Global Mobility Services
United States: Taxation of employees working abroad (outbound)

People and Organisation
United States: Taxation of employees working abroad Folio
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United States

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Additional Country folios can be located at the following website: Global Mobility Country Guides
Introduction:
US citizens and residents working abroad

This folio is intended to provide an overview of the US taxation system as it affects US citizens and resident aliens working abroad. In addition, it provides tax-planning techniques that enable individuals on foreign assignment to take advantage of various exclusions and credits. After reading this folio, it should be apparent that tax planning is essential in minimizing US tax liability before, during, and after a foreign assignment.

The material contained in this guide was updated in March 2019 and reflects the tax laws and regulations in effect at that date, including those changes made by the Tax Cuts and Jobs Act enacted on December 22, 2017. Users are reminded that specific rules, including Internal Revenue Service (IRS) announcements and court decisions, should always be reviewed before implementing tax-planning strategies. Professional advice should always be sought prior to making any decisions. For both home and host countries, the advice should include a discussion of various topics.

Among others, the following matters are not covered in this folio:

- Planning tax-effective remuneration including dual or multiple employments, pre- and post-assignment planning, stock options and other tax-efficient benefits;
- Refining Social Security;
- Structuring foreign-assignment policies;
- Choosing an employment structure;
- Pensions;
- Corporate tax implications.

Further information or assistance may be obtained from any of the PwC contacts listed in the back of this folio.
Step 1:
Understanding basic principles

US citizen’s tax liability

1. US citizens living and working abroad are often surprised to learn that they will continue to be liable for US federal and, sometimes, state and local individual income taxes. This rule also applies to most resident aliens with green cards. Consequently, US citizens and resident aliens working abroad must continue to file US tax returns.

Tax rules for the United States

2. US citizens and resident aliens living abroad remain taxable on their worldwide income for federal income tax purposes. The calculation of the US individual income tax liability is essentially the same whether the US citizen or resident resides in the United States or abroad, with certain exceptions. There are complicating factors, however, such as additional forms to be filed and difficult calculations to be performed.

3. Many US citizens and residents working abroad are also likely to be liable for tax in the foreign (host) tax jurisdiction. However, the US tax system allows certain special exclusions and foreign tax credits (covered later in this folio) that minimize the possibility of incurring a double-tax burden and help put Americans on equal footing with foreign counterparts.

4. The term expatriate is primarily used in the folio to refer to a US citizen or resident alien (e.g., green card holder) who is working on an assignment outside the United States. The term may also refer to a former US citizen or former long-term lawful permanent resident who may be subject to special tax provisions under Sections 877A and 2801 as a result of ‘expatriation’.
Step 2: Understanding the US tax system

General

5. The starting point in calculating the US individual income tax liability is determining the individual’s gross income. As with domestic US taxpayers, an expatriate’s gross income includes income from all sources, unless specifically excluded by the US Internal Revenue Code (IRC) or treaty. Thus, income includes compensation received in the form of cash, property or the reimbursement by an employer of personal expenses.

6. Expatriates living overseas may receive additional types of income, such as foreign premiums and allowances in connection with their foreign assignments, and non-US investment income such as interest, dividends or capital gains. Whether or not such income is included in gross income for US tax purposes is determined by the application of US tax law, not foreign tax laws.

7. Normal deductions, losses, exclusions and adjustments to gross income continue to be permitted in determining the adjusted gross income (AGI) of an expatriate for US tax purposes. Examples of such items are capital losses (up to $3,000 per year in excess of capital gains) allowable rental losses (subject to limitations) and allowable IRA deductions.

In addition, moving expenses historically have been deducted to calculate AGI. However, for tax years 2018 through 2025, an employee’s deduction of unreimbursed moving expenses, and the favorable income exclusion for qualified moving expenses have been eliminated. This suspension relates to employee moves in 2018 and later years. Certain states may still provide a tax benefit for moving expenses, however.

Itemized deductions

9. Itemized deductions that are subtracted from AGI in computing taxable income typically include investment and mortgage interest expense, charitable contributions, and qualifying medical expenses. Certain itemized deductions are limited to an aggregate of $10,000, including state and local income tax, domestic real property tax, and personal property taxes. No deduction is allowed for foreign real property taxes.

Filing status

8. In general, an individual’s filing status depends on whether he or she is single or married. Four types of filing status are available for federal income tax purposes: Married filing jointly, married filing separately or surviving spouses, head of household, and single. There may be circumstances in which a taxpayer may be entitled to elect a different filing status while living abroad. For example, an expatriate married to a nonresident alien may find it beneficial to file as married filing separately or head of household to avoid reporting and paying US tax on the nonresident alien spouse's non-US source income. Personal exemptions have been eliminated.
In addition, certain itemized deductions previously subject to the two percent of the adjustedgross income (AGI) floor are no longer deductible. No interest deduction on home equity loans is allowed if such debt does not meet the definition of acquisition indebtedness. Casualty losses are not deductible, except in the case of losses attributable to federally declared disaster areas.

10. US individual taxpayers may claim the standard deduction if that amount is greater than their itemized deductions. For 2019, the standard deduction is $24,400 for married filing jointly, $12,200 for single and married filing separately taxpayers, and $18,350 for head of household filers.

11. Following the deductions, tax is calculated using graduated rates (including some flat rates such as long-term capital gain rates.)

12. There are a number of adjustments allowed after the basic tax calculation to arrive at the final tax liability.

**Foreign earned income and housing exclusions**

13. US tax laws contain special provisions (under Section 911) that allow certain US citizens or residents residing in a foreign country to exclude from US taxation amounts earned for services performed outside of the United States. In order to be a ‘qualified individual’ eligible for the benefits allowed under these provisions, specific tax home and residence or physical presence requirements must be met. A qualified individual eligible for the foreign earned income and housing exclusions is one who meets either a ‘bona-fide residence’ or ‘physical presence’ test while maintaining a tax home in a foreign country or countries. Special rules apply for the election and revocation of the exclusion. For 2019, the maximum income exclusion is $105,900, which can be further combined with the foreign housing exclusion that varies by country.

The foreign earned income and housing exclusions do not apply to US expatriates working in Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the US Virgin Islands or US possessions, such as American Samoa. Special tax rules apply to these jurisdictions. Note that there are commonly situations in which it is not beneficial to claim the exclusions even though one qualifies.

**Tax home**

14. In general, an individual's tax home for US tax purposes is located at his or her principal place of business. The location of one's tax home is not affected by short, temporary absences from the principal place of employment. For example, business trips to the United States or the maintenance of a dwelling unit in the United States would not typically result in a change in tax home from the foreign location of principal employment to the United States. However, a tax home for Section 911 purposes cannot be in a foreign country for any period during which an individual maintains an abode (i.e., the place where the person is actually living) in the United States.

15. An individual may have a tax home separate from that of his or her spouse. Therefore, a spouse and family remaining in the United States during an individual's foreign assignment do not necessarily affect qualification of a foreign location as the expatriate's tax home.

16. The IRS has taken a position that, in general, the tax home of an individual will not be
deemed to have shifted to a new location unless the length of the business assignment is intended to be for more than one year. Therefore, only individuals whose international assignments are expected to be for more than one year can qualify for the foreign earned income exclusion under either of the specified tests.

**Bona-fide residence test**

18. To be considered a bona-fide resident of a foreign country for Section 911 purposes, a taxpayer must generally be a US citizen and reside in a foreign country or countries for an uninterrupted period that includes one full calendar year (January 1 through December 31).

Temporary absences are permitted (e.g., business trips, vacations, etc.). Once bona-fide residence is established, the foreign earned income exclusion is available for all days during the period of foreign residence. Under this test, an individual can qualify as a bona-fide resident in the year of transfer to or from a foreign assignment as long as the assignment includes an entire tax year (assuming the person had a foreign tax home and an election is in place.)

19. **Example:** Andrew (a US citizen) began his overseas assignment to Hong Kong on September 1, 2018, and returned to the United States permanently on August 1, 2020. He qualifies as a bona-fide resident during all of his assignment period in 2018, 2019, and 2020 because his uninterrupted period of foreign residence included the entire 2019 tax year.

20. The foreign earned income exclusions cannot be claimed for income from any period before the taxpayer’s qualified period begins. Thus, the qualifying foreign residency period does not generally include any pre-assignment trips or trips to foreign countries while en-route to the final destination. This rule also applies when an individual departs from a foreign tax home at the end of an assignment and intends to return to the United States. The intention not to return to a foreign residence terminates the bona-fide residence in such location.

21. **Example:** Bill stopped in France for several days before arriving in Hong Kong, his new principal place of employment. Since his intention was to remain in France for only a short time, he would not be considered to have established bona-fide residence in France. Therefore, the ability to qualify for the foreign earned income exclusion under the bona-fide residence test would not begin at least until his arrival in Hong Kong.

22. Whether an individual is classified as a bona-fide foreign resident depends on the facts and circumstances of each case. These include the following:

- Intentions regarding length of time and purpose in the foreign location are considered as well as integration into society;

- Payment of income tax to the host country is a positive factor, although the fact that no foreign income tax is paid (for example, because the expatriate lives and works in a country with no income tax) is not necessarily a negative factor. However, if the expatriate submits a statement to that country’s government claiming that he or she is a nonresident for

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1 Certain exceptions may apply for resident aliens who are citizens of countries with which the United States has a bilateral treaty.
purposes of its income tax law, in many cases he or she may be denied bona-fide foreign residence status for Section 911 purposes;

- The decision of an expatriate not to sell a US home or move his or her family abroad is not, in itself, sufficient reason to deny bona-fide foreign residence status;

- Absentee voting in US elections is not a disqualifying factor.

