

# Expatriate's 2012 Guide to U.S. Taxes



*Barron Harper « The Taxbarron »*

## ***Table of Contents***

Introduction .....	3
About The Author.....	4
Must I file a tax return? .....	5
And if I haven't filed for some years? .....	6
What does the IRS consider income?.....	7
Foreign Earned Income Exclusion (Form 2555 or 2555EZ) .....	7
Housing Exclusion/Deduction.....	10
Foreign Tax Credit (Form 1116).....	11
Alternative Minimum Tax (Form 1116 – AMTFTC).....	13
Social Security Taxes .....	13
Tax Treaties.....	14
Some Other Deductions.....	15
Individual Retirement Issues.....	17
Non-Resident Aliens.....	18
Information Returns .....	19
Tax Filing Deadlines.....	24
Extensions.....	25
Miscellaneous Forms.....	26
Penalties .....	26
Renouncing US Citizenship .....	28

## INTRODUCTION

In his 2010 book – *The Tax Reform Alternative* – Vernon Jacobs has written: ‘The Internal Revenue Code contains more than 3.4 million words; printed 60 lines to the page, it would fill more than 7,500 letter size pages. To conserve space, the tax code uses extensive cross-referencing to other parts of the tax code as a substitute for explaining the cross reference in any semblance of English. This forces readers to look up numerous other parts of the tax code in order to understand the scope of any section with cross references. In spite of this mountain of verbiage, every citizen is presumed to be familiar with the entire US Tax Code. ... (I)gnorance of the law is not an excuse for the imposition of numerous burdensome civil penalties.’ Which leaves taxpayers held accountable to and therefore victimized by an incomprehensible system of rules and regulations.

The author has prepared this booklet in an effort to simplify the *verbiage* of tax rules and regulations that apply to American expatriates. While every effort has been made to insure the accuracy of the text, the reader is always encouraged to consult a tax professional when preparing his or her tax return.

## **ABOUT THE AUTHOR**

Barron Harper is a U.S. International Tax Preparer with 18 years of experience preparing tax and information returns for American expatriates. This work requires a comprehensive understanding of how the Internal Revenue Service taxes and treats American citizens and deemed residents residing abroad. Barron is considered to be experienced, competent and reliable in this highly complex area of International Taxation. He is a graduate of North Texas State University (University of North Texas) from where he earned his MS in Accounting in 1985, specializing in U.S. Taxation. During and after his education, he worked in public accounting in Dallas, Texas, and in Santa Fe, New Mexico, before arriving in Europe in 1992.

Through his firm – Barron’s International Tax Service – he works with American expatriates globally in 22 countries. He is a member of the National Association of Tax Professionals and the European Baha’i Business Forum, as well as past member of the International WHO’S WHO of Professionals.

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National Association of Tax Professionals - [www.natptax.com](http://www.natptax.com)

European Baha’i Business Forum - [www.ebbf.org](http://www.ebbf.org)

## **FOREIGN TAX CREDIT**

*(FORM 1116)*

The Foreign Earned Income Exclusion and the Foreign Tax Credit are the main options available to Americans abroad for avoiding double taxation on their foreign earnings. Whereas FEIE excludes \$92,900 from U.S. taxation, the FTC allows foreign taxes paid as an offset to U.S. taxes assessed. American expatriates have the option of applying either or both FEIE and FTC.

The FTC can only be applied against taxes paid or accrued on foreign earnings. These earnings may include earned income, interest or dividends, royalties, and gain from the sale of non-depreciable personal property from foreign sources. But these earnings do not include foreign social security taxes, property taxes, or value added taxes.

Depending on the foreign earnings, taxes must be separately calculated against a General Income category (foreign wages and salaries) or Passive (interest, dividends, or capital gains).

Also FTC cannot be applied against foreign earnings excluded by FEIE, refundable foreign taxes, taxes returned as subsidies, or taxes paid foreign countries with which the U.S. does not have diplomatic relations.

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### ***Example:***

After converting his foreign earnings to U.S. dollars, John McKay, a single filer, reports \$140,500 on line 7 of Form 1040. After excluding \$92,900 as FEIE, \$47,600 (\$140,500 - 92,900) is subject to U.S. taxation. As a resident of France, he is paying \$35,000 in French foreign taxes against the same income. The amount of FTC available is \$11,858 ( $\$47,600 / 140,500 \times 35,000$ ) to apply against U.S. taxes.

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