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U.S. Government Civilian Employees Stationed Abroad

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Introduction

If you are a U. S. citizen working for the U.S. Government, including the foreign service, and you are stationed abroad, your filing requirements are generally the same as those for citizens and residents living in the United States. You are taxed on your worldwide income, even though you are stationed abroad.

If you are stationed abroad, however, you may receive certain allowances and incur certain expenses that you generally do not have while living in the United States. This publication explains:

- Many of the allowances, reimbursements, and property sales you are likely to have, and whether or not you must report them on your tax return, and
- Many of the expenses you are likely to have, such as moving expenses and foreign taxes, and whether or not you can deduct them on your tax return.

U.S. possessions. This publication does not cover the rules that apply if you are stationed in American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, or Puerto Rico. Instead, you should get Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions.*

Useful Items

You may want to see:

Publication

- ☐ **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- ☐ **463** Travel, Entertainment, Gift and Car Expenses
- ☐ **508** Educational Expenses

☐ **514** Foreign Tax Credit for Individuals

☐ **521** Moving Expenses

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Form (and Instructions)

☐ **Schedule A** (Form 1040) Itemized Deductions

☐ **1116** Foreign Tax Credit

☐ **2106** Employee Business Expenses

☐ **2106–EZ** Unreimbursed Employee Business Expenses

☐ **3903** Moving Expenses

☐ **3903–F** Foreign Moving Expenses

☐ **4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

☐ **TD F 90–22.1** Report of Foreign Bank and Financial Accounts

See *How To Get More Information,* near the end of this publication, for information about getting these publications and forms.

Filing Information

There are some special rules that apply to certain income of U.S civilian employees stationed abroad and the time for filing their tax returns. A discussion of some of these items follows.

Foreign earned income exclusion and foreign housing exclusion and deduction. Certain taxpayers can exclude or deduct income earned in foreign countries. However, the foreign earned income and housing exclusions and the foreign housing deduction do not apply to the income you receive from the U.S. Government.

U.S. agency reimbursed by foreign country. If you are a U.S. Government employee paid by a U.S. agency to perform services in a foreign country, your pay is from the U.S. Government and does not qualify for the exclusions or the deduction. This is true even if the U.S. agency is reimbursed by the foreign government.

Other employment. If you are a U.S. citizen employed abroad by the U.S. Government and you also receive income from a private employer or are self-employed, you may qualify to claim the exclusions or the deduction. To qualify, you must meet either the bona fide residence test or the physical presence test. Your spouse who is a U.S. citizen or resident alien may also qualify if he or she earns income in a foreign country that is paid by a private employer or is from self-employment. Amounts paid by the United States or its agencies to you if you are not their employee may also qualify for the exclusions or the deduction.

Employees of post exchanges, etc. If you are an employee of an Armed Forces post exchange, officers' and enlisted personnel club, embassy commissary, or similar instrumentality of the U.S. Government, the earnings you receive are paid by the U.S. Government. This is true whether they are paid from appropriated or nonappropriated funds. These earnings are not eligible for the foreign earned income and housing exclusions or the foreign housing deduction.

Additional information. For more information on the foreign earned income and housing exclusions and foreign housing deduction, see Publication 54.

Terrorist or military action. U.S. income taxes are forgiven for a U.S. Government civilian employee who dies as a result of wounds or injuries incurred while employed by the U.S. Government outside the United States. The wounds or injuries must have been caused by terrorist or military action directed against the United States or its allies. The taxes are forgiven for the deceased employee's tax years beginning with the year immediately before the year in which the wounds or injury occurred and ending with the year of death.

If the deceased government employee and the employee's spouse filed a joint return, only the decedent's part of the joint tax liability is forgiven.

For additional details, see Publication 559, *Survivors, Executors, and Administrators.*

Combat zone participants. If you were a civilian who served in a combat zone or qualified hazardous duty area providing support services for the U.S. Armed Forces, you can get certain deadline extensions.