**Physical presence test**

23. A US citizen or resident alien meets the physical presence test by being physically present in a foreign country (or countries) for at least 330 full days during any period of 12 consecutive months. In applying the physical presence test, any period of 12 consecutive months may be used. The months need not be full calendar months as long as they are consecutive.

24. When counting days physically present in a foreign country, only whole days are considered. A day is defined as a full 24-hour period beginning with midnight and ending with the following midnight. Therefore, for travel to and from the United States, days of arrival in and departure from a foreign country do not always count as qualifying days of presence. However, travel days between foreign countries (without US presence of 24 hours or more) after having established residence in a foreign country count as qualifying days of physical presence.

25. As mentioned, individuals whose assignments exceed 12 months but do not encompass an entire tax year
will not qualify for the foreign earned income and housing exclusions under the bona-fide residence test. However, qualification may occur if the physical presence test is satisfied.

26. **Example:** Frank arrived to begin his foreign assignment on March 1, 2018. He moved back to the United States on March 31, 2019. He established a tax home in the foreign country and had no trips back to the United States during his assignment. Frank satisfies the 330-day physical presence test for the period that he was abroad in the 2018 and 2019 tax years because he was present in, and had a tax home in, a foreign country for at least 330 days during a consecutive 12-month period.

27. Because the requirements of the physical presence test are rigid, detailed records of travel to and from the United States are necessary to prevent unintentional disqualification, and they are helpful in the event of an IRS examination.

28. **Potential for expense deduction**

For 2018 and later years, an individual whose tax home remains in the United States may no longer deduct certain ‘ordinary and necessary’ unreimbursed work-related expenses as itemized deductions. Examples include travel expenses, certain transportation costs, or other items required for the taxpayer’s job. These expenses, however, may still qualify as excludible from income if paid by an employer.

29. **Waiver of eligibility tests for certain countries**

The normal rules for qualification under the bona-fide residence or physical presence test are waived if residence in a foreign country is disrupted because of war, civil unrest or similar adverse conditions, and the IRS has documented such country as qualifying. In such instances, an individual is allowed a pro-rata portion of the exclusions, based on the period of actual residence or presence, provided the requirements for qualification could reasonably have been expected to be met had the adverse conditions not existed.


31. **Ineligible countries**

Presence in certain foreign countries will not count for the physical presence test or bona-fide residence test if the expatriate is present in the country in violation of certain US travel restrictions. The Treasury Department and the IRS have the authority to issue rules allowing the foreign earned income benefits for individuals doing ‘necessary work,’ such as research or news reporting, in restricted countries.

32. **Foreign earned income exclusion**

If an individual’s tax home is in a foreign country and he or she meets either the bona-fide residence test or the physical presence test, he or she may elect to exclude qualified foreign earned income up to a maximum annual amount of $105,900 for 2019.

33. Foreign earned income consists of income that is earned as compensation for services performed in a foreign country or countries during the period that an individual has a foreign tax home and meets either the
bona-fide residence or physical presence tests. Earned income includes:

- Wages, salaries, commissions, bonuses or professional fees;
- The fair market value of noncash compensation provided by an employer (such as the rent-free use of a home or company car);
- Expatriate allowances or reimbursements (e.g., cost-of-living allowance, overseas differential, education, home leave and moving expenses.)

Foreign earned income does not include amounts which are:

- Excluded from an individual’s income under other provisions of the Code;
- Received as a pension or annuity;
- Paid by the US government or any of its agencies;
- Received after the end of the tax year following the year in which the services that generated the income were performed;
- From an employer’s contributions to a nonexempt employee benefits trust.

Compensation attributable to business days worked in the United States is US source income and does not qualify as foreign earned income.

**Example:** Assume that, during 2018, a qualifying expatriate under the bona-fide residence test, earning a base salary of $60,000 and allowances of $20,000, spends 45 workdays in the United States. A days-basis allocation of compensation often provides the clearest reflection of the source of the particular expatriate’s earnings. Assuming that there are 240 workdays in the year, 45/240 of compensation is attributable to services performed in the United States. US source compensation is $15,000 (45/240 of $80,000) and foreign source compensation is $65,000 ($80,000 - $15,000). Only the $65,000 foreign source compensation may be excluded under Section 911.

In general, foreign earned income is considered to be earned in the year in which the individual performed the services rather than the period during which it was received. Only current year income is eligible for the current year exclusion. Income earned in the prior year may only be offset to the extent of any unused exclusion from that prior year.

The maximum allowable exclusion is computed on a daily basis.

**Example:** Assume an expatriate’s qualifying period begins on September 15, 2018. The exclusion could be claimed for 108 days (September 15 to December 31). The maximum exclusion would amount to $30,754 (108/365 or 29.6% of $103,900 for 2018).

If the individual’s spouse also works in the foreign country, the amount of the foreign earned income exclusion is computed separately for each individual.

**Example:** Donald and his wife were each eligible for the foreign earned income exclusion and elected it in 2018 for the entire tax year. Donald earned $120,000 and his wife earned $80,000. Donald is permitted to exclude the maximum exclusion allowed for 2018 ($103,900) and his wife can exclude her entire $80,000. Donald is permitted to exclude the maximum exclusion allowed for 2018 ($103,900) and his wife can exclude her entire $80,000. However, his wife’s excess exclusion of $23,900 cannot be used to exclude any of Donald's income.
In addition to the foreign earned income exclusion, a separate exclusion is available for ‘excess’ foreign housing costs. The rules for qualifying are the same as for the general exclusion (i.e., having a foreign tax home and meeting either the bona-fide residence or physical presence tests).

An individual may exclude reasonable foreign housing expenses in excess of a base housing amount, but the amount of the exclusion is generally limited to 30% of the maximum amount of a taxpayer’s foreign earned income exclusion. For 2019, the maximum housing exclusion is $31,770 (30% of $105,900) – however certain countries deemed to have a high cost of living may have higher maximum exclusion amounts as set by the IRS. The base housing amount is set as a percentage – 16% – of the foreign earned income exclusion limitation. Thus, the 2019 base housing amount is equal to $16,944. If you qualify for less than a full year under the bona-fide residence or physical presence tests, the base housing amount is determined on a daily basis.

Under the 30 percent rule described above, the maximum, general amount of the foreign housing cost exclusion in 2019 is (assuming foreign residence or presence on all days in the year) $14,826 ([($105,900 x 30%) - ($105,900 x 16%)].

Treasury and the IRS issue notices to provide certain adjustments based on a taxpayer’s geographical location (i.e., countries with a high cost of living adjustment), to the annual housing expenses that may be considered in calculating the foreign housing exclusion described above. The adjustments act in place of the general limitation described above and are updated each year via administrative pronouncement. Adjusted limitations on housing expenses are available on the IRS website.

Temporary lodging expenses in a foreign country can be treated as housing costs eligible for the housing exclusion as long as they are reasonable and incurred while the individual is a qualified individual.

Example: Joe had the following for 2019:

<table>
<thead>
<tr>
<th>Rent</th>
<th>$14,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heating</td>
<td>$1,500</td>
</tr>
<tr>
<td>Electricity</td>
<td>$1,200</td>
</tr>
<tr>
<td>Repairs and insurance</td>
<td>$450</td>
</tr>
<tr>
<td>Total housing expenses</td>
<td>$17,150</td>
</tr>
</tbody>
</table>

The housing exclusion is calculated as follows:

| Housing expenses | $17,150 |
| Less: base housing amount | $16,944 |
| Housing exclusion | $206    |
49. The sum of the foreign housing exclusion plus the foreign earned income exclusion is limited each year to foreign earned income.

50. **Example:** If, in the above example, Joe had foreign earned income of exactly $70,000 during the year, he may exclude only a maximum of $70,000, even though the exclusion limit for 2019 is $105,900. The excess of the exclusions over foreign earned income does not carry over to offset income earned in future years. However, the excess of the maximum foreign earned income exclusions can be used to offset income earned in the current year but received in the subsequent year (as discussed in above paragraph 37).

51. If he had $120,000 of foreign earned income, Joe would be entitled to exclude $106,106, equal to the $105,900 maximum foreign earned income exclusion amount plus a $206 housing exclusion using Form 2555. As a result, his AGI for the year (assuming that he has no other income) will be $13,894 ($120,000 less $106,106).

52. Self-employed individuals are eligible to deduct their foreign housing expenses in excess of the base amount in calculating AGI instead of excluding an equivalent amount of foreign earned income. In many cases, the practical effect is the same as claiming an exclusion. If the individual is both an employee and a self-employed individual during the same year, the IRS applies special rules that allocate the foreign housing amount to the two types of foreign earned income.

53. **E lecting the foreign exclusions**

The elections for the foreign earned income exclusion and the housing exclusion are made on the individual’s Form 1040, *US Individual Income Tax Return.* Once elected, they must generally be claimed in all future years in which the individual qualifies. A taxpayer may revoke this election for any tax year after the tax year for which the election was made. However, once revoked, the individual will not be allowed to make the election for the next five years without the permission of the IRS.

