

PREPARING 1040 EXPATRIATE RETURNS

The 1040 tax application provides all the input necessary to complete a comprehensive expatriate return.

This tutorial gives you instructions for generating the following forms:

- Form 1116: Foreign Tax Credit
- Form 2555: Foreign Earned Income
- Form 3903: Foreign Moving Expenses.

In addition, the steps to complete moving expenses and the steps required to optimize a return between Section 911 exclusions and foreign tax credit are reviewed.

TOPICS

- [Form 1116: Foreign Tax Credit \(page 1\)](#)
- [Form 2555: Foreign Earned Income \(page 6\)](#)
- [Form 3903: Foreign Moving Expenses \(page 12\)](#)
- [Foreign Optimization \(page 15\)](#)

FORM 1116: FOREIGN TAX CREDIT

The **Return and Print Options** screen in the **General Information** folder contains options and data that apply to all Forms 1116 in a return. In the tax application, you can scroll down to view additional options and overrides.

The screenshot shows the 'Organizer' window with the 'Tax Forms' tab selected. The 'Return and Print Options' folder is expanded, showing sub-folders like 'Basic Return Information', 'Dependents', 'Amended Return', 'Tax Defaults', and 'Separate Returns from Joint Data'. The 'Tax Form Options (contd)' tab is highlighted in the main window, showing options for printing Form 1116 and various schedules (J, R, SE).

Figure 1

Entries are made in the **Foreign Information > Foreign Tax Credit** folder to generate Form 1116 - Foreign Tax Credit. Enter information for a specific income type and country on the **Foreign Tax Credit Information** screen related to that country. First, select an existing country from the drop-down list or, choose **Add New Foreign Country**.

The screenshot shows the 'Foreign Tax Credit Information' screen for the United Kingdom. The 'Foreign Country' dropdown is set to 'United Kingdom'. The 'Ownership' section has 'Taxpayer' selected. The 'Foreign Country (name that prints on form)' field is populated with 'United Kingdom'. A note states: '* An override symbol (Red asterisk) will display on the Foreign Country field if the foreign country, as entered, does not match the country selected in the Mandatory Country name below. To clear the override, right click and select "Clear Override."'. The 'Mandatory Country name for calculations and e-file' dropdown is currently set to '(None selected)'. A note at the bottom states: 'Note: Foreign income type and foreign country name must match entries on Schedule K-1 | SE/Credits/Foreign Tax Cr Organizer for Schedule K-1 data to transfer to Form 1116 organizer. Only the first PTP Schedule K-1 activity will transfer to Form 1116 organizer.'

Figure 2

Enter general information and income and deductions on the **Foreign Tax Credit Information** screen. Use the tabs to access the additional data entry areas for this country. The country name is a mandatory entry for Form 1116; the country code is mandatory for e-filing.

Organizer Tax Forms Collapse All

Foreign Country ... United Kingdom

Foreign Tax Credit Information Taxes Paid/Accrued Carryovers Special Options by In

Treaty Information

HELP

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Foreign Country (name that prints on form) * United Kingdom

* An override symbol (Red asterisk) will display on the Foreign Country field if the foreign country, as entered, does not match the country selected in the Mandatory Country name below.
To clear the override, right click and select "Clear Override."

Mandatory Country name for calculations and e-file United Kingdom

Note: Foreign income type and foreign country name must match entries on Schedule K-1 |
SE/Credits/Foreign Tax Cr Organizer for Schedule K-1 data to transfer to Form 1116 organizer.
Only the first PTP Schedule K-1 activity will transfer to Form 1116 organizer.

FOREIGN INCOME TYPE

☒ Passive category income
☐ Lump-sum distributions
☐ §901(j) Income
☐ Income re-sourced by treaty
☐ Income re-sourced by treaty

Figure 3

You can select from a list of income types to determine the appropriate tax treatment. In this example, *Passive Income* is selected.