Deadline extensions provide you additional time to file tax returns, pay taxes, buy a replacement home to delay paying tax on the gain from the sale before May 7, 1997, of your old home, and certain other tax matters. For details about deadline extensions, combat zones, and related matters, see Publication 3, *Armed Forces Tax Guide.*

When To File

If you file on the calendar year basis, the due date for filing your return is April 15 following the close of your tax year. If you are living outside the United States and Puerto Rico, and your (or your spouse's, if you file a joint return) main place of business or post of duty is outside the United States and Puerto Rico on the due date, you are automatically granted an extension of time to file your return and pay any tax due until June 15. However, you must pay interest on any unpaid tax from April 15 until the tax is paid.

Your return is considered filed on time if it is postmarked by midnight of the due date for filing the return (including any extensions).

TIP *If the due date for doing any act for tax purposes, such as filing a return or paying taxes, falls on a* **Saturday, Sunday, or legal holiday,** *you can do that act on the next business day.*

Statement required. If you take advantage of the 2-month extension of the due date, you must attach a statement to your return explaining how you qualified for the extension.

Automatic 4-month extension of time to file. You can get an automatic 4-month extension of time to file from the regular due date for your return (April 15, for calendar year taxpayers) by filing Form 4868. You must file Form 4868 by the due date for your income tax return.

If you qualify for the automatic extension until June 15 because your tax home and your post of duty are outside the United States and Puerto Rico, the 4-month extension runs concurrently with the 2-month extension. This means you must file Form 4868 by June 15, the due date for your return as extended by the 2-month extension. If you file Form 4868 by June 15, you have until August 15 to file your return.

You should estimate and pay any additional tax you owe when you file Form 4868 to avoid being charged a late-payment penalty. The late-payment penalty applies if, through withholding, etc., you paid less than 90% of your actual tax liability by the original due date of your income tax return. Even if the late-payment penalty does not apply, you will be charged interest on any unpaid tax liability from the original due date of the return until the tax is paid.

Foreign Bank Accounts

You must file Form TD F 90–22.1 if at any time during the year you had an interest in, or signature or other authority over, a bank account, securities account, or other financial account in a foreign country. This applies if the combined assets in the account(s) were more than $10,000. Do not include accounts in a U.S. military banking facility operated by a U.S. financial institution.

File the completed form by June 30 of the following year.

Form TD F 90–22.1 is available from Internal Revenue offices and at most U.S. Embassies and consular offices.

Tax-Free Allowances

U.S. Government civilian employees may receive tax-free allowances, subject to certain conditions and limits, under the following laws:

1) Title I, chapter 9, of the Foreign Service Act of 1980,
2) Section 4 of the Central Intelligence Agency Act of 1949, as amended,
3) Title II of the Overseas Differentials and Allowances Act, or
4) Subsection (e) or (f) of the first section of the Administrative Expenses Act of 1946, as amended, or section 22 of that Act.

Your employer should not have included these tax-free allowances on your Form W–2, *Wage and Tax Statement.* Generally, the allowances cover expenses such as:

- Certain repairs to a leased home,
- Education of dependents in special situations,
- Motor vehicle shipment,
- Separate maintenance for dependents,
- Temporary quarters,
- Transportation for medical treatment, and
- Travel, moving, and storage.

For foreign service employees, allowances received for representation are also tax free under the above provisions.

American Institute in Taiwan. If you are an employee of the American Institute in Taiwan, allowances you receive are exempt from U.S. tax if they are equivalent to tax-exempt allowances received by civilian employees of the U.S. Government.

Cost-of-living allowances. If you are stationed outside of the continental United States or in Alaska, your gross income does not include cost-of-living allowances (other than amounts received under Title II of the Overseas Differentials and Allowances Act) granted by regulations approved by the President of the United States. Cost-of-living allowances are not included on your Form W–2.

Federal court employees. If you are a federal court employee, the preceding paragraph applies to you with one change. The cost-of-living allowance must be granted by rules similar to regulations approved by the President.

Republic of Panama. Employees of the Panama Canal Commission and civilian employees of the Department of Defense stationed in Panama can exclude from their income certain allowances that are comparable to the allowances (listed as items 1 through 4, earlier) that can be excluded by employees of the State Department stationed in Panama. However, the overseas tropical differential paid to civilian employees is taxable.

Taxable Allowances

You must include in your gross income certain pay differentials you receive.