Expatriates should consider carefully whether to elect or revoke the foreign earned income exclusion, the foreign housing exclusion, or both. The following factors should be taken into consideration in making this decision:

- The potential for a lower tax liability if foreign tax credits alone are used without the exclusion
- Probability of using excess foreign tax credits (see paragraphs 62-78) in prior or future years;
- The expected location of the individual’s foreign assignment in future years;
- The amount of the individual’s unearned income (such as dividends, interest and capital gains) that does not qualify for the exclusion;

54. Previously, if the foreign exclusions were elected, the taxpayer’s US source earned and unearned income would possibly be subject to a lower US tax rate because the tax was calculated on taxable income net of the foreign exclusions. However, important changes during 2006 require that the foreign exclusions are added back to determine the taxpayer’s
marginal tax rate (please see paragraph 60 for a detailed discussion).

55. A partial or total disallowance of foreign tax credits and deductions will result to the extent that they relate to the taxpayer’s excluded foreign income.

Disallowance of double benefits

56. To avoid a double benefit, the IRS disallows deductions to the extent that they are directly related to excluded income. Examples of directly related amounts are IRA deductions, some state income taxes, and foreign taxes that are claimed as a deduction rather than as a credit. Also, see paragraphs 62–78 regarding foreign tax credits.

57. The disallowance formula is as follows:

\[
\text{Disallowed deductions} = \frac{\text{Foreign earned income excl. x Deductions directly related to \( = \frac{\text{Foreign earned income}}{\text{Disallowed deductions}}\)}}{\text{Foreign earned income}}
\]

58. **Example:** Ray had $120,000 of foreign earned income in 2018, of which $90,000 was excluded (through the use of both the general exclusion and the housing exclusion). Ray also claimed $10,000 of deductions (a combination of an IRA deduction and foreign income taxes claimed on Schedule A). Under the disallowance rules, $7,500 of Ray’s deductions are disallowed as being allocable to excluded income as follows:

\[
\frac{90,000}{120,000} \times 10,000 = 7,500
\]

Reduction in itemized deductions and computation of tax liability

59. Generally, the total amount of an individual’s itemized deductions will be reduced significantly during a foreign assignment because:

- State or local income tax may not be paid while abroad;
- If the US home was sold without repurchasing a new one, the taxpayer may have no mortgage interest expense or property taxes;
- If the US home is rented out during the assignment, the interest and taxes generally will be shown as business expenses allocable to rental income on Schedule E (rather than as itemized deductions on Schedule A); some of these Schedule E expenses if an overall loss on the rental activity, could be suspended as passive activity loss carryforwards.

- Contributions to foreign charities (with the exception of charities from certain countries where provided by treaty) are generally not deductible.

If the sum of allowable itemized deductions for the year is less than the standard deduction (see paragraph 10), no tax benefit is generated by the itemized deductions (though a state benefit may be available). In such cases, deductible expenses should be prepaid, to the extent possible, in the year of a move out of the United States and postponed until the year of a move back to the United States.

Those planning to take advantage of this idea should consult with their tax advisors.
Other itemized deductions may be allowed that are not directly related to excluded foreign earned income (if elected). These deductions include medical expenses, mortgage interest on a personal residence, US real property taxes, US charitable contributions, and investment interest expense (all subject to limitations).

60. Once taxable income has been determined, the federal income tax liability is computed using the tax tables or tax rate schedules appropriate for the taxpayer’s filing status. Under special rules, if an individual excludes an amount from income under Section 911, any income in excess of the exclusion amount determined under Section 911 is taxed (under the regular tax and alternative minimum tax) by applying to that income the tax rates that would have been applicable had the individual not elected the Section 911 exclusion (also known as the stacking rule).

For example, an individual with $80,000 of foreign earned income that is excluded under section 911 and with $20,000 in other taxable income (after deductions) would be subject to tax on that $20,000 at the rate or rates applicable to taxable income in the range of $80,000 to $100,000.

61. In addition to the foreign earned income and housing exclusions, another difference between determining an expatriate’s US tax liability versus that of an individual living in the United States is that the US income tax liability of an expatriate is more likely to be reduced by a foreign tax credit.

**Foreign tax credits**

62. Compensation paid to expatriates will often be taxable in both the United States and in the foreign country in which they live and/or work. In order to avoid double taxation in this situation, US law permits such individuals to claim a dollar-for-dollar credit against their US income tax liabilities, subject to limitation, for foreign income taxes paid or accrued to the foreign jurisdiction.

A credit may generally be claimed for only foreign income taxes, including foreign social security taxes structured as income taxes (unless there is a Totalization agreement.) Other foreign taxes, such as foreign sales tax, value-added tax, excise tax, property tax, and wealth taxes are generally not creditable, but may be deductible.
The foreign tax credit (also referred to as FTC) is limited to the portion of US tax related to foreign source income (sourcing rules are discussed in the next section.) To determine the current-year foreign tax credits allowed, a separate calculation must be made for each class (basket) of income (e.g., foreign taxes paid or accrued on wages versus passive income such as interest, dividends, etc.) There are two limitations, with the maximum foreign tax credit allowed for each basket for a year being the lesser of:

- The sum of foreign taxes paid or accrued for the year (including carryovers), or
- An amount determined under the following formula:

\[
\text{foreign source taxable income} \times \frac{\text{US tax (generally before credits)}}{\text{worldwide taxable income}} = \text{limitation}
\]

If more foreign income taxes are paid or accrued than are allowed to be credited against an individual's US tax for the year, the resulting amount of excess foreign tax credits may be carried back to the preceding year (if it can be used). It can then be carried forward for use in the subsequent 10 years and is commonly referred to as foreign tax credit carryover.

Individuals must elect the foreign tax credit annually on their US income tax return for the year. If the credit is not elected, the foreign taxes may instead be allowed as an itemized deduction in the year paid. However, because US income tax is usually reduced more by a credit than by a deduction, it will generally be preferable to elect the credit.

Foreign income taxes imposed on income that is excluded from US tax under the foreign earned income and/or housing exclusion may not be claimed as a credit or a deduction. This is referred to as a 'scaledown' of foreign taxes.

If Max earned $70,000 which was fully excluded using the foreign earned income exclusion, he may not claim a credit for any foreign taxes paid on the $70,000.

The allocation of foreign income taxes to excluded foreign earned income is generally based on the following ratio:

\[
\text{foreign earned income and housing exclusion (net of allocated expenses)} \times \frac{\text{foreign income tax on foreign earned income}}{\text{disallowed income tax}} = \text{disallowed income tax}
\]

This formula assumes that foreign taxes on foreign earned income can be segregated from income that is not foreign earned income.
Example: Assume that Jane has $26,000 of creditable foreign taxes relating to foreign earned income. If total foreign earnings are $125,000 and her foreign exclusions are $95,000, creditable foreign income taxes must be reduced by $19,760, computed as follows:

\[
\frac{95,000}{125,000} \times 26,000 = 19,760
\]

Her foreign taxes available for credit are $6,240 ($26,000 - $19,760).

The final credit is the lesser of foreign taxes available for credit after disallowance and the limitation discussed above.

A foreign tax credit may be claimed using either the paid or the accrued method. Under the paid method, credits are claimed in the year of payment, regardless of the year to which the taxes relate. With the accrued method, a credit is claimed for tax liabilities accrued during the year, even if not paid (with certain limitations related to timing). Accrued taxes generally match the tax liability from the foreign country's tax return for the matching tax year.

Example: An expatriate has a 2018 foreign tax liability of $20,000, which gets paid in 2019. The foreign tax year ends 12/31. If a foreign tax credit is claimed using the paid method, the credit may only be claimed in 2019. Using the accrued method, the credit may be claimed in 2018.

As shown above, if foreign tax credits are claimed under the paid method, a delay or loss of credit may be incurred. In the example above, the individual would incur a cash-flow issue because the income would be reported in 2018, while the credit would only be available in 2019. Assuming that the individual has excess foreign tax credits in 2019, the excess could be carried back to 2018. However, the individual may experience a cash-flow issue for that first year due to the need to pay the tax on the income without an offsetting credit.

Excess credits may be carried back for only one year. Taxes paid beyond the end of the calendar year following the year the income is reported on the US return will not be able to be matched with the income if the paid method is used.

To the extent that the individual is in an excess credit position (i.e., has more foreign tax credits than he or she can use in any year), the benefit of the foreign tax credit could be lost entirely without further action.

If the paid basis is utilized for a year, a taxpayer may switch to the accrual method in a subsequent year. However, once the accrual method is elected, it must be used for all future years.

The accrued foreign liability is typically translated into US dollars using the average exchange rate for the tax year. This accrual translation rule does not apply to foreign income taxes paid more than two years after the close of the tax year or to foreign taxes denominated in an inflationary currency. These foreign taxes are required to be translated to US dollars using the exchange rate in effect on the date paid.

**Sourcing of income rules**

Broadly speaking, classification of income as US or foreign source is made in accordance with the rules indicated below (it should be noted that the place of payment or receipt of income is generally irrelevant for purposes of determining the source of income):

- Compensation — sourced to the location where the services which gave rise to
the compensation are performed;

– Dividends and interest — generally, the place of residence or organization of the payer determines the source (however, the rules vary depending upon the type of interest/dividend and the payer’s amount of income-earning activity within the US);

– Rent and royalties — sourced to the location where the property is used;

– Gains from real property sales — sourced to the location where the real property is located;

– Gains from personal property sales — generally, sourcing is based on the residency of the seller.

