

Tax tips for Self-Employed Expatriate from Abraham Itani, CPA

Qualifying U.S. citizens and residents working outside the United States are permitted to elect to exclude a portion of their foreign earned income under Internal Revenue Code (I.R.C.) section 911. The Exclusion of Foreign earned income for 2012 was \$95,100. In Addition to the income exclusion section 911 allows for the deduction of housing cost for the self-employed expat, in lieu of housing exclusion since there is no employer housing allowance received by the expat.

The Self-Employed income might be partly exempt from income tax, but not from Self-employment taxes (Medicare and Social Security). The US has signed tax treaties and Social Security Totalization Agreements with few countries that would allow the Self Employed Expat from paying into the social programs of two countries thus elevating the double taxation burden.

In preventing double dipping of tax benefits, a portion of business expenses for the self-employed are considered related to the excluded foreign earned income and are disallowed, and re-computation of net income would be warranted. Also, all foreign values of assets, liabilities, income and expenses must be reported on the 1040 Schedule-C using proper Generally Accepted Accounting Principles (GAAP) and promulgated foreign exchange rate as published by the US Federal Reserve Bank.

Last but certainly not least, a self-employed expat might overlook the need to report under FBAR and FATCA certain financial assets that he as a US person has control over. The FBAR has a threshold of \$10,000 in a single or combined foreign bank accounts were the US person has ownership and/or signing authority over the account. For FATCA the threshold is higher but the basket of assets does not stop at bank accounts but it includes multitude of other financial assets including stocks, mutual funds and insurance policies.

Note: We typically think of self-employed expat as an individual with a pass through entity; however a partner in a foreign service providing partnership structure is considered self-employed.

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