Pay differentials. Post differentials, danger pay, and **special incentive differentials,** which are provided as financial incentives for employment under adverse conditions, such as severe climate, ***are taxable.*** Your employer must include these incentives in your income. If your agency does not include the amounts received as financial incentives in your wage and tax statement (Form W–2), you must report the total received during the year on the *Other income* line on Form 1040.

Other Allowances

Other allowances you receive may or may not have to be included in your income.

Allowances or reimbursements you receive to cover travel and transportation expenses. See *How To Report Business Expenses,* later, for a discussion on whether a reimbursement or allowance is included in your income.

Lodging furnished to a principal representative of the United States. Lodging (including utilities) furnished as an official residence to you as principal representative in a foreign country is tax free. However, amounts paid or deducted from your salary to cover government payment of your usual household expenses (which you must bear) are taxable (and are not deductible).

Peace Corps. If you are a Peace Corps volunteer or volunteer leader, some allowances you receive are taxable and others are not.

Taxable items. Taxable allowances must be included on your Form W–2 and reported on your return as though they were wages. These include:

1) Cash allowances received during training,
2) If you are a volunteer leader, allowances paid to your spouse and minor children while you are training in the United States,
3) The part of living allowances designated by the Director of the Peace Corps as "basic compensation,"
4) The part of living allowances for personal items such as domestic help, laundry and clothing maintenance, entertainment and recreation, transportation, and other miscellaneous expenses,
5) Leave allowances, and
6) Readjustment allowances or "termination payments."

Taxable allowances are considered received by you when credited to your account.

Example. Gary Carpenter, a Peace Corps volunteer, gets up to $175 a month during his period of service, to be paid to him in a lump sum at the end of his tour of duty. Although the allowance is not available to him until the end of his service, Gary must include it in his income on a monthly basis as it is credited to his account.

Nontaxable items. Nontaxable allowances generally include travel and living allowances, whether paid by the U.S. Government or the foreign country in which you are stationed. The part of living allowances for housing, utilities, food, clothing, and household supplies is not taxable and will not be included on your Form W–2.

Other Taxable Income

Some other income items that may apply to U.S. Government civilian employees stationed abroad are discussed in this section.

Republic of Panama. Income earned by any citizen or resident of the United States is not exempt from U.S. taxation by any section of the Panama Canal Treaty. However, certain allowances can be excluded. See *Tax-Free Allowances,* earlier.

Reemployment after serving with an international organization. Reemployment payments received by a federal employee who is reemployed by a federal agency after serving with an international organization are taxable. These payments are equal to the difference between the pay, allowances, post differential, and other monetary benefits paid by the international organization and the pay and other benefits that would have been paid by the federal agency had the employee been ***detailed*** to the international agency. The amount paid upon reemployment does not qualify as a tax-exempt allowance discussed earlier under *Tax-Free Allowances.*

Sale of personal property. If you have a gain from the sale of your personal property (such as an automobile or a home appliance) whether directly or through a favorable exchange rate in converting the proceeds to U.S. dollars, the excess of the amount received in U.S. dollars over the cost or other basis of the property is a capital gain. Capital gains are reported on Schedule D (Form 1040), *Capital Gains and Losses.* However, losses from sales of your personal property, whether directly or through an unfavorable exchange rate, are not deductible.

Sale of your home. You must report on your tax return the sale of your main home (within or outside the United States). If you sell it at a gain, different rules apply depending on the date of sale. These rules are highlighted below. If you sell it at a loss, you cannot deduct it.

Sales after May 6, 1997. If you sell your main home after May 6, 1997, you may be able to exclude from gross income up to $250,000 of gain ($500,000 on most joint returns). You must generally have owned and used the property for two of the five years preceding the date of sale.

Sales before May 7, 1997. If you sold your main home before May 7, 1997, you may be able to postpone paying tax on the gain. Generally, you must meet the following two conditions.

1) You must buy or build and live in another home within 2 years before or 2 years after the date of sale.
2) The cost of the new home must be equal to or more than the adjusted sales price of the old home.

For purposes of (1) above, the 2-year replacement period after the sale of your old home is suspended while your tax home (the place where you live and work) is outside the United States. However, the replacement period, plus the period of suspension, cannot last for more than 4 years after you sell your home.

For detailed information on selling your home, see Publication 523.

Deductible Business Expenses

Deductions that may be of special interest to you are discussed here: those for travel expenses, transportation expenses, and other expenses connected to your employment.