80. Special rules apply for sourcing capital gains from sales of stock or securities or other personal property. For a US citizen or resident, such gain will be considered foreign source provided the individual’s tax home is in a foreign country and a foreign income tax of at least 10% of the gain is paid to a foreign country (separate special rules apply to nonresident aliens). Otherwise, the gain will be entirely US source. Under these source rules, the location of the property (or place of incorporation of the corporation that issues the stock) and the place of sale has no bearing on the source of gain from the sale.

81. Treaties may alter the source of income from that under US domestic law if the benefits of the treaty are chosen.

Allocation and apportionment of deductions

82. In calculating foreign source taxable income, deductions that are directly related to producing a particular type of income must be allocated to that income. For example, a deduction for foreign income taxes would be allocated based on the ratio of US and foreign workdays. Similarly, most expenses connected with rental of an expatriate’s US home are allocated to US rental income. To the extent that a deduction cannot be directly allocated to the earning of gross income, however, it must be allocated based on the ratio of foreign gross income to total gross income. This would usually be true of adjustments and itemized deductions such as home mortgage interest and property taxes. Individuals who do not itemize deductions would allocate their standard deductions in the same manner.

83. Computation of the foreign tax credit limitation can be complex. An illustration is contained at paragraph 88 as part of a more comprehensive example.

Limitation on passive income

84. The law requires that the foreign tax credit limitation be calculated separately for passive income, such as interest on a foreign bank account, foreign dividends and other income from foreign investment sources. The foreign tax credit limitation is calculated separately for each basket of income, making it impossible to use excess foreign tax credits generated on foreign compensation against US tax on foreign passive income. Thus, any foreign tax imposed on foreign source passive income generally may be credited only against US tax on passive income, and foreign tax on foreign source compensation may be credited only against US tax on income in the same basket.

85. Other categories may apply based on particular facts and circumstances.
Maximizing the foreign tax credit

86. As excess foreign tax credits may be carried forward for up to 10 years, individuals may be able to use some or all of any excess foreign tax credits in years following a foreign assignment, provided that foreign source income is generated during the relevant carryover period (e.g., via business trips to foreign locations). Excess foreign tax credits accumulated during the first year of a foreign assignment would first be carried back for one year and used in the same way if foreign source income was generated during the year prior to a move abroad.

87. Example: Kathy spent 22 days in 2018 on business trips to several of her company’s foreign locations. Of her total 2018 salary of $72,000, approximately $6,000 (one month’s salary based on 22 working days) represented foreign source income. Kathy paid no foreign tax in 2018, but calculated a foreign tax credit limitation of $1,500 for the year (the amount of her US tax liability that was generated by foreign source income in the general limitation category).

In 2019, she was transferred overseas and paid foreign tax on her earnings. After preparing her 2019 tax return calculating foreign tax credits on the ‘paid’ method, Kathy discovered that she had excess foreign taxes paid of $3,300 for 2019 (because of the high rate of foreign tax in Kathy’s country of residence, her foreign taxes paid exceeded the amount that she could claim as a credit on her 2019 US return by $3,300). Kathy was able to carry back these excess taxes to 2018 and claim a refund of $1,500 (the amount of her 2018 limitation) via an amended return (Form 1040X). The remaining $1,800 of excess 2019 taxes may be carried forward and potentially used against any excess limitation for the next 10 years.

88. Foreign tax credit calculation example

<table>
<thead>
<tr>
<th>Compensation</th>
<th>Foreign ($)</th>
<th>US ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-move US</td>
<td>50,000</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Post-move US based on US workdays*</td>
<td>1,750</td>
<td>1,750</td>
<td></td>
</tr>
<tr>
<td>Post-move US based on foreign workdays*</td>
<td>68,250</td>
<td>68,250</td>
<td></td>
</tr>
<tr>
<td>Total compensation</td>
<td>68,250</td>
<td>68,250</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Foreign ($)</th>
<th>US ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>3,000</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Gross income</td>
<td>68,250</td>
<td>54,750</td>
<td>123,000</td>
</tr>
<tr>
<td>Itemized deductions</td>
<td>(14,427)</td>
<td>(11,573)</td>
<td>(26,000)</td>
</tr>
<tr>
<td>Basis for foreign tax credit limitation</td>
<td>53,823</td>
<td>43,177</td>
<td>97,000</td>
</tr>
</tbody>
</table>

FTC Limitation amount is determined under the following formula:

\[
\text{foreign source taxable income} \times \frac{\text{US tax (generally before credits)}}{\text{worldwide taxable income}} = \text{foreign tax credit limitation}
\]

\[
\frac{53,823}{97,000} \times \frac{13,057}{C} = \frac{7,245}{D}
\]

Notes:

* A days-basis allocation of compensation is typically appropriate under the facts and circumstances.

A. No foreign earned income or housing exclusion is elected.

B. Itemized deductions consist of $26,000 of mortgage interest and property taxes not related specifically to any category of taxable income and thus allocable based on the ratio of foreign source and US source gross income to total gross income. This is allocated on the basis of all gross income. Thus it is allocated on the basis of $68,250 total foreign source income and $54,750 total US source income. The allocation is $14,427 to foreign source income and $11,573 to US source income.

C. Based on 2019 rates for a married couple filing a joint
return US federal income tax is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted gross income per above</td>
<td>$123,000</td>
</tr>
<tr>
<td>Itemized deductions</td>
<td>$(26,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$97,000</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>$13,057</td>
</tr>
</tbody>
</table>

D. If $12,000 in foreign income tax was paid, $7,245 (the limitation) may be used to offset US income tax and $4,755 may be carried back one year and then carried forward 10 years to the extent it cannot be used in the prior year.

**Alternative minimum tax**

89. The alternative minimum tax (AMT) is a US federal income tax that is calculated in a manner similar to the regular federal income tax, but with a number of special adjustments.

90. If the AMT results in a higher level of US tax than the regular income tax calculation, as the additional amount must be paid.

91. The AMT calculation disallows certain items of ‘tax preference’ or exclusion items that are tax-exempt or tax-deferred for regular income tax purposes (such as the bargain element of an incentive stock option as of the date the option is exercised) as well as certain itemized deductions. An exemption is allowed (e.g., $111,700 if married filing jointly for 2019), but is phased out for certain higher-income individuals. The phase-out threshold is ($1,020,600 for joint filers for 2019. AMT is then calculated using flat rates of 26% and 28%.
Step 3:
What to do before departing the United States

**Tax saving steps**

92. Certain tax-saving opportunities should be considered prior to a move abroad. Examples include the following:

- Review with employer pre-move steps that might reduce US or foreign taxes, such as accelerating or deferring compensation or other overseas allowances, increasing/decreasing assignment length, and/or accelerating or deferring the assignment start date;

- Contact financial advisors (such as a broker, insurance agent, attorney, banker or accountant) to discuss the effects of the pending move. It may be advisable to review family wills, trusts, and other important documents;

- If it is anticipated that itemized deductions will not be taken on the US tax return while working abroad, consideration should be given to paying as many deductible expenses as possible in the year of the move (subject to the limitations of the law);

- Consider arranging for regular and extraordinary maintenance and repairs while the US home is a rental property, in order to obtain possible US tax advantages for such expenditures;

- Determine whether it is possible to terminate state tax residency while working abroad; Review state rules on the number of days that you can spend in the state for return visits without jeopardizing a potential nonresident status;

- Have available in the foreign location information required to prepare future US income tax returns, including:
  - Copies of US federal (and state) tax returns for the previous three years, in order to provide complete data to US tax consultant;
  - Information on investments (including type, name, number of shares, cost and date of acquisition) and other pertinent financial data;
  - Documents that support US tax returns and other informational filings for the previous six
years in case of IRS audit;

- Information on the US tax basis of personal residence(s) if the decision is made to rent it while overseas (e.g., original purchase documents, records of capital improvements and tax documentation on any previously sold homes) as well as the fair market value when first available for rent.

- Detailed records that show dates and times of all foreign travel and foreign and US working days (by state) in the year of move and the preceding year (if there is long-term cash or equity compensation, records for additional years may be needed.)

- Make arrangements for access to investment ownership documents, such as deeds and stock certificates.

- As a general matter, considerations for green card holders may differ and thus more specific analysis is highly recommended.

### Decision to sell or rent US home

93. One of the most important decisions expatriates must make before moving abroad concerns their US homes. For many US taxpayers, the US home represents their single largest investment. Therefore, any decision to sell it or keep it should be based not only on personal considerations but also on economic and tax considerations, including the following:

- The appreciation potential of the home as opposed to that of an alternative investment;

- The amount of expected after-tax rental income as opposed to the after-tax yield of other investments;

- Any potential exposure to state income tax as a result of continued ownership/availability of the home.

### Sale of a principal residence

94. Many expatriates who choose to sell their principal residences will realize a gain that may be excluded from income for US purposes in whole or in part, depending on the facts. There is no tax deduction allowed for a loss on the sale of an individual’s principal residence (with the possible exception if also used for business purposes.)