Organizer Tax Forms Collapse All

Foreign Country ... Select here

Foreign Tax Credit Information Taxes Paid/Accrued Carryovers Special Options by In

Treaty Information

HELP

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Mandatory Country name for calculations and e-file United Kingdom

Note: Foreign income type and foreign country name must match entries on Schedule K-1 |
SE/Credits/Foreign Tax Cr Organizer for Schedule K-1 data to transfer to Form 1116 organizer.
Only the first PTP Schedule K-1 activity will transfer to Form 1116 organizer.

FOREIGN INCOME TYPE

☒ Passive category income
☐ Lump-sum distributions
☐ §901(j) Income
☐ Income re-sourced by treaty
☐ General category income

Date foreign tax was paid or accrued MM/DD/YYYY
(Acceptable entries are a valid date or blank. "Various" is no longer a valid entry.)

Figure 4

Click the **Taxes Paid/Accrued** tab to enter this information.

The screenshot shows the 'Form 1116' software interface. On the left is a navigation pane with a tree view. The 'Foreign Tax Credit' section is expanded, and 'United Kingdom' is selected. The 'Foreign Tax Credit Information' sub-section is also expanded. The main area displays the 'Taxes Paid/Accrued' tab, which is highlighted with a red box. Other tabs include 'Foreign Tax Credit Information', 'Carryovers', 'Special Options by Income Type', and 'Fiscal Year Information'. The 'Treaty Information' section is visible, showing allocation rules for foreign taxes. Below this is a table for 'Foreign Taxes Paid or Accrued on', with columns for TSJR, Dividends, Rents/Royalties, Interest, Wages/Other, Conversion Rate (2), U.S. Dollar Amount (2), Payment Date, Excluded Income, Moving Expense, and Business. The table is currently empty.

Figure 5

In this example, tax of 5,600 pounds (.6 British pounds to \$1 US) was paid on **Wages/Other** income.

This screenshot shows the same 'Form 1116' software interface as Figure 5, but with data entered in the 'Foreign Taxes Paid or Accrued on' table. The 'Taxes Paid/Accrued' tab is still selected. The table has one row of data: 'Wages/Other' with a value of '5,600' in the 'Wages/Other' column, an 'X' in the 'Conversion Rate (2)' column, and '.6' in the 'U.S. Dollar Amount (2)' column. A red box highlights the 'Wages/Other', 'Conversion Rate (2)', and 'U.S. Dollar Amount (2)' columns. The 'Treaty Information' section is also visible, showing allocation rules for foreign taxes.

Figure 6

The first **Foreign Tax Credit Information** screen with general limitation income automatically brings foreign sourced income in from Form 2555 if no entry is made on the **Foreign Compensation - 2555** field.


Foreign Country ... United Kingdom

Foreign Tax Credit Information | Taxes Paid/Accrued | Carryovers | Special Options by Income

Treaty Information

HELP
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FOREIGN SOURCE INCOME AND DEDUCTIONS

	Income	Deductions
Foreign compensation - 1040.....	<input type="text"/>	
Foreign compensation - 2555 and NON-2555 FEC Record.....	5,000.00	
Interest **.....	<input type="text"/>	

WORKSHEETS A AND B - QUALIFIED DIVIDENDS AND CAPITAL GAINS TAX WORKSHEET

(When applicable, see **Mandatory** AMT Capital Gain Adjustments at the bottom of the screen.)






Ordinary dividends **.....	<input type="text"/>	
Qualified dividends - 15% (not included on 4952) **.....	<input type="text"/>	
Qualified dividends - 20% **.....	<input type="text"/>	
Capital gain distributions - 15% **.....	<input type="text"/>	
Capital gain distributions - 20% **.....	<input type="text"/>	
Short-term capital gains.....	<input type="text"/>	

Figure 7

FORM 2555: FOREIGN EARNED INCOME

Make entries on the **General Information** screen in the **Foreign Information > Foreign Earned Income** folder to generate Form 2555. The employer name is a **mandatory** entry.