Travel Expenses

Subject to certain limits, you can deduct your ordinary and necessary unreimbursed expenses of traveling ***away from home*** in connection with the performance of your official duties. These expenses include such items as travel costs, meals, lodging, baggage charges, local transportation costs (such as taxi fares), reasonable tips, and reasonable dry cleaning and laundry fees.

TIP *Your home for tax purposes (**tax home**) is your regular post of duty regardless of where you maintain your family home. Your tax home is not limited to the Embassy, consulate, or duty station. It includes the entire city or general area in which your principal place of employment is located.*

Traveling away from home. You are traveling away from home if:

1) Your duties require you to be away from

the general area of your tax home substantially longer than an ordinary day's work, and

2) You need to get sleep or rest to meet the demands of your work while away from home.

This rest requirement is not satisfied by merely napping in your car. You do not have to be away from your tax home for a whole day or from dusk to dawn as long as your relief from duty is long enough to get necessary sleep or rest.

Temporary assignment. If your assignment or job away from your tax home is ***temporary,*** your tax home does not change. You are considered to be away from home for the whole period, and your travel expenses are deductible. Generally, a temporary assignment in a single location is one that is realistically expected to last (and does in fact last) for one year or less.

However, if your assignment or job is ***indefinite,*** that location becomes your new tax home and you cannot deduct your travel expenses while there. Your assignment or job in a single location is considered indefinite if it is realistically expected to last for more than one year, whether or not it actually lasts for more than one year.

You must determine whether your assignment is temporary or indefinite when you start work. If you expect employment to last for one year or less, it is temporary unless there are facts and circumstances that indicate otherwise. Employment that is initially temporary may become indefinite due to changed circumstances. A series of assignments to the same location, all for short periods but that together cover a long period, may be considered an indefinite assignment.

Exception for federal crime investigations. If you are a federal employee participating in a federal crime investigation, you may be able to deduct travel expenses even if you are away from your tax home for more than one year. If you qualify, the 1-year rule for deducting business travel expenses when away from your tax home does not apply, and you can deduct your otherwise allowable travel expenses.

Limit on meals and entertainment. You can generally deduct only 50% of the cost of your unreimbursed business-related meals and entertainment. However, the limit does not apply to expenses reimbursed under a U.S. Government expense allowance arrangement.

Primary purpose of trip must be for business. If your trip was entirely for business, your unreimbursed travel expenses are generally deductible. However, if you spend some of your time on nonbusiness activities, part of your expenses may not be deductible.

If your trip was mainly personal, you cannot deduct your travel expenses to and from your destination. This applies even if you engage in business activities while there. However, you can deduct any expenses while at your destination that are directly related to your business.

Expenses paid for others. You generally cannot deduct travel expenses of your spouse, dependents, or other individuals who go with you on a trip.

Home leave. The Foreign Service Act requires U.S. citizens who are members of the foreign service to take a leave of absence after completing 3 years of continuous service abroad. This period is called ***home leave*** and can be used to take care of certain personal matters such as medical and dental checkups, buying a new wardrobe, and visiting relatives.

The amounts paid for travel, meals, and lodging while on home leave are deductible as travel or business expenses subject to the rules and limits discussed earlier. You must be able to verify these amounts in order to claim them. Amounts paid on behalf of your family while on home leave are personal living expenses and are not deductible.

See chapter 1 of Publication 463 for more information on travel expenses.

Transportation Expenses

You can deduct allowable transportation expenses that are directly related to your official duties. Transportation expenses include the cost of transportation by air, rail, bus, or taxi, and the cost of driving and maintaining your car. They do not include expenses you have when traveling away from home overnight. Those expenses are deductible as travel expenses and are discussed earlier.

Use of your car. You generally can use one of two methods to figure your car expenses: actual expenses or the standard mileage rate.

If you use your car for both personal and business purposes, you must divide your expenses between business and personal use. To determine the business percentage, divide the business miles driven by the total miles the car was driven for the year.

Actual expenses. Under this method, you figure deductible car expenses using the business percentage of your actual operating costs. These include depreciation (subject to certain limits), gasoline, repairs, and similar expenses.