95. Gain or loss on the sale of a principal residence is measured by the difference between the adjusted sales price and the adjusted tax basis of the home. The tax basis of a home is the cost of the home (including capital improvements) less any gains that may have been deferred on the sale of previous residences (under the pre-May 1997 rules) and any depreciation that either was or could have been claimed on the home (if it was ever rented out or otherwise used for business).

### Exclusion of gain

96. In general, Section 121 provides for an exclusion of up to $250,000 ($500,000 for married individuals filing jointly) of the gain on the sale of a home, if certain criteria are met. While some exceptions apply, this exclusion is available only if the home was owned and used (i.e., occupied) by the
taxpayer as a principal residence for periods of time aggregating two years or more during the five-year period ending on the date of sale. Some further details of this exclusion are listed below:

- The exclusion is generally allowed for one sale every two years;
- The exclusion applies to all gain from the sale of a principal residence (except to the extent of any gain attributable to depreciation after May 6, 1997), including gain from a previous principal residence that was rolled over tax-free under old regulations regarding the sale of a principal residence which were effective until May 6, 1997;
- The law does not require any rollover or reinvestment of the sales proceeds of the old home for the exclusion to apply.

97. The maximum excludable gain amount of $500,000 for married filing joint taxpayers applies if all of the three following requirements are met:

- Either spouse meets the two-year ownership test;
- Both spouses meet the two year use test;
- Neither spouse is ineligible for the exclusion due to a prior exclusion claim within the last two years.

Married individuals who cannot meet the above requirements will be entitled to a maximum exclusion amount equivalent to the sum of the exclusions to which they would have been entitled had they not been married.

Nonqualified use

98. Special rules apply where part of the gain is allocable to nonqualified use that may have unintended negative consequences for individuals with temporary absences from their home.

If a taxpayer has a period of nonqualified use, the portion of gain related to such period cannot be excluded, and is taxed as a capital gain.

Nonqualified use is any period after December 31, 2008, that the taxpayer does not occupy a residence as a principal residence. Exceptions to this general rule are as follows:

- During the five-year qualification period ending on the date of sale, any period after the last day such property is used as a principal residence is not treated as nonqualified use;
- Any period (not to exceed an aggregate of 10 years) during which the taxpayer or the taxpayer’s spouse is serving on qualified official extended duty is not treated as a nonqualified use;
- Any period of temporary absence, not to exceed two years, due to change in place of employment, health conditions or an unforeseen circumstance (as may be specified by the Secretary) is not treated as nonqualified use.

Although the ‘nonqualified use’ rules effectively target investment-driven residential real estate purchases and sales, it can have significant consequences for a taxpayer who vacates his/her principal residence while temporarily away on an international assignment.

As noted above, the law contains a favorable exception to nonqualified use that allows for temporary absences of up to two years, and a further exception for periods of nonqualified use following use by the taxpayer as a principal residence. However, if a taxpayer is absent for more than two
years, and reoccupies the residence upon their return, the entire period of absence may be treated as nonqualified use (to the extent the absence occurs after 2008.)

Many international assignments are for three-to-five-year periods. Given this, many assignees will not meet the two-year temporary absence exception under the regulations.

The use rule and period of nonqualified use could create financial issues for expatriates who choose to keep their homes while on international assignment. The requirement that the home be owned and used as a principal residence for two out of the five previous years may cause expatriates who sell their home after a lengthy assignment to be ineligible for the exclusion (or a lesser exclusion), and thus subject to tax on any gain.

**Relief from two year requirements**

99. The law provides for limited relief from the ‘two-out-of-five-year’ occupancy and use requirement and the ‘once-every-two-years’ requirement. A reduced exclusion is available for taxpayers unable to satisfy these requirements if the sale was due to a change in place of employment, health or unforeseen circumstances.

If the ‘two-out-of-five-year’ occupancy requirement is not met, the reduced exclusion available is determined as follows:

<table>
<thead>
<tr>
<th>Exclusion amount ($250,000 or $500,000)</th>
<th>Period of use &amp; ownership during the five years</th>
<th>Two years</th>
</tr>
</thead>
</table>

The opportunity therefore exists for an individual to qualify for a partial exclusion if the ‘two-out-of-five-year’ test has not been met. The exception exempting from nonqualified use any period that follows the last use as a principal residence, is consistent with the favorable treatment allowed under Section 121 for individuals failing to meet the ownership and use tests because of a change in place of employment, health, or unforeseen circumstances. Therefore, as long as the international assignee does not reoccupy the home prior to sale, a full or partial exclusion may be claimed.

100. While the introduction of nonqualified use provisions closed a loop-hole to property owners who intended to convert their investment properties to principal residences and utilize the exclusion, the opportunity to convert and still retain substantial tax benefits remains. As the calculations may be complex due to varying facts and circumstances, professional advice should be sought to determine the impact of the exclusion of gain rules.

The taxable portion of any gain realized on the sale of a principal residence generally is long-term capital gain, provided the home was owned for longer than one year at the time of sale. The maximum federal tax rate imposed on such gains is generally 15%, though a 20% capital gains rate applies to higher income taxpayers. The net investment income tax of 3.8% may apply in addition to these general federal rates.

However, expatriates often rent their former principal residence attempt to make a profit or to help offset costs of owning the home during an assignment, as well as to provide for its care and maintenance. The current law provides that the exclusion does not apply to any gain from the sale of a former principal residence that has been rented out or used for a business purpose to the extent of any depreciation allowed or allowable after May 6, 1997. The portion of gain that is attributable to depreciation generally would be taxed at a 25% capital gains tax rate. The net investment income tax, if applicable, would apply in addition to such rate.
Rental of principal residence while on assignment

102. When an expatriate's former principal residence is rented out, the net rental income or loss must be computed for US tax purposes. In addition to deductions for mortgage interest and property taxes, deductions for costs related to the rental property (such as maintenance, insurance, repairs, property management fees and depreciation) may often be considered.

103. If the rental of the home results in a net loss, the loss may be limited because of the US passive activity loss rules. These rules provide that losses from passive activities (e.g., limited partnerships and rental properties) cannot be used to offset other types of income, such as salary, interest, dividends, or capital gains.

104. There is a special exception to the passive activity loss rule which allows up to $25,000 of rental loss to be deducted against any other income if AGI is less than $100,000 and if the taxpayer actively participates in the rental activity and rental was undertaken with a profit motive. The active participation rules will likely be satisfied by those who make management decisions, such as rejecting or approving tenants, deciding rental terms or approving capital or repair expenditures. For purposes of calculating the rental loss deduction, adjusted gross income is determined without regard to any passive losses and several other minor modifiers.

105. If an individual satisfies the active participation test and has an AGI that is between $100,000 and $150,000, the special exception is available but the $25,000 amount is phased out. It is not available at all to an individual with an AGI of $150,000 or more. The special exception also is not available to any individual who files a married separate tax return, unless the taxpayer and spouse live apart for the entire year. The $25,000 exception then is reduced to $12,500 and the phase-out limits are halved.

106. Those who do not qualify for the $25,000 loss because of the AGI limitation may nevertheless be able to deduct the loss in full or in part against other passive activity income. In the event that an individual's rental losses exceed the income and/or gains from passive activities, any loss that is not currently deductible may be carried forward indefinitely to offset future passive income or may be recognized in full in the year of disposal of the activity.

Note that generally, expatriates must make a decision whether to purchase or rent a foreign home. In addition to personal and economic considerations, tax issues related to such decision should be considered and are generally different from those that might apply for purchases of homes in the United States. For example, mortgage interest may be deductible but not eligible for exclusion under Section 911, foreign property taxes are not deductible, gain or loss on sale may be impacted by exchange rate fluctuations, a potential exchange-rate gain or loss may occur for mortgages denominated in foreign currency (though losses may not be deductible), and assignment length may impact the extent to which exclusions may apply upon sale.

Special rules also apply for determining ownership when a divorce and separation agreement arises.
Step 4:
What to do while you work abroad

When to file US returns and pay taxes

107. As mentioned previously, US expatriates working abroad generally must file and pay taxes to more than one tax jurisdiction. The following discussion describes some of these filing requirements.

108. US tax returns for expatriates claiming the foreign earned income or housing exclusions are filed with the Internal Revenue Service Center in Austin or Charlotte (if not e-filing.) For courier service delivery, alternate filing addresses apply.

109. During the filing period (January to mid-June), taxpayers can get the necessary federal tax forms and publications online at www.irs.gov or from US embassies and consulates. Taxpayers can request Publication 54 – Tax Guide for US Citizens and Resident Aliens Abroad. Also during the filing season, the IRS conducts an overseas taxpayer assistance program. To find out if IRS personnel will be in a taxpayers' area, the consular office at the nearest US embassy may be contacted.

110. US individual income tax returns for US citizens and residents usually are due April 15 (with the ability to request extension to October 15.) If the taxpayer's tax home and abode are outside the United States on April 15, he or she will be granted an automatic filing extension to June 15. Those who file joint returns are granted the automatic extension even if only one spouse qualifies.

111. In many cases, however, expatriates choosing to claim the exclusion(s) will not have met the bona-fide foreign residence or physical presence tests (necessary to claim the foreign earned income exclusions) by the otherwise extended deadline for the year of the move abroad. However, such individuals may apply for an extension of time to file until 30 days after the applicable test is likely to be met. Therefore, those seeking to qualify for the exclusions using the bona-fide residence test may obtain an extension of time to file until January 30 of the year following the normal April 15 deadline.

