



# Instructions for Form 2555-EZ

## Foreign Earned Income Exclusion

### General Instructions



*Do not include on Form 1040, line 62 (federal income tax withheld), any taxes a foreign employer withheld from your pay and paid to the foreign country's tax authority instead of to the U.S. Treasury.*

### What's New

**Exclusion amount.** For 2008, the maximum exclusion has increased to \$87,600.

### Purpose of Form

If you qualify, you can use Form 2555-EZ instead of Form 2555, Foreign Earned Income, to figure your foreign earned income exclusion. You cannot exclude more than your foreign earned income for the year.

### General Information

If you are a U.S. citizen or a U.S. resident alien living in a foreign country, you are subject to the same U.S. income tax laws that apply to citizens and resident aliens living in the United States.

**Note.** Specific rules apply to determine if you are a resident or nonresident alien of the United States. See Pub. 519, U.S. Tax Guide for Aliens, for details.

**Foreign country.** A foreign country is any territory (including the airspace, territorial waters, seabed, and subsoil) under the sovereignty of a government other than the United States.

The term "foreign country" does not include U.S. possessions or territories. It does not include the Antarctic region.

### Who Qualifies

You can use Form 2555-EZ to claim the foreign earned income exclusion if all of the following apply.

- You meet the seven conditions listed at the top of Form 2555-EZ.
- Your total foreign earned income received in 2008 is reported on Form 1040, line 7.
- You do not have a housing deduction carryover from 2007.
- You meet either the bona fide residence test (see the instructions for lines 1a and 1b on page 2) or the physical presence test (see the instructions for lines 2a and 2b on page 2).

- You meet the tax home test (see the instructions for line 3 on page 2).

**Note.** If your only earned income from work abroad is pay you received from the U.S. Government as its employee, you do not qualify for the foreign earned income exclusion. Do not file Form 2555-EZ.

### Married Couples

If both you and your spouse qualify for, and choose to claim, the foreign earned income exclusion, figure the amount of the exclusion separately for each of you. You must each complete separate Forms 2555-EZ.

**Community income.** The amount of the exclusion is not affected by the income-splitting provisions of community property laws. The sum of the amounts figured separately for each of you is the total amount excluded on a joint return.

### Travel to Cuba

Generally, if you were in Cuba in violation of U.S. travel restrictions, the following rules apply.

- Any time spent in Cuba cannot be counted in determining if you qualify under the bona fide residence or physical presence test.
- Any income earned in Cuba is not considered foreign earned income.

**Note.** If you performed services at the U.S. Naval Base at Guantanamo Bay, you were not in violation of U.S. travel restrictions.

### Additional Information

Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, has more information about the bona fide residence test, the physical presence test, and the foreign earned income exclusion. You can get this publication from most U.S. embassies and consulates or by writing to: National Distribution Center, 1201 N. Mitsubishi Motorway, Bloomington, IL 61704-6613. You can also download this publication (as well as other forms and publications) from the IRS website at [www.irs.gov](http://www.irs.gov).

### Waiver of Time Requirements

If your tax home was in a foreign country and you were a bona fide resident of, or physically present in, a foreign country and had to leave because of war, civil

unrest, or similar adverse conditions, the minimum time requirements specified under the bona fide residence and physical presence tests may be waived. You must be able to show that you reasonably could have expected to meet the minimum time requirements if you had not been required to leave. Each year the IRS will publish in the Internal Revenue Bulletin a list of countries and the dates they qualify for the waiver. If you left one of the countries during the period indicated, you can claim the foreign earned income exclusion on Form 2555-EZ, but only for the number of days you were a bona fide resident of, or physically present in, the foreign country.

If you can claim the foreign earned income exclusion because of the waiver of time requirements, attach a statement to your return explaining that you expected to meet the applicable time requirement, but the conditions in the foreign country prevented you from the normal conduct of business. Also, enter "Claiming Waiver" in the top margin on page 1 of your 2008 Form 2555-EZ.

### When To File

Form 1040 is generally due April 15, 2009.

However, you are automatically granted a 2-month extension of time to file (to June 15, 2009) if, on the due date of your return, you live outside the United States and Puerto Rico and your tax home (defined later) is outside the United States and Puerto Rico. If you take this extension, you must attach a statement to your return explaining that you meet these two conditions.