The screenshot displays the software interface for preparing Form 2555. On the left, the 'Organizer' pane shows a tree view of tax forms. Under 'Foreign Information', 'Foreign Earned Income' is expanded, and 'General Information' is selected. The main workspace shows the 'EMPLOYEE FOREIGN INFORMATION' section with fields for Address, City, Province, Country, Postal code, and Occupation. Below this is the 'EMPLOYER ADDRESS' section, which is highlighted with a red box. In this section, the 'Name (Mandatory)' field is populated with 'RLC'. Other fields like Street, City, and State are also visible but empty.

Figure 8

Scroll down the **General Information** screen to enter additional foreign residence information.

Employer ...
RLC

Quick Track

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RESIDENCY INFORMATION

Country of citizenship if not a U.S. citizen.....

If taxpayer maintained a separate foreign residence because of adverse living conditions, indicate the city and country of the separate foreign residence and also the number of days maintained during the tax year.

City and Country of Foreign Residence	Number of Days at Address


Tax Homes During Tax Year	Dates Established

☐ Tax home was in a foreign country or countries throughout the period of Bona Fide residence or physical presence

Figure 9

Use the **Bona Fide Residence** screen in the **Foreign Earned Income** folder to enter bona fide residence information related to this employer.

You can enter information for physical presence instead of bona fide residence on the **Physical Presence** screen. The tax application calculates the physical presence test.

 The principal country of employment is a **mandatory** entry.

The screenshot shows the software interface for preparing Form 2555. On the left, the 'Organizer' pane is expanded to 'Foreign Tax Credit' > 'Foreign Earned Income' > 'RLC'. The 'General Information' section is highlighted. In the main area, the 'Employer' dropdown is set to 'RLC'. The 'Principal country of employment (Mandatory)' is 'United Kingdom'. The 'Test based on the 12-month period (Override)' is set to 'From: MM/DD/YYYY' and 'Through: MM/DD/YYYY'. There are three checkboxes: 'Print "Physically present in a foreign country or countries for the entire 12-month period"', 'Use selected IRS center instead of Austin, TX for tax return mailing address', and 'Express mail will be used for mailing the return'.

Figure 10

To optimize returns between §911 exclusion(s) and foreign tax credit, you must click the **Optimize Between the Section 911 Exclusion and Foreign Tax Credit** button (shown below) to select an optimization code on the **Exclusions and/or Deduction** screen. See Foreign Optimization.

The screenshot shows the software interface for preparing Form 2555. On the left, the 'Organizer' pane is expanded to 'Foreign Tax Credit' > 'Foreign Earned Income' > 'RLC'. The 'Exclusions and/or Deduction' section is highlighted. In the main area, the 'Optimize Between the Section 911 Exclusion and Foreign Tax Credit' button is highlighted. Below it, the 'FOREIGN EARNED INCOME EXCLUSION' section has a checkbox 'Carry unused FEI exclusion and income to adjust numerator and denominator of Hartung ratio'. The 'FOREIGN HOUSING COST EXCLUSION / DEDUCTION' section has a checkbox 'Spouses reside apart and cannot elect to compute housing cost exclusion jointly'. There are several input fields for 'Number of days in foreign country (Override)', 'Excess of FEI exclusion allowed over actual', 'Amount to increase/decrease current-year FEI exclusion', 'Foreign earned income exclusion (Override)', 'Total foreign housing cost', 'Nonqualifying foreign housing cost in a restricted country', 'Total employer provided housing cost (Override)', and 'Amount from Form 2555, Line 46 (from prior year)'.

Figure 11

Scroll down the **Exclusion and/or Deduction** screen to enter foreign housing costs.