112. As is true for all individuals, the extension of time to file the return does not excuse an expatriate from the requirement to make timely payment of US federal income tax. Payments may be made through wage withholding or by quarterly voucher payments to the IRS. Any balances due at April 15 will begin to accrue interest and penalty charges.

Caution: If all an expatriate’s income is compensation that is excluded from gross income under the foreign earned income and housing exclusions, he or she is still required to file a US tax return to claim the exclusion. If not elected on a timely filed return, the foreign earned income and housing exclusions may be elected on a valid amended return or on a tax return filed within one year of the original due date. The exclusion may also be elected on a delinquent tax return filed after that, but
only if a) there is no tax balance due on the delinquent return or b) if there is tax due with the delinquent return but it is filed before the IRS discovers the delinquency.

**Underpayment penalties**

113. The IRS may assess an underpayment penalty if the tax liability is not paid timely (including quarterly estimates due, if applicable.)
Step 5:
What to do before you return to the United States

Sale of US home

114. If an expatriate’s US home was rented during his or her foreign assignment, it is not typically considered as used as a principal residence during such time. Sale of a home does not generally qualify for the maximum exclusion of gain unless the ‘two-out-of-five-year’ ownership and use tests and one exclusion every two years’ tests, discussed earlier, are met. Therefore, those who relocate to a new area upon return to the United States without reoccupying their previous home may have a higher taxable gain on the sale of the home if such tests cannot be met. Similarly, re-occupying a home can result in taxable gain occurring due to ‘nonqualified use’. Please refer to section 98 above.

Timing of deductions

115. If an individual’s itemized deductions do not equal or exceed the standard deduction for the year that he or she moves back to the United States (see paragraph 10), if possible, the individual should consider deferring payment of deductible items until the next year in order to maximize the US tax benefits of the deductions. Otherwise, the payment of the expense may be wasted for US tax purposes.

Using foreign tax credit carry forwards

116. At the end of a foreign assignment, expatriates may have unused foreign tax credit carry forwards. These carry forwards are usually available to reduce US income tax on future foreign source income.

117. If, after moving back to the United States, an expatriate makes foreign business trips during the foreign tax credit carryforward period (or receives deferred income allocable to foreign workdays during the assignment), he or she may be able to utilize some of his or her excess foreign tax credits. If carryforwards are available in the ‘general limitation’ category, a foreign tax credit may be claimed against the US tax on the portion of compensation that is allocable to the foreign trips. For various reasons foreign countries may not tax compensation related to business trips by nonresidents (e.g., pursuant to an income tax treaty), and thus expatriates will be able to obtain a net tax benefit.

118. Excess foreign tax credits also may be utilized after moving back to the United States without taking foreign business trips by pursuing other steps to generate foreign source income. For example, if an individual were granted stock options while living abroad, he or she may be able to generate foreign source income by exercising a nonqualified stock option or by making a disqualifying disposition of an incentive stock option. However, the position should be reviewed for any potentially adverse foreign tax consequences.
### Employer’s expatriate tax policies

119. Most US companies that send Americans to work overseas have detailed personnel policies that describe the types of overseas benefits to be paid. Included in many policies are rules that require the employer to reimburse the assignee for the amount of US and foreign taxes that exceed the US taxes that would be imposed on base compensation if the individual was not transferred to work abroad (or some variation thereof). This theoretical ‘stay at home’ tax amount is often referred to as a ‘hypothetical tax.’ Policies for US expats may differ from those for assignees from other countries as the United States is one of the only countries in the world to continue to subject citizens and residents to taxation on worldwide income while residing outside the country for extended periods.

120. In designing such an expatriate tax reimbursement policy, a company typically will apply the concept of either tax protection or tax equalization. If a company has a tax equalization policy, it will typically reimburse expatriates for the amount by which their total actual income taxes for the year exceed their hypothetical US tax (with many policy variations.) However, if an employee’s total actual taxes are less than his or her hypothetical US obligation – for example, if he or she works abroad in a low-tax country – the employee remains responsible for the hypothetical level of taxes.

121. If the company has a tax protection policy, it may reimburse the employee for total actual taxes that exceed his or her hypothetical US tax, but allow the individual to keep the benefit if actual taxes are less than the hypothetical amount.

122. In order to manage the costs of their expatriates’ foreign assignments more efficiently, many companies today have tax equalization policies. As part of these policies, many companies include state and local income taxes and Social Security taxes as well as US federal income taxes in the hypothetical US tax amount.

### State taxation

123. Although an individual is working and living abroad, he or she still may be liable for state income tax. This will often occur if the individual continues to be classified as a resident of a state under the state’s income tax law or continues to receive income from sources within the state(s). Because state tax laws do not necessarily follow US federal tax law, the fact that an individual may be a foreign resident for US federal purposes will not necessarily mean that he or she will be classified as a nonresident in the state from which he or she moved.

124. If an individual moves abroad from a state that imposes an income tax, he or she should determine under what circumstances that state might continue to classify the individual as a resident of the state during the foreign assignment or what income as a nonresident may be subject to tax (including
125. Under the income tax laws of many states, it is usually necessary to consider whether the individual has retained domicile in the state. Domicile has been defined to mean that place which an individual intends to be the true, fixed and permanent home to which the individual intends to return whenever absent. If an individual moves abroad for an assignment that is expected to last no more than two or three years and if he or she intends to move back to the same state at the end of the assignment, most states would consider that he or she has retained domicile in that state.

126. Some states will treat individuals as income tax residents of the state merely because they retain their domicile there. However, many states classify a domiciled individual as a nonresident if the individual has only minimal contacts with the state while abroad.

127. If an individual remains a tax resident of his or her home state, the individual will usually be subject to that state’s income tax on his or her worldwide income. States may or may not allow either a deduction or a credit for foreign taxes imposed or the foreign earned income and housing exclusions.

128. Even though an individual may be classified as a nonresident of the state he or she moved from and has no other income from sources within the state, if the individual keeps his or her home in that state and rents it out, he or she will usually be required to file a nonresident tax return with the state to report any rental income.

129. Taxpayers may claim a tax credit in 2019 up to $2,000 for each qualifying child under age 17 who is a US citizen or resident of the United States and has been issued a social security number (SSN). A separate $500 credit may be available for qualifying relatives, as well as qualifying children who are not eligible for the $2,000 credit, such as children ages 17 and 18 or those through age 23 who are full time students, and children who have been issued an ITIN.

130. The tax credit is phased out by $50 for each $1,000 of modified AGI in excess of $400,000 for married taxpayers filing jointly, and $200,000 for all others. As with IRA phase-out limits, modified AGI for the child tax credit is increased by the foreign earned income exclusion.

131. US citizens or resident aliens abroad may be subject to federal estate and gift taxes, and perhaps foreign or state inheritance and gift taxes. These rules describe, for example, the tax treatment of gifts between individuals and the tax consequences of an expatriate’s death. A detailed discussion of these rules is outside the scope of this folio.

132. Employers are not required to withhold federal income tax from foreign source compensation paid to US citizens that is subject to foreign withholding requirements. In addition, federal withholding is not required for compensation paid to US citizens that is expected to be excluded from income under the foreign earned income or housing exclusion. Either exemption may apply to US residents who are not US citizens in certain consequences as provided by treaty.

In order to exempt excluded income (i.e., based on expected foreign earned income and/or housing exclusions) from withholding, the employee must provide
his or her employer with a statement indicating the qualified period and the amount of compensation expected to qualify for the exclusions. The statement is generally made by an employee on IRS Form 673, *Statement for Claiming Exemption from Withholding on Foreign Earned Income Eligible for the Exclusion(s) Provided by Section 911*. As discussed previously, not all individuals who qualify to claim an exclusion will find it beneficial to do so and thus Form 673 should only be provided if the exclusion is expected to be claimed on the tax return.

Compensation not exempt from withholding is subject to normal US wage withholding rules. Form W-4 (*Employee’s Withholding Allowance Certificate*) may be prepared to ensure estimated deductions and credits (including foreign tax credits) are considered for withholding purposes.

**Tax on net investment income**

133. The net investment income tax (NIIT), also known as the Unearned Income Medicare Contribution applies at a rate of 3.8% to the net investment income of certain individuals, estates, and trusts that have MAGI** above defined statutory thresholds. These thresholds include $250,000 for married filing jointly, $125,000 for married filing separately, $200,000 for single and head of household, and $250,000 for a qualifying widower with a dependent child. Net investment income generally includes, but is not limited to, interest, dividends, capital gains, rental and royalty income, non-qualified annuities, and income from businesses that are passive activities to the taxpayer.

**For NIIT purposes, the term ‘modified adjusted gross income’ or MAGI means adjusted gross income increased by the excess of (i) the amount excluded from gross income under Section 911(a)(1), over (ii) the amount of any deductions (taken into account in computing adjusted gross income) or exclusions disallowed under Section 911(d)(6) with respect to the amounts described in (i).**

**Social Security coverage and tax**

134. US law contains two provisions that generally require US Social Security and Medicare (otherwise known as FICA) coverage to continue while expatriates are working abroad:

- US citizens or resident aliens employed by ‘American employers’ (including foreign branches of US corporations) are subject to FICA on wages received regardless of where services are performed;
- US citizens or resident aliens employed by foreign entities that are 10 percent or more owned by an American employer (as specifically defined) also continue FICA coverage on compensation for services performed outside the United States if the American employer enters into a special agreement with the IRS to continue FICA coverage for all US citizen and resident employees of the foreign entity.