Standard mileage rate. Under this method, you use a set rate per mile for each business mile you drive. The standard mileage rate is 31½ cents a mile for 1997 and 32½ cents a mile for 1998. The rate is generally adjusted annually for inflation.

If you want to use the standard mileage rate for a car, you must choose to use it in the first year the car is available for use in your business. Then in later years, you can choose to use the standard mileage rate or actual expenses.

You cannot use the standard mileage rate if you:

1) Do not own the car,

2) Use the car for hire (such as a taxi),

3) Operate two or more cars at the same time (as in fleet operations),

4) Claimed a deduction for the car in an earlier year using ACRS or MACRS depreciation, or

5) Claimed a section 179 deduction.

Commuting. You cannot deduct your transportation costs of going between your home and your regular business location. These costs are personal commuting expenses.

If you have one or more regular business locations but must work at a temporary location, you can deduct the costs of commuting to that temporary place of work. The temporary work must be irregular or short term (generally, a matter of days or weeks). However, if you work at two or more different places in the same day, you can deduct your expenses of getting from one place of work to the other.

For more information on transportation expenses, see chapter 4 of Publication 463.

Other Employee Business Expenses

You may be able to deduct other expenses that are connected with your employment. Generally, you report them as miscellaneous itemized deductions and reduce them by 2% of your adjusted gross income.

Membership dues. Membership dues you pay to professional societies that relate to your business or profession are deductible.

Subscriptions. Subscriptions to professional publications that relate to your business or profession are deductible.

Educational expenses. Generally, educational expenses are considered to be personal expenses and are not deductible. However, under some circumstances, educational expenses are deductible business expenses.

You can deduct expenses for education if the education:

1) Maintains or improves skills required in your present position, or

2) Meets the express requirements of your agency to keep your present position, salary, or status.

You cannot deduct the expenses for education if the education:

1) Is taken to enable you to meet minimum educational requirements for qualification in employment,

2) Is a part of a program of study leading to qualifying you for a new position, or

3) Is for travel as a form of education.

These rules apply even if the education is required by your agency or it maintains or improves skills required in your work.

See Publication 508 for more information on educational expenses.

Foreign service representation and official residence expenses. As an employee of a U.S. Government agency overseas, you can deduct representation expenses and, as a principal representative, you can deduct official residence expenses. To be deductible, your expenses must be more than amounts you received under appropriate legislation as representation allowances or official residence expenses, provided:

1) These excess expenses are supported by a certificate from the Secretary of State attesting that they were incurred for the benefit of the United States, and

2) These expenses would be reimbursable under appropriate legislation if the agency had sufficient funds for these reimbursements.

You should request the certificate from the certifying officer at the post where you claim the expenses. In addition, the expenses must be of the types authorized by chapters 300 and 400 of Standardized Regulations (Government Civilian, Foreign Area).

These regulations state what are and what are not allowable representation expenses and official residence expenses. Among the items not allowable are the amounts a principal representative must pay personally to cover the usual expenses incident to the operation and maintenance of the official residence. These regulations are available at U.S. Embassies and consular offices.

Certificates must be signed by authorized certifying officers to be valid. Certificates signed by other State Department officials or employees are ***not*** valid.

If the excess expenses are not supported by a certificate from the Secretary of State, you can still deduct them on Schedule A (Form 1040) if they are ordinary and necessary in performing your official duties.

To be deductible, excess expenses for travel, entertainment, and gifts, including those certified by the Secretary of State, must comply with the rules for recordkeeping and accounting to your employer.

Impairment-related work expenses. If you are disabled, you can deduct attendant-care services at your place of work and other expenses in connection with work that are necessary for you to be able to work. Attendant care includes a reader for a blind person and a helper for a person with a physical disability. These expenses are reported on Form 2106 or 2106–EZ and carried to Schedule A (Form 1040). They are not subject to the 2% of adjusted-gross-income limit on miscellaneous deductions.

Loss on conversion of U.S. dollars into foreign currency. The conversion of U.S. dollars into foreign currency at an official rate of exchange that is not as favorable as the free market rate does ***not*** result in a deductible loss.

Recordkeeping Rules

You must keep adequate and detailed records of all your business expenses if you claim a deduction for business expenses that is greater than reimbursements you receive.