The automatic 2-month extension also applies to paying the tax. However, interest is charged on the unpaid tax from the regular due date until it is paid.

**Special extension of time.** The first year you plan to take the foreign earned income exclusion, you may not expect to qualify until after the automatic 2-month extension period described above. If this occurs, you can apply for an extension to a date after you expect to qualify.

To apply for this extension, complete and file Form 2350, Application for Extension of Time To File U.S. Income Tax Return, with the Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301-0215, before the due date of your return. Interest is

charged on the tax not paid by the regular due date as explained earlier.

## Choosing the Exclusion

To choose the foreign earned income exclusion, complete the appropriate parts of Form 2555-EZ and file it with your Form 1040 or Form 1040X, Amended U.S. Individual Income Tax Return. Your initial choice to claim the exclusion must usually be made on a timely filed return (including extensions) or on a return amending a timely filed return. However, there are exceptions. See Pub. 54 for more information.

Once you choose to claim the exclusion, that choice remains in effect for that year and all future years unless it is revoked. To revoke your choice, you must attach a statement to your return for the first year you do not wish to claim the exclusion. If you revoke your choice, you cannot claim the exclusion for your next 5 tax years without the approval of the Internal Revenue Service. See Pub. 54 for details.

**Figuring tax on income not excluded.** If you claim the foreign earned income exclusion, you must figure the tax on your nonexcluded income using the tax rates that would have applied had you not claimed the exclusion. See the Instructions for Form 1040 and complete the Foreign Earned Income Tax Worksheet to figure the amount of tax to enter on Form 1040, line 44. When figuring your alternative minimum tax on Form 6251, you must use the Foreign Earned Income Tax Worksheet in the instructions for Form 6251.

**Earned income credit.** You cannot take the earned income credit if you claim the exclusion.

**Foreign tax credit or deduction.** You cannot claim a credit or deduction for foreign income taxes paid on income you exclude. If all of your foreign earned income is excluded, you cannot claim a credit or deduction for the foreign taxes paid on that income. If only part of your income is excluded, you cannot claim a credit or deduction for the foreign taxes allocable to the excluded income. For details on how to figure the amount allocable to the excluded income, see Pub. 514, Foreign Tax Credit for Individuals.

**IRA deduction.** If you claim the exclusion, special rules apply in figuring the amount of your IRA deduction. For details, see Pub. 590, Individual Retirement Arrangements (IRAs).

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## Specific Instructions

### Lines 1a and 1b

#### Bona Fide Residence Test

To meet this test, you must be one of the following:

- A U.S. citizen who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes an entire tax year (January 1–December 31), or
- A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes an entire tax year (January 1–December 31). See Pub. 901, U.S. Tax Treaties, for a list of countries with which the United States has an income tax treaty in effect.

No specific rule determines if you are a bona fide resident of a foreign country because the determination involves your intention about the length and nature of your stay. Evidence of your intention may be your words and acts. If these conflict, your acts carry more weight than your words. Generally, if you go to a foreign country for a definite, temporary purpose and return to the United States after you accomplish it, you are not a bona fide resident of the foreign country. If accomplishing the purpose requires an extended, indefinite stay, and you make your home in the foreign country, you may be a bona fide resident. See Pub. 54 for more information and examples.

If you submitted a statement of nonresidence to the authorities of a foreign country in which you earned income and the authorities hold that you are not subject to their income tax laws by reason of nonresidency in the foreign country, you are not considered a bona fide resident of that country.

If you submitted such a statement and the authorities have not made an adverse determination of your nonresident status, you are not considered a bona fide resident of that country.

**Line 1b.** If you answered “Yes” on line 1a, enter the dates your bona fide residence began and ended. If you are still a bona fide resident, enter “Continues” in the space for the date your bona fide residence ended.

### Lines 2a and 2b

#### Physical Presence Test

To meet this test, you must be a U.S. citizen or resident alien who is physically present in a foreign country, or countries, for at least 330 full days during any period of 12 months in a row. A full day means the 24-hour period that starts at midnight.

To figure the minimum of 330 full days’ presence, add all separate periods you were present in a foreign country during the 12-month period in which those days occurred. The 330 full days can be interrupted by periods when you are traveling over international waters or are otherwise not in a foreign country. See Pub. 54 for more information and examples.

