

Exclusion of Income from Sources in United States Possessions

▶ See instructions on back.
 ▶ Attach to Form 1040.

Name(s) as shown on Form 1040

Your social security number

Total Gross Income and Possessions Exclusion (See instructions)

Periods when you received income from sources in U.S. possessions (Dates are inclusive)			Gross income during periods shown in columns (b) and (c)			
			From sources in U.S. possessions		From sources outside U.S. and U.S. possessions (f)	From sources in U.S. (g)
			From salary, wages, or active conduct of a trade or business (d)	Other income (e)		
Year (a)	From— (b)	To— (c)				
1	1980		\$	\$	\$	\$
2	1981					
3	1982					
4 Totals			\$	\$	\$	\$
5 Add columns (d) and (e), line 4. This is your income from sources in U.S. possessions						\$
6 Add columns (f) and (g), line 4. This is your income from sources other than U.S. possessions						\$
7 Add lines 5 and 6. This is your total gross income for the test period. (See instructions to determine if you qualify for the exclusion.)						\$

Source of Gross Income from Salary, Wages, or Active Conduct of a Trade or Business (Column (d) above)

Year	Name of possession in which you worked (If self-employed, write "self-employed" next to the name of the possession)
1980	
1981	
1982	

Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose

Use Form 4563 if you are a U.S. citizen who worked in a U.S. possession and you want to see if you qualify for the "possession exclusion."

Additional Information

You may want to get **Publication 570**, Tax Guide for U.S. Citizens Employed in U.S. Possessions, for more information.

Who Qualifies for Exclusion

You will qualify for the exclusion if: (1) you are a U.S. citizen who worked in one of the possessions listed below; and (2) you meet both the income and time tests explained below.

U.S. Possessions.—You may qualify for the exclusion if you worked in the following areas:

American Samoa
Wake Island
Midway Islands
Palmyra
Johnston Island
Kingman Reef
Howland Island
Baker Island
Jarvis Island
Other U.S. islands, cays, and reefs that are not part of any of the 50 States or the District of Columbia.

You do not qualify for the exclusion if you worked in Guam, the Northern Mariana Islands, the Virgin Islands, or Puerto Rico. See **Publication 570** if you worked in any of these four areas.

Income Test.—Fill in Form 4563. Your entries in columns (d), (e), (f), and (g) of lines 1, 2, and 3 should add up to your gross income for the periods shown. You meet the income test if:

- The amount on line 5 is at least 80% of the amount on line 7; and
- The amount in column (d), line 4, is at least 50% of the amount on line 7.

Time Test.—You must have met the income test in one of the following periods:

- During 1980 through 1982; or
- During the part of these 3 years, ending in 1982, that you conducted a trade or business in a U.S. possession or had a job there. Count this period from the date you actually began working there.

Note: *If you do not qualify for the possession exclusion, you may qualify for benefits relating to earned income from sources outside the United States. To take these benefits, your tax home must be in a foreign country and you must be a resident of, or present in, a foreign country for a specified period of time. To see if you qualify, get **Publication 54**, Tax Guide for U.S. Citizens Abroad.*

Amount of Exclusion

If you qualify, you may exclude the total earned income, investment income, and capital gains you received during the tax year from sources outside the U.S. Add the amounts in columns (d), (e), and (f), line 3. This is the amount of income you may exclude from your 1982 gross income.

Note: *Taking the exclusion may not be to your advantage because it limits the other tax benefits you may use. You should figure your tax both with and without the exclusion to see which is better for you.*

Figuring Your Tax on Form 1040 Income You Must Report.—Even if you can take the exclusion, you must still report the following income on Form 1040:

- Income you received from U.S. sources. The United States means the 50 States and the District of Columbia.
 - Income you or your agent received in the United States from any source. (This generally includes salary you earned in a U.S. possession that your employer deposited in your bank account in the United States.)
 - Income you received as an employee of the U.S. Government or any of its agencies.
 - All income you received during the part of the tax year that is not part of your time test period described above. The source of that income or the place where it was received does not matter. It does not qualify for the possession exclusion.
- Deductions You Can Take.**—The following deductions are allowed whether or not they are connected with U.S. source income:
- One personal exemption of \$1,000.

- Losses from transactions you entered into for profit, but that were not connected with a trade or business. The transactions must be of a kind whose profits (if there had been any) would have been taxable. The losses cannot have been reimbursed by insurance.

- Casualty and theft losses to property in the United States. Use **Form 4684**, Casualties and Thefts, to report them.

- Charitable contributions. Report them on Schedule A (Form 1040).

Other deductions are allowed only if they relate to income from U.S. sources. For example, a teacher may deduct the business expense of teaching aids bought to use while teaching in the United States, but not aids bought to use in a U.S. possession.

Benefits You Cannot Take.—The following benefits are not allowed if you claim the possession exclusion:

- The zero bracket amount.
- Exemptions for age, blindness, your spouse, or any dependents.
- Income averaging on Schedule G (Form 1040).
- Credit or deduction for income taxes paid to a foreign country or a U.S. possession.
- Earned income credit.
- Deduction for married couple when both work (Schedule W, Form 1040).

Lines 34a through 38, Form 1040.—If you take the exclusion, you must itemize your deductions on Schedule A (Form 1040). Follow the instructions for line 34a on page 12 of the Form 1040 instructions, paying special attention to the section titled **After you've completed Schedule A**, to determine what entries you should make on lines 34a and 35 of Form 1040. Enter \$1,000 on line 36 of Form 1040. (When you take the exclusion, you may only claim one personal exemption of \$1,000.) Subtract line 36 from line 35 and enter the result on line 37. Follow the instructions for line 38 on page 13 of the Form 1040 instructions to figure your tax.

Where to File

Attach this form to your Form 1040 and file it with the Internal Revenue Service Center, Philadelphia, PA 19255.

Note: *If you do not take the exclusion, follow the instructions for Form 1040. Report all your taxable income, including income from foreign and possession sources. Be sure to take all exemptions, deductions, and credits that you are allowed.*