For example, you must keep records and supporting evidence to prove the following elements about deductions for traveling expenses (including meals and lodging while away from home):

1) The amount of each separate expense for travel away from home, such as the cost of your transportation, lodging, or meals. You may total your incidental expenses if you list them in reasonable categories such as daily meals, gasoline and oil, and taxi fares,
2) The dates you left and returned for each trip away from home, and the number of days spent on business away from home,
3) The destination or area of your travel, described by name of city, town, or similar designation, and
4) The business reason for your travel or the business benefit gained or expected to be gained from your travel.

How to record your expenses. Records for substantiation of your expenses should be kept in an account book, diary, statement of expense, or similar record. They should be supported by other records, such as receipts or canceled checks, in sufficient detail to establish the elements for these expenses. You do not need to duplicate information in an account book or diary that is shown on a receipt as long as your records and receipts complement each other in an orderly manner.

Your records must be timely. Record the expense in your account book or other record at or near the time you incur the expense. Entries made later, when there is a lack of accurate recall, will not comply with these rules.

Each expense should be recorded separately in your records. However, some items can be totaled in reasonable categories. You can make one daily entry for categories such as taxi fares, telephone calls, meals while away from home, gas and oil, and other incidental costs of travel. You may record tips separately or with the cost of the service.

RECORDS

Documentary evidence generally is required to support all lodging expenses while traveling away from home. It is also required for any other expense of $75 or more, except transportation charges if the evidence is not readily available. Documentary evidence is a receipt, paid bill, or similar proof sufficient to support an expense. It ordinarily will be considered adequate if it shows the amount, date, place, and essential business character of the expense.

CAUTION

A canceled check by itself does not prove a business cost. You must have other evidence to show that the check was used for a business purpose.

Confidential information. You do not need to put confidential information relating to a deductible expense, such as the place, business purpose, or business relationship, in your account book, diary, or other record. However, the information has to be recorded elsewhere at or near the time of the expense and be available to fully prove the expense.

How To Report Business Expenses

As a U.S. Government employee, your reimbursements are generally paid under an accountable plan and are not included in your wages on your Form W–2. If your expenses are not more than the reimbursements, you do not need to show your expenses or reimbursements on your return.

However, if you do not account to your employer for a travel advance or if you do not return any excess advance within a reasonable period of time, the advance (or excess) will be included in your wages on your Form W–2. You must complete Form 2106 or 2106–EZ to deduct your expenses. Also, if your actual expenses are more than your reimbursements, you can complete Form 2106 or 2106–EZ to deduct your excess expenses. You must generally include all of your expenses and reimbursements on Form 2106 or 2106–EZ and carry your allowable expense to Schedule A (Form 1040). Your allowable expense is then generally subject to the 2% of adjusted-gross-income limit.

Form 2106–EZ. You may be able to use Form 2106–EZ instead of the more complex Form 2106 for reporting unreimbursed employee business expenses. You can use Form 2106–EZ if you:

- Do not get reimbursed by your employer for any expenses (Amounts your employer included in your wages on your Form W–2 are not considered reimbursements.), and
- If you claim car expenses, you use the standard mileage rate.

CAUTION

If you are entitled to a reimbursement from your employer but you do not claim it, you cannot deduct the expenses to which that ***unclaimed reimbursement*** *applies.*

Other Deductible Expenses

In addition to deductible business expenses, you may be entitled to deduct certain other expenses.

Moving Expenses

If you changed job locations or started a new job, you may be able to deduct the reasonable expenses of moving yourself, your family, and your household goods and personal effects to your new home. However, you cannot deduct any expenses for which you receive a tax-free allowance as a U.S. Government employee.

How to report moving expenses. Moving expenses are deductible ***only*** on Form 1040 and you must meet the distance and time requirements discussed later. Form 3903–F is used to compute allowable deductions for foreign moves. A foreign move is a move to a new job location outside the United States and its possessions. Form 3903 is used for all other moves. After you figure your allowable moving expenses on Form 3903–F (or Form 3903), carry the total over to the appropriate line of Form 1040.

Distance. Your new main job location must be at least 50 miles farther from your former home than your old main job location was. If you did not have an old job location, your new job location must be at least 50 miles from your former home.

Time. If you are an employee, you must work full time for at least 39 weeks during the first 12 months after you arrive in the general area of your new job location.

