfeitable or nonforfeitable) is considered to exist on March 12, 1962, if it is in a contract, agreement, plan, or provision of foreign law in force on March 12, 1962. (For more information, please see section 1.911-1(c) of the Income Tax Regulations or contact any Internal Revenue Service office or representative.)

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