Foreign Earned Income Exclusion

What about the possibility of taking the foreign earned income exclusion should you accept an overseas position with your firm.

To qualify for the foreign earned income exclusion, a U.S. citizen working abroad must have a "tax home" in a foreign country. If your tax home - where you have your regular or principal place of business or employment - is in a foreign country, and you meet either the bona fide residence test or the physical presence test, then you qualify for the foreign earned income exclusion. What this means is that you may exclude up to $76,000 of foreign earned income in 2000, $78,000 in 2001, and $80,000 in 2002 and thereafter.

To qualify under the bona fide residence test, you must be a bona fide resident of a foreign country or countries for an uninterrupted period that includes a full tax year. Since you're a calendar year taxpayer, this would include a January to December period. During a period of bona fide residence, you may leave the foreign country for brief or temporary trips elsewhere for vacations or business.

Even if you do not qualify under the bona fide residence test, you may still be eligible for the exclusion if you qualify under the physical presence test. Under this test, you would qualify if 330 full days out of any 12-consecutive month period are spent in a foreign country or countries. Physical presence in 2000 can be counted in determining whether you meet the 330 day physical presence test during a consecutive 12-month period for purposes of the 2001 exclusion.

If you meet the bona fide residence or the physical presence test, you may also exclude an amount based upon employer-provided foreign housing costs, although this might limit your foreign earned income exclusion.

You must make a separate election for each of these exclusions - they are not automatic.

If you have any further questions as to your eligibility, please contact me so we can go over your particular situation more fully.