Closely related to the start of work. The move must be connected, both in time and in place, with the start of work at the new location. In general, you must have incurred your moving expenses within one year from the time you first report to your new job or business.

A move generally is not considered reasonably related in place to the start of work if the distance from your new home to the new job location is more than the distance from your former home to the new job location. A move that does not meet this requirement may qualify if you can show, for example, that you must live at the new location as a condition of employment, or you will spend less time or money commuting from the new home to the new job.

Deductible moving expenses. Moving expenses that can be deducted include the reasonable costs of:

1) Moving household goods and personal effects (including packing, crating, in-transit storage, and insurance) of both you and members of your household, and

2) Transportation and lodging for yourself and members of your household for one trip from your former home to your new home (including costs of getting passports).

The cost of your meals is **not** *a deductible moving expense.*

For a foreign move, the costs of moving household goods include the reasonable expenses of moving household goods and personal effects to and from storage. Also included are expenses of storing the goods and effects for part or all of the period that your new job location abroad continues to be your main job location.

Expenses must be reasonable. You can deduct only those expenses that are reasonable for the circumstances of your move. For example, the costs of traveling from your former home to your new one should be by the shortest, most direct route available by conventional transportation.

Members of your household. A member of your household includes anyone who has both your former and new homes as his or her home. It does not include a tenant or employee unless you can claim that person as a dependent.

Retirees. You can deduct the costs of moving to the United States when you retire if both your former main job location and former home were outside the United States and its possessions. You do not have to meet the time requirement mentioned earlier. However, you must meet the other requirements.

Survivors. You can deduct moving expenses for a move to the United States if you are the spouse or dependent of a person whose main job location at the time of death was outside the United States and its possessions. The move must begin within 6 months after the decedent's death. It must be from the decedent's former home outside the United States, and that home must also have been your home. You do not have to meet the time requirement mentioned earlier. However, you must meet the other requirements.

Reimbursements. Except for certain tax-free allowances received by U.S. Government employees, you must include all reimbursements of, or payments for, nondeductible moving expenses in gross income for the year paid. Your employer should include the amount paid in your wages on your Form W–2.

Additional information. For additional information about moving expenses, see Publication 521.

Other Itemized Deductions

You may be able to claim other itemized deductions not connected to your employment.

Contributions. You can deduct contributions to qualified organizations created or organized in or under the laws of the United States or its possessions. You cannot deduct contributions you make directly to foreign charities (except for certain Canadian and Mexican organizations), churches, and governments. For more information, see Publication 526, *Charitable Contributions.*

Reduction of certain itemized deductions. If you receive a tax-free housing allowance, your itemized deductions for real estate taxes and home mortgage interest are limited. You must reduce the amount of each deduction that would otherwise be allowable by the amount of each expense that is related to the tax-free allowance.

Required statement. If you receive a tax-free housing allowance and have real estate tax or home mortgage interest expenses, attach a statement to your tax return. The statement must contain all of the following information:

1) A list of each class of taxable income by class plus the amount,

2) A list of each item of tax-free housing allowance income plus the amount,

3) A list of each item of otherwise deductible expense plus the amount,

4) An explanation of how you figured the nondeductible part of your otherwise allowable expenses, and

5) A statement that the other expenses on your tax return are not related to tax-free income.

Example. Adam is an IRS employee working overseas who receives a $6,300 tax-free housing and utility allowance. During the year, Adam used the allowance, with other funds, to provide a home for himself. His expenses for this home totaled $8,400 and consisted of principal ($500), insurance ($400), real estate taxes ($1,400), home mortgage interest ($4,000), and utility costs ($2,100). Adam did not incur any other expenses related to providing a home for himself.

Adam must reduce his deductions for home mortgage interest and real estate taxes. A reasonable way to reduce them would be to multiply them by a fraction: its numerator is $6,300 (the total housing and utility allowance) and its denominator is $8,400 (the total of all payments to which the housing and utility allowance applies). The result is $\frac{3}{4}$. Adam reduces his otherwise allowable mortgage interest deduction by $3,000 (the $4,000 home mortgage interest he paid $\times$ $\frac{3}{4}$) and his otherwise allowable real estate tax deduction by $1,050 (the $1,400 he paid $\times$ $\frac{3}{4}$). He can deduct $1,000 of his mortgage interest ($4,000 – $3,000) and $350 of his real estate taxes ($1,400 – $1,050) when he itemizes his deductions.