**Note.** A nonresident alien who, with a U.S. citizen or U.S. resident alien spouse,

chooses to be taxed as a resident of the United States can qualify under this test if the time requirements are met. See Pub. 54 for details on how to make this choice.

### Line 3

#### Tax Home Test

To meet this test, your tax home must be in a foreign country, or countries (see *Foreign country* on page 1), throughout your period of bona fide residence or physical presence, whichever applies. For this purpose, your period of physical presence is the 330 full days during which you were present in a foreign country, not the 12 consecutive months during which those days occurred.

Your tax home is your regular or principal place of business, employment, or post of duty, regardless of where you maintain your family residence. If you do not have a regular or principal place of business because of the nature of your trade or business, your tax home is your regular place of abode (the place where you regularly live).

You are not considered to have a tax home in a foreign country for any period during which your abode is in the United States. However, if you are temporarily present in the United States, or you maintain a dwelling in the United States (whether or not that dwelling is used by your spouse and dependents), it does not necessarily mean that your abode is in the United States during that time.

**Example.** You are employed on an offshore oil rig in the territorial waters of a foreign country and work a 28-day on/28-day off schedule. You return to your family residence in the United States during your off periods. You are considered to have an abode in the United States and do not meet the tax home test. You cannot claim the foreign earned income exclusion.

### Line 12

Complete columns (a) through (d) if you were present in the United States or any of its possessions in 2008. Do not include time spent in the United States or its possessions before your period of bona fide residence or physical presence, whichever applies, began or after it ended.

**Column (d).** Enter, in U.S. dollars, the amount of income earned in the United States on business (such as meetings or conventions). Attach a statement showing how you determined the amount. Do not include this income on line 17. Even if you live and work in a foreign country, any income earned during the time spent in the United States on business is considered U.S. source income and cannot be excluded.

### Line 14

Enter the number of days in your qualifying period that fall within 2008. Your qualifying period is the period during

which you meet the tax home test and either the bona fide residence test or the physical presence test.

**Example.** You establish a tax home and bona fide residence in a foreign country on August 14, 2008. You maintain the tax home and residence until January 31, 2010. The number of days in your qualifying period that fall within 2008 is 140 (August 14 through December 31, 2008).

## Line 17

Enter the total foreign earned income you earned and received in 2008. Report the amount in U.S. dollars using the exchange rates in effect when you actually received the income. Be sure to report on Form 1040 all income you received in 2008 regardless of when you earned it.

Income is earned in the year you performed the services for which you received the pay. But if you received your last wage or salary payment for 2007 in 2008 because of your employer's payroll period, that income can be treated as earned in 2008. If you cannot treat that wage or salary payment as earned in 2008, the rules explained later under *Income earned in prior year* apply. See Pub. 54 for more details.

**Foreign earned income.** For purposes of this form, foreign earned income means only the following types of income received for personal services you performed in a foreign country during the period for which you meet the tax home test and either the bona fide residence test or the physical presence test.

- Wages, salaries, tips, and bonuses.
- Noncash income (such as a home or car) if reported as income on Form 1040, line 7.

- Allowances or reimbursements if reported as income on Form 1040, line 7.

Foreign earned income does not include:

- Amounts from line 12, column (d),
- Amounts paid to you by the U.S. Government or any of its agencies if you were an employee of the U.S. Government or any of its agencies,
- Amounts that are actually a distribution of corporate earnings or profits rather than a reasonable allowance as compensation for your personal services,
- Amounts received after the end of the tax year following the tax year in which you performed the services, or
- Amounts you must include in gross income because of your employer's contributions to a nonexempt employees' trust or to a nonqualified annuity contract.

**Income earned in prior year.** Foreign earned income received in 2008 for services you performed in 2007 can be excluded from your 2008 gross income if, and to the extent, the income would have been excludable if you had received it in 2007.

If you are excluding income under this rule, do not include this income on line 17. Instead, attach a statement to Form 2555-EZ showing how you figured the exclusion. Enter the amount that would have been excludable in 2007 on Form 2555-EZ to the left of line 18. Next to the amount enter "Exclusion of Income Earned in 2007." Include it in the total reported on line 18.

**Note.** If you claimed any deduction, credit, or exclusion on your 2007 return

that is definitely related to the 2007 foreign earned income you are excluding under this rule, you may have to amend your 2007 income tax return to adjust the amount claimed. To do this, file Form 1040X.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

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