Employer ...	RLC		
Number of days in foreign country (Override).....			
Excess of  FEI exclusion allowed over actual.....			
Amount to increase/decrease current-year FEI exclusion.....			
Foreign earned income exclusion (Override).....			
FOREIGN HOUSING COST EXCLUSION/ DEDUCTION			
<input type="checkbox"/> Spouses reside apart and cannot elect to compute housing cost exclusion jointly			
Number of days in foreign country (Override).....			
Total foreign housing cost.....			
Foreign Housing Cost Limitation Table			
Nonqualifying foreign housing cost in a restricted country.....			
Total employer provided housing cost (Override).....			
Amount from Form 2555, Line 46 (from prior year).....			
Amount from Form 2555, Line 48 (from prior year).....			
Foreign housing cost deduction carryover from 2017 (Override).....			
Housing cost exclusion (Override).....			
Housing cost deduction (Override).....			
ADJUSTMENTS RELATED TO EXCLUDED INCOME			

Figure 12

Select **Add new Allocation Period** to add an allocation period.

The screenshot shows the 'Add new Allocation Period' dialog box in the center. The dialog box has a title bar, a text input field, and 'SAVE' and 'CANCEL' buttons. In the background, the 'Organizer' pane on the left has 'Add new Allocation Period' highlighted with a red box. The main window shows the 'W-2' tab with various fields for days worked.

Figure 13

Foreign compensation is entered at **Organizer > Source Documents > W-2 > Add new Employer**.



Important: Enter the desired value from the **Employer - Allocation Period** grid into the **Match W-2 with Employer - Allocation Period** field.

If the foreign compensation should be reported on a Foreign Employer Compensation (FEC) Record, select the check box for **Report on FEC Record**. If you select the check box to **Report on FEC Record**, select the hyperlink: **Non-W-2 (FEC Record)**.

If the foreign compensation should not be reported on a Form W-2 or FEC Record, select the check box for **Do not report on a W-2 or FEC Record**.

Select the hyperlink **Days Worked** to enter days worked information.

Select the hyperlink **Foreign Earned Income** to enter foreign compensation.

Go to **Organizer > Source Documents > W-2 > employer name** and elect the **Foreign Earned Income** hyperlink.

The screenshot shows the Tax Organizer interface with the 'W-2' form selected for 'Overland Financial'. The left-hand pane shows the 'Source Documents (W-2, 1099s, 1098s)' section, with 'W-2' and 'Overland Financial' highlighted. The main area displays the W-2 form fields, including 'W-2 Type' (Standard), 'Wages, tips, other comp.', 'Federal income tax withheld', 'Social Security Wages', 'Social Security Tax Withheld', 'Medicare Wages and Tips', 'Medicare Tax Withheld', 'Social Security Tips', 'Allocated Tips', 'Verification code', and 'Dependent Care Benefits'. The right-hand pane shows the 'Foreign Wages (Form 2555)' section, with 'Foreign Earned Income' highlighted.

Figure 14

Enter base salaries and other foreign compensation. Selecting an allocation method determines how the income is divided between US and foreign assignments. Non-cash income is also entered on this organizer screen. You can allocate the part of each non-cash income item to the days worked in the US.

The screenshot shows the 'Allocation Methods' and 'Noncash Income' sections of the Tax Organizer. The 'Allocation Methods' section lists five methods: Default (Foreign-source income), A (U.S. source income), B (Income earned while on foreign assignment), C (Income earned while on U.S. assignment), and D (Income earned partially during foreign assignment). The 'Noncash Income' section includes 'Hypothetical income for Tax Equalizations' with fields for 'Home (Lodging)', 'Meals', and 'Car', and a table for 'Other Property' with columns for 'Amount', 'Alloc Meth', and 'X if Hypothetical income for Tax Equalizations'. The 'Base Salaries' section is also visible at the bottom.

Figure 15

After inputting foreign compensation, the allocation of compensation can be reviewed in the printed return as well as in tax forms view at **Tax Forms > Federal > 2555 – Foreign Earned Income > employer name > Page 2** tab. Drill down on line 19.

