



Breaking the

U.S. TAX CODE

As the saying goes, there are two things in life that are unavoidable – death and taxes. We're all in the same boat for the former, but Americans are hit especially hard on the issue of income tax, as even those living abroad owe Uncle Sam. US-certified public accountant JOSEPH MANUEL explains that things aren't nearly as expensive as they appear.

US citizens, dual citizens and those holding a US green card are subject to worldwide taxation by the US government. If you fall into any of these categories, you must pay tax on income made in the foreign country where you reside both to *its* government and to the US.

This sounds much worse than it really is, fortunately, as the US tax code allows you to claim a credit or take a deduction for foreign income taxes paid to countries outside of the US. It is usually to your advantage to claim a credit for foreign taxes rather than to deduct them. A credit reduces your US tax liability. A deduction only reduces your taxable income and can be taken only in the current year. Generally, you cannot deduct some foreign income taxes and take a credit for others.

Tax credits: If you choose to claim a credit for foreign taxes, you must complete Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), and attach it to your US income tax return. Do not include (on Form 1116) the foreign taxes paid or accrued as withheld income taxes on Form 1040.

Limits: The Foreign Tax Credit is limited to the part of your total US tax that is in proportion to your taxable income sources outside the US as compared to your total taxable income. The allowable foreign tax credit cannot be more than your actual foreign tax liability.

Foreign taxes paid on excluded income: You cannot claim a credit for foreign taxes paid on amounts excluded from gross income under the foreign earned income exclusion.

Foreign tax credit carryback and carryover: The amount of foreign income tax not allowed as a credit, because of the limit, can be carried back one year and carried forward ten years.

For more information, call American Tax Service at 3108 0332 or visit www.american-taxservice.net.

Did You Know?

You have two extra days to file your US taxes this year. 15 April, the traditional deadline, falls on a Sunday, and 16 April is Emancipation Day (a holiday in Washington D.C.). That means the 2012 tax filing deadline is 17 April.

Owe taxes to Uncle Sam? Take note:

"The IRS is currently enhancing their efforts to find expatriates and those with dual citizenship and ensure that they are up-to-date with their US tax obligations." – Joseph Manuel, CPA, JD 