As noted below, so called Totalization agreements may alter these coverage requirements.

135. Expatriates are typically exempt from FICA coverage for compensation earned while working abroad if employed exclusively by a foreign corporation that is not covered by a FICA agreement with the IRS and if they have no US business trips. No voluntary participation is available.
136. The United States has negotiated social security treaties (referred to as Totalization agreements) with a number of countries. Though agreements typically restrict coverage to the location the individual is working, an exception may be available whereby FICA coverage may continue for an expatriate who is sent by an American employer (or foreign affiliate subject to a FICA agreement) to work temporarily in the host location (with certain exceptions.) Any social security tax paid to a foreign country that has a Totalization agreement with the United States is not a creditable tax for US foreign tax credit purposes, provided such tax is of a type within the scope of the agreement and imposed on services performed during the period the agreement is in effect.

137. As of March 2019, the United States has social security Totalization agreements in effect with 30 different countries. For a complete detailed list, please see Appendix C.

Foreign financial asset/bank account reporting

138. An expatriate (US citizen or resident) who owns a foreign bank account or accounts (or has signatory authority over such accounts), the aggregate value of which is more than $10,000 at any time in the year, must file an informational report with the US Treasury Department (not the IRS) on Form FinCen 114 (formerly TD F 90-22.1). This form is commonly referred to as an ‘FBAR’, for foreign bank account reporting. The 2019 report is due April 15, 2020 but is automatically extended to October 15. FinCen does not require that a specific extension request be filed.

139. Individuals who have an interest in other types of foreign financial accounts or who have signature authority over such account also may be required to file this form. Failure to timely and properly file such forms may subject taxpayers to monetary and criminal penalties, as well as a civil penalty for violation.

140. Individuals also may need to file Form 8938, Statement of Specified Foreign Financial Assets, in addition to the FBAR. The IRS promulgated this form to help implement withholding rules and other enforcement measures under the Foreign Account Tax Compliance Act (FATCA). Individuals must report specified foreign financial assets (SFFAs) on Form 8938 if the person meets certain requirements and their interests in SFFAs exceed certain thresholds.

141. Individuals that must file Form 8938 include, for example, US citizens, as well as US residents for any part of the tax year. Filing thresholds depend upon the total value of the SFFAs held either during the tax year or at the end of the tax year and also whether the individual lives in or outside of the United States. They range from $50,000 to $600,000.

142. SFFAs include but are not limited to financial accounts maintained by a foreign financial institution. This could include a depositary account at a foreign bank or foreign mutual fund. SFFAs can also include interests in foreign entities (e.g., capital or profits interest in a foreign partnership) as well as an interest in a foreign pension plan or foreign deferred compensation plan. The IRS promulgated regulations which provide greater detail on what constitutes a reportable SFFA. Some overlap exists between Form 8938 and FBAR reporting and thus individuals may need to report the same foreign asset on both forms.

143. Failure to file Form 8938 can result in a $10,000 penalty. A failure to comply that lasts more than 90 days after the date of an IRS notice of such
failure will be subject to an additional penalty not to exceed $50,000.

**Income relating to retirement plans**

144. Expatriates covered by one or more tax-qualified retirement plans of their US employer (such as a pension plan or 401(k) plan) will usually be eligible to stay in those plans while working abroad if they work directly for the US company (and often if working for a related company, depending on the plan). However, contributions by the individual or by the employing US company to those plans during an assignment abroad (and earnings within such plans) could be subject to income tax in the foreign country. Treaty provisions may mitigate such taxation.

145. Before an expatriate becomes a participant in a non-US retirement plan, the plan should be examined to determine whether the individual will be subject to US tax on contributions made to the plan by either the individual or the company and the related earnings of the plan. It is also crucial to determine whether the person will attract penalties for participation in nonqualified deferred compensation plans under Section 409A.

**Miscellaneous issues**

146. Special rules apply to matters relating to foreign currency and translation of amounts denominated in foreign currency. Among others, this topic is beyond the scope of this folio.

147. Special rules under Section 877A apply where a US citizen relinquishes his/her US citizenship (or a long-term resident terminates lawful permanent residency) and certain requirements are satisfied, including a net worth and average income test. In effect, Section 877A deems this person to sell his/her property the day before he/she ‘expatriates.’ Unless an exemption is made, tax must be paid on the gain above the applicable exemption threshold amount ($725,000 for 2019.) Additionally, distributions of deferred compensation items, specified tax deferred accounts, and nongrantor trusts are deemed to occur on the day before expatriation (with certain exceptions.) This is commonly referred to as an ‘exit tax.’ US citizen and resident recipients of gifts and bequests from the individual after expatriation are also subject to a special tax as a result of the expatriation.

Green card holders embarking on foreign assignment should seek specific tax and immigration advice as to potential implications that may arise. A further discussion of Section 877A and green card holders is beyond the scope of this folio.
Appendix A:
Individual key US federal rates and limits

The following is a high-level summary of some key individual tax rates and applicable limits for 2019. For purposes of this document, the reference to ‘$’ means US dollars. Further:

- MFJ means married filing jointly
- MFS means married filing separately
- HOH means head of household.

This compilation is intended to serve as a handy reference guide for companies with globally mobile workforces. The list is not exhaustive and does not contain all the changes made by the 2017 US tax reform legislation (the TCJA) enacted December 22, 2017. It is important to note that most individual tax changes under the TCJA that are relevant for the 2019 tax year are scheduled to sunset after 2025.

Note that many states that conformed to federal law for 2017 did not conform (in whole or in part) to changes made by the TCJA for the 2018 year and may not for 2019.

Specific tax levies and income tax withholding

<table>
<thead>
<tr>
<th>FICA taxes</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security (SS) wage base</td>
<td>$132,900</td>
</tr>
<tr>
<td>SS maximum – 6.2%</td>
<td>$8,239.80</td>
</tr>
<tr>
<td>Medicare – 1.45%*</td>
<td>No ceiling</td>
</tr>
</tbody>
</table>

*See below, under ‘Additional Medicare tax’, for details on an increase in the Medicare tax that applies to wages and other compensation only in excess of an applicable threshold amount.
### Additional Medicare tax
**2019**
A 0.9% tax is imposed on individual wages and other compensation in excess of the following threshold amounts:

<table>
<thead>
<tr>
<th>Status</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$200,000</td>
</tr>
<tr>
<td>MFJ</td>
<td>$250,000</td>
</tr>
<tr>
<td>MFS</td>
<td>$125,000</td>
</tr>
<tr>
<td>HOH</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

### Tax on net investment income
**2019**
A 3.8% tax is imposed on the lesser of net investment income or the excess of modified adjusted gross income over the following threshold amounts:

<table>
<thead>
<tr>
<th>Status</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$200,000</td>
</tr>
<tr>
<td>MFJ</td>
<td>$250,000</td>
</tr>
<tr>
<td>MFS</td>
<td>$125,000</td>
</tr>
<tr>
<td>HOH</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

### Supplemental withholding flat rates
**2019**
Supplemental wages up to $1,000,000 (optional)*

<table>
<thead>
<tr>
<th>Status</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22%</td>
</tr>
</tbody>
</table>

Supplemental wages greater than $1,000,000

<table>
<thead>
<tr>
<th>Status</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>37%</td>
</tr>
</tbody>
</table>

*In lieu of regular tax withholding rates and available only if certain requirements are met.

### Calculating individual taxable income

#### Personal exemptions (PE)
**2019**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal exemption</td>
<td>0</td>
</tr>
</tbody>
</table>

*The personal exemption was eliminated for tax years after 2017.

#### Standard deduction
**2019**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard deduction</td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$12,200</td>
</tr>
<tr>
<td>MFJ</td>
<td>$24,400</td>
</tr>
<tr>
<td>MFS</td>
<td>$12,200</td>
</tr>
<tr>
<td>HOH</td>
<td>$18,350</td>
</tr>
</tbody>
</table>

*The TCJA eliminated the PE and put in place larger standard deductions and child tax credits for tax years after 2017.

#### Itemized deductions
**2019**

<table>
<thead>
<tr>
<th>Deduction</th>
<th>Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction for state and local taxes not accrued in a trade or business, or on property held for the production of income (this includes income, sales, real estate, and property taxes – foreign real property taxes are not deductible):</td>
<td>May not exceed $10,000, MFS $5,000</td>
</tr>
</tbody>
</table>

| AGI threshold that unreimbursed medical and dental expense deductions must reach before a deduction is permitted for all taxpayers: | 10% |

| Deduction for mortgage interest only for qualified indebtedness up to certain amounts: | $1M (limited to $750,000 for ‘new debt’) |

(Note that interest on home equity debt is no longer deductible after 2017 unless the home equity loan proceeds are used for acquiring, constructing, or substantially improving any qualified residence and is secured by such residence. A qualified residence is defined as the principal residence and one other property used as a residence.)
*The TCJA makes various other changes to itemized deductions. For example, the overall reduction in itemized (not standard) deductions by 3% of AGI in excess of certain amounts has been repealed. Other changes were made to items including, for example, state and local taxes, employee business expenses, tax preparation fees, other 2% miscellaneous items, alimony, and moving expenses. For more information, please see prior Global Mobility Insight (December 27, 2017).