	Total	Before/After Foreign Assignment		During Foreign Assignment	
		U.S.	Foreign	U.S.	Foreign
Wages.....					
U.S. or restricted income.....					
Personal service income:					
Business.....					
Partnership.....					
Non-cash income:					
Home (lodging).....					
Meals.....					
Car.....					
Other property.....					
Allowances/reimbursements:					
Cost of living.....					
Family.....					
Education.....					
Home leave.....					
Quarters.....					

Figure 16

FORM 3903: FOREIGN MOVING EXPENSES

To generate Form 3903 for foreign moving expenses, entries are made on the **Moving Expense** screen in the **Adjustments to Income** folder. If the moving expense needs to be considered on Form 1116, check the box shown below.

Add new City of Move

City of Move: London

SAVE CANCEL

W-2 INFORMATION

TS	Employer Name	(1) Wages, Tips, Other Comp	(2) Federal Income Tax Withheld	(3) Social Security Wages	(4) Social Security Tax Withheld	(5) Medicare Wages and Tips	(6) Medicare Tax Withheld	(7) Social Security Tips
	Overland Financial	1	1	1	1	1	1	1
		1	1	1	1	1	1	1

Figure 17

To see more foreign options, scroll down to the bottom of the screen.

City of Move ... London

ALLOCATION OF MOVING EXPENSES TO EXCLUDED SECTION 911 INCOME

NOTE: if form 3903 is not printing, then "Year of Move" has been entered below, but no expenses under it.

☐ Adjust allocation ratio by U.S. income while on foreign assignment

☐ Include recapture of prior year moving expense in current year income

TWO YEAR ALLOCATION	YEAR OF MOVE
<input type="radio"/> Consider all expenses with two year allocation	<input type="radio"/> Current year move
<input type="radio"/> Do not allocate expenses over two years	<input type="radio"/> Prior year move
<input type="radio"/> Force two year allocation	<input type="radio"/> Subsequent year move
<input checked="" type="radio"/> (None selected)	<input checked="" type="radio"/> (None selected)

Prior year section 911 exclusion.....	
Prior year foreign earned income.....	
Current year section 911 exclusion (Override).....	
Current year foreign earned income (Override).....	
Next year section 911 exclusion.....	
Next year foreign earned income.....	
Actual moving expense allocated to section 911 income.....	
Moving expense subject to disallowance in the year of move.....	
Prior year moving expense before scale down.....	
Recapture of prior year moving expense (Override).....	

Figure 18

Enter information for moving expenses that are to be allocated to excluded §911 income.


City of Move ... London 	
<input type="checkbox"/> Include recapture of prior year moving expense in current year income	
TWO YEAR ALLOCATION	YEAR OF MOVE
<input type="radio"/> Consider all expenses with two year allocation	<input type="radio"/> Current year move
<input type="radio"/> Do not allocate expenses over two years	<input type="radio"/> Prior year move
<input type="radio"/> Force two year allocation	<input type="radio"/> Subsequent year move
<input checked="" type="radio"/> (None selected)	<input checked="" type="radio"/> (None selected)
Prior year section 911 exclusion.....	<input type="text"/>
Prior year foreign earned income.....	<input type="text"/>
Current year section 911 exclusion (Override).....	<input type="text"/>
Current year foreign earned income (Override).....	<input type="text"/>
Next year section 911 exclusion.....	<input type="text"/>
Next year foreign earned income.....	<input type="text"/>
Actual moving expense allocated to section 911 income.....	<input type="text"/>
Moving expense subject to disallowance in the year of move.....	<input type="text"/>
Prior year moving expense before scale down.....	<input type="text"/>
Recapture of prior year moving expense (Override).....	<input type="text"/>

Figure 19

FOREIGN OPTIMIZATION

To force Section 911 exclusion or optimize between the Sec. 911 exclusions and the foreign tax credit, use the **Exclusions and Deductions Organizer** under **Foreign Earned Income**.