Exception to the reduction. If you receive a tax-free housing allowance as a member of the military or the clergy, this reduction does not apply. This means you can deduct all the real estate tax and home mortgage interest expenses you are otherwise entitled to deduct.

Foreign Taxes

If you pay or accrue taxes to a foreign government, you can generally use the amount to figure a credit against your U.S. income tax liability or an itemized deduction when figuring your taxable income.

Do **not** *include the foreign taxes paid or accrued as withheld income taxes on line 54 of Form 1040.*

Foreign tax credit. If you choose to figure a credit for the foreign taxes against your U.S. tax liability, complete Form 1116 and attach it to your U.S. income tax return.

Limit. Your credit cannot be more than the part of your U.S. income tax liability that is for your taxable income from sources outside the United States. You cannot claim a credit for foreign taxes paid on amounts excluded from gross income under the foreign earned income or housing exclusions. If all your foreign income is exempt from U.S. tax, you will not be able to claim a foreign tax credit.

If the foreign taxes you paid or incurred during the year exceed the limit on your credit for the current year, you can carry back the unused foreign taxes as credits to 2 prior years and then carry forward any remaining unused foreign taxes to 5 later tax years.

Deduction. If you choose to deduct all foreign income taxes on your U.S. income tax return, itemize the deduction on Schedule A (Form 1040). You cannot deduct foreign taxes paid on income you exclude under the foreign earned income or housing exclusions.

Example. Dennis and Christina are married and live and work in Country X. Dennis works for the U.S. Government and Christina is employed by a private company. They pay income tax to Country X on Christina's income only.

Dennis and Christina file a joint tax return and exclude all of Christina's income. They cannot claim a foreign tax credit or take a deduction for the taxes paid to Country X.

Deduction for other foreign taxes. The deduction for foreign taxes other than foreign income taxes is not related to the foreign tax credit. You can take deductions for these miscellaneous foreign taxes and also claim the foreign tax credit for income taxes paid to a foreign country.

You can deduct real property taxes you pay that are imposed on you by a foreign country. You take this deduction on Schedule A (Form 1040). You cannot deduct other foreign taxes, such as personal property taxes, unless you incurred the expenses in a trade or business or in the production of income.

More information. The foreign tax credit and deduction, their limits, and carryback and carryover provisions are discussed in detail in Publication 514.

How To Get More Information

You can get help from the IRS in several ways.

Outside the United States. During the filing period, you can get the necessary federal income tax forms and publications from U.S. Embassies and consulates. You can also call your nearest U.S. Embassy or consulate, or the IRS office numbers listed below to find out when and where assistance will be available. Taxpayer assistance is also available at most of the cities listed. These IRS telephone numbers include the country and city codes required if you are outside the local dialing area. The Nassau number includes the U.S. area code.

Bonn, Germany	(49)	(228)	339–2119
London, England	(44)	(171)	408–8077
Mexico City, Mexico	(52)	(5)	209–9100
		Ext. 3557 or 3559	
Nassau, Bahamas		(800)	829–1040
	or	(809)	759–5100
Paris, France	(33)	(1)	4312–2555
			Ext. 1210
Rome, Italy	(39)	(6)	4674–2560
Santiago, Chile	(56)	(2)	330–3424
Singapore	(65)		476–9413
Sydney, Australia	(61)	(2)	9373–9194
Tokyo, Japan	(81)	(3)	3224–5466

The IRS has combined special forms and instructions as well as publications in Package 1040–7 of the 1040 forms and instructions for U.S. citizens and residents living abroad. You can get the package and additional assistance by writing to:

Internal Revenue Service
Assistant Commissioner (International)
Attn: CP:IN:D:CS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

If you need help and cannot get it from these sources, write to the Internal Revenue office where you will file your return.

If you need a form or publication, you can also write to the appropriate Distribution Center listed in your tax forms package. For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

If you have a question about a return you filed, write to the Internal Revenue Service Center where you filed your return.

Within the United States. To order free publications and forms, call 1–800–TAX–FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our “800 number” telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

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