<table>
<thead>
<tr>
<th><strong>Standard mileage rates</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>$0.58</td>
</tr>
<tr>
<td>Charitable</td>
<td>$0.14</td>
</tr>
<tr>
<td>Medical and moving</td>
<td>$0.20</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Section 911</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual exclusion</td>
<td>$105,900</td>
</tr>
<tr>
<td>Base housing amount</td>
<td>$16,944</td>
</tr>
<tr>
<td>Standard qualified housing expense limit*</td>
<td>$31,770</td>
</tr>
</tbody>
</table>

*Adjustments to the limitation are provided for certain countries with high housing costs. See Notice 2019-24. See also Notice 2018-57 for 2019 foreign earned income exclusion amount.

<table>
<thead>
<tr>
<th><strong>Expatriation</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-year average annual net income tax in excess of the following amount:</td>
<td>$168,000</td>
</tr>
<tr>
<td>Amount of net gain from mark-to-market tax regime includible in gross income of covered expatriate is reduced by (but not below zero):</td>
<td>$725,000</td>
</tr>
</tbody>
</table>

**Calculating individual income tax due**

<table>
<thead>
<tr>
<th><strong>Alternative minimum tax</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative minimum tax (AMT) exemption amounts (subject to phase-out described in the table below):</td>
<td>$71,700</td>
</tr>
<tr>
<td>$111,700</td>
<td></td>
</tr>
<tr>
<td>$55,850</td>
<td></td>
</tr>
<tr>
<td>$71,700</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Alternative minimum tax phase-out</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>The phase-out of the AMT exemption amount begins when the alternative minimum taxable income exceeds the following amounts:</td>
<td>$510,300</td>
</tr>
<tr>
<td>$1,020,600</td>
<td></td>
</tr>
<tr>
<td>$510,300</td>
<td></td>
</tr>
<tr>
<td>$510,300</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Capital gains tax</strong></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term:</td>
<td>15%/20%</td>
</tr>
<tr>
<td>Lower-income taxpayers:</td>
<td>0%</td>
</tr>
<tr>
<td>Short term:</td>
<td>Ordinary rates</td>
</tr>
</tbody>
</table>
*After 2017, the TCJA generally retains the 2017 maximum rates on net capital gains; however, certain so-called 'breakpoints' for determining what tax rate is used are indexed differently.

For 2019, the 20% long term capital gains tax rate applies when the lesser of adjusted net capital gain or taxable income is at least $488,850 (MFJ), $434,550 (single), $244,425 (MFS), and $461,700 (HOH).

<table>
<thead>
<tr>
<th>Qualified dividends</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified dividend rate:</td>
<td>15%/20%</td>
</tr>
<tr>
<td>Lower-income taxpayers:</td>
<td>0%</td>
</tr>
<tr>
<td>Nonqualified dividends:</td>
<td>Ordinary rates</td>
</tr>
</tbody>
</table>

*After 2017, the TCJA generally retains the 2017 maximum rates on qualified dividends; however, certain so-called 'breakpoints' for determining what tax rate is used are indexed differently.

Qualified dividend income generally is taxed at the same rates and thresholds that apply to net capital gain (see above.)

<table>
<thead>
<tr>
<th>Child tax credit</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child tax credit (per child)*</td>
<td>$2,000 ($1,400 refundable)</td>
</tr>
<tr>
<td>$500 nonrefundable credit for dependents other than qualifying children and for qualifying children without social security numbers</td>
<td></td>
</tr>
</tbody>
</table>

*After 2017, the qualifying child must have a social security number by the due date of the taxpayer’s return in order to claim the credit (except for $500 nonrefundable credit, whereby dependent must have an individual taxpayer identification number (ITIN)). The credit is subject to phase-out for individuals with income over certain threshold amounts. Phase-out limitations are increased after 2017 and apply when taxpayers have modified adjusted gross income in excess of $400,000 for married filing jointly, and $200,000 for all others.

Other

<table>
<thead>
<tr>
<th>Gift tax limits</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual exclusion from total amount of taxable gifts*:</td>
<td>$15,000</td>
</tr>
<tr>
<td>Annual exclusion for gifts to non-US citizen spouses*:</td>
<td>$155,000</td>
</tr>
</tbody>
</table>

*This amount is per donor and per donee and refers to gifts that are not future interests in property.
# Appendix B:
Individual US federal income tax rates

Married filing jointly and surviving spouses

<table>
<thead>
<tr>
<th>Over</th>
<th>Not over</th>
<th>Tax</th>
<th>% on excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>19,400</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>19,400</td>
<td>78,950</td>
<td>1,940</td>
<td>12%</td>
</tr>
<tr>
<td>78,950</td>
<td>168,400</td>
<td>9,086</td>
<td>22%</td>
</tr>
<tr>
<td>168,400</td>
<td>321,450</td>
<td>28,765</td>
<td>24%</td>
</tr>
<tr>
<td>321,450</td>
<td>408,200</td>
<td>65,497</td>
<td>32%</td>
</tr>
<tr>
<td>408,200</td>
<td>612,350</td>
<td>93,257</td>
<td>35%</td>
</tr>
<tr>
<td>612,350</td>
<td></td>
<td>164,709.50</td>
<td>37%</td>
</tr>
</tbody>
</table>

Single

<table>
<thead>
<tr>
<th>Over</th>
<th>Not over</th>
<th>Tax</th>
<th>% on excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>9,700</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>9,700</td>
<td>39,475</td>
<td>970</td>
<td>12%</td>
</tr>
<tr>
<td>39,475</td>
<td>84,200</td>
<td>4,543</td>
<td>22%</td>
</tr>
<tr>
<td>84,200</td>
<td>160,725</td>
<td>14,382.50</td>
<td>24%</td>
</tr>
<tr>
<td>160,725</td>
<td>204,100</td>
<td>32,748.50</td>
<td>32%</td>
</tr>
<tr>
<td>204,100</td>
<td>510,300</td>
<td>46,628.50</td>
<td>35%</td>
</tr>
<tr>
<td>510,300</td>
<td></td>
<td>153,798.50</td>
<td>37%</td>
</tr>
</tbody>
</table>
Married filing separately

2019

<table>
<thead>
<tr>
<th>Over</th>
<th>Not over</th>
<th>Tax</th>
<th>% on excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>9,700</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>9,700</td>
<td>39,475</td>
<td>970</td>
<td>12%</td>
</tr>
<tr>
<td>39,475</td>
<td>84,200</td>
<td>4,543</td>
<td>22%</td>
</tr>
<tr>
<td>84,200</td>
<td>160,725</td>
<td>14,382.50</td>
<td>24%</td>
</tr>
<tr>
<td>160,725</td>
<td>204,100</td>
<td>32,748.50</td>
<td>32%</td>
</tr>
<tr>
<td>204,100</td>
<td>306,175</td>
<td>46,628.50</td>
<td>35%</td>
</tr>
<tr>
<td>306,175</td>
<td></td>
<td>82,354.75</td>
<td>37%</td>
</tr>
</tbody>
</table>

Head of household

2019

<table>
<thead>
<tr>
<th>Over</th>
<th>Not over</th>
<th>Tax</th>
<th>% on excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>13,850</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>13,850</td>
<td>52,850</td>
<td>1,385</td>
<td>12%</td>
</tr>
<tr>
<td>52,850</td>
<td>84,200</td>
<td>6,065</td>
<td>22%</td>
</tr>
<tr>
<td>84,200</td>
<td>160,700</td>
<td>12,962</td>
<td>24%</td>
</tr>
<tr>
<td>160,700</td>
<td>204,100</td>
<td>31,322</td>
<td>32%</td>
</tr>
<tr>
<td>204,100</td>
<td>510,300</td>
<td>45,210</td>
<td>35%</td>
</tr>
<tr>
<td>510,300</td>
<td></td>
<td>152,380</td>
<td>37%</td>
</tr>
</tbody>
</table>

*2019 rate tables are provided by Rev. Proc. 2018-57.
### Appendix C: Totalization agreements

Countries with which the United States currently has totalization agreements:

<table>
<thead>
<tr>
<th>Australia</th>
<th>Germany</th>
<th>Poland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Greece</td>
<td>Portugal</td>
</tr>
<tr>
<td>Belgium</td>
<td>Hungary</td>
<td>Slovak Republic</td>
</tr>
<tr>
<td>Brazil</td>
<td>Iceland (as of 3/1/2019)</td>
<td>Slovenia (as of 2/1/2019)</td>
</tr>
<tr>
<td>Canada</td>
<td>Ireland</td>
<td>South Korea</td>
</tr>
<tr>
<td>Chile</td>
<td>Italy</td>
<td>Spain</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Japan</td>
<td>Sweden</td>
</tr>
<tr>
<td>Denmark</td>
<td>Luxembourg</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Finland</td>
<td>Netherlands</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>France</td>
<td>Norway</td>
<td>Uruguay</td>
</tr>
</tbody>
</table>
Appendix D:
US contacts and offices

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