The screenshot shows the 'Organizer' tab with 'Tax Forms' selected. The 'Foreign Information' section is expanded, and the 'RLC' option is selected. The main area displays the 'FOREIGN EARNED INCOME EXCLUSION' and 'FOREIGN HOUSING COST EXCLUSION/ DEDUCTION' sections. A red box highlights the 'Optimize Between the Section 911 Exclusion and Foreign Tax Credit' link.

Figure 20

Select each list box to see the applicable choices. Here you can force specific §911 exclusions if necessary.

The screenshot shows the 'Organizer' tab with 'Tax Forms' selected. The 'Foreign Information' section is expanded, and the 'RLC' option is selected. The main area displays the 'OPTIMIZATIONS BETWEEN THE SECTION 911 AND FOREIGN TAX CREDIT' section. A red box highlights the 'Select one to force a specific Sec. 911 exclusion (Override)' dropdown menu, which shows options: (None selected), Foreign earned income exclusion only, Foreign earned income and joint housing cost, Foreign earned income and separate housing cost, Joint housing cost only, Separate housing cost only, and No exclusions (No Form 2555 will be printed). A 'carryover' label is next to the dropdown.

Figure 21

 The **Optimization** features only apply when two 2555 forms are entered, one for Taxpayer and one for Spouse.

OPTIMIZATIONS BETWEEN THE SECTION 911 AND FOREIGN TAX CREDIT

About Optimization

- Make all changes to the return before beginning the optimization computations.
- Compute time will be longer than the regular compute since the optimization requires multiple recomputations.
- This combination is set on Form(s) 2555 until the next optimization is initiated.

Select one to Optimize between the Section 911 exclusion and Foreign Tax Credit

Note: At least one Taxpayer Form 2555 and one Spouse Form 2555 must be present in the return for application of the Optimization options.

MANDATORY

☐ Allow or disallow the foreign earned income exclusion

☐ Allow or disallow the foreign housing cost exclusion

☐ Allow or disallow the foreign earned income and foreign housing cost exclusions

☒ Not Applicable

Select one to force a specific Sec. 911 exclusion (Override)

(None selected)
Foreign earned income exclusion only
Foreign earned income and joint housing cost
Foreign earned income and separate housing cost
Joint housing cost only
Separate housing cost only
No exclusions (No Form 2555 will be printed)

carryover

Optimization Results

Figure 22

Click the **Begin Optimization Computation** button after making your selections.

OPTIMIZATIONS BETWEEN THE SECTION 911 AND FOREIGN TAX CREDIT

About Optimization

- Make all changes to the return before beginning the optimization computations.
- Compute time will be longer than the regular compute since the optimization requires multiple recomputations.
- This combination is set on Form(s) 2555 until the next optimization is initiated.

Select one to Optimize between the Section 911 exclusion and Foreign Tax Credit

Note: At least one Taxpayer Form 2555 and one Spouse Form 2555 must be present in the return for application of the Optimization options.

MANDATORY

- ☐ Allow or disallow the foreign earned income exclusion
- ☐ Allow or disallow the foreign housing cost exclusion
- ☐ Allow or disallow the foreign earned income and foreign housing cost exclusions
- ☒ Not Applicable

Select one to force a specific Sec. 911 exclusion (Override)

(None selected) ▼

☐ Optimal return should be determined considering FTC carryover

Begin Optimization Computation

[Optimization Results](#)

Figure 23

After you have run the optimization calculation, you can view the results when you click the **Optimization Results** link (see arrow above), and a worksheet appears with the results.

Page 1Page 2Page 3FEI Tax WorksheetForeign Optimization

Foreign Optimization

Taxpayer Exclusions

Spouse Exclusions

FEI

Housing

FEI

Housing

Taxable Income

Foreign Tax Credit

FTC
Carryover to

Total Tax

Used
*

Figure 24

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