

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.

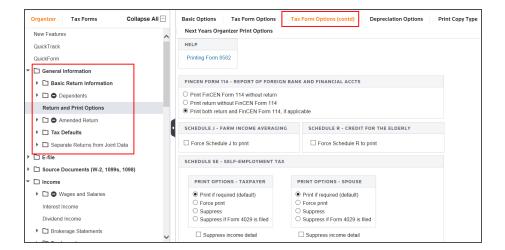


Figure 1

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**.

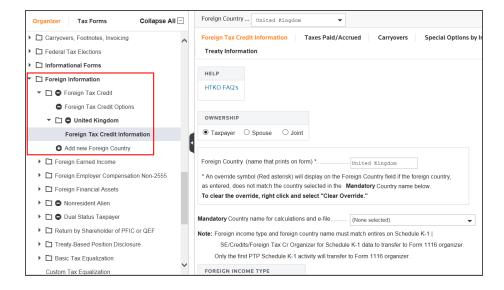


Figure 2

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.

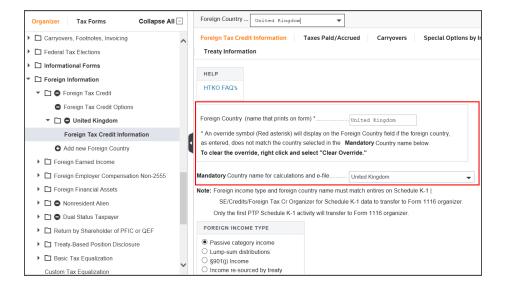


Figure 3

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

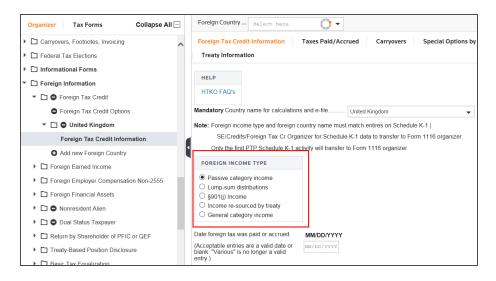


Figure 4

Form 1116: Foreign Tax Credit

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

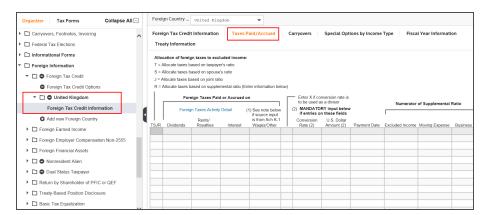


Figure 5

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

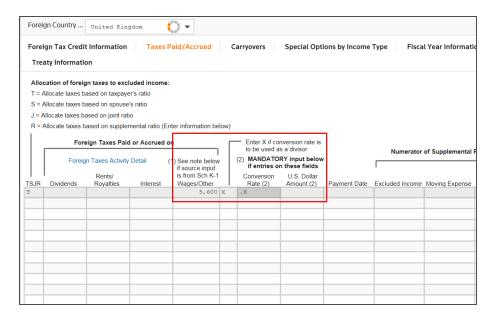


Figure 6

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.

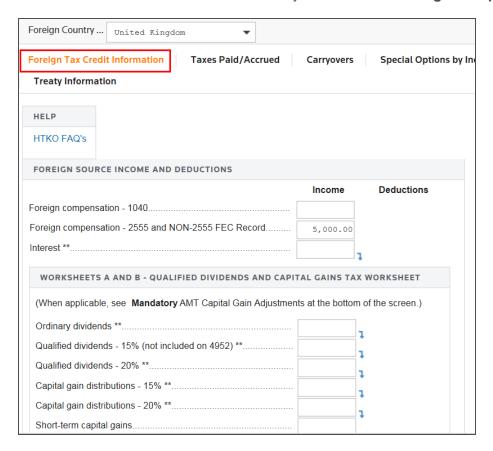


Figure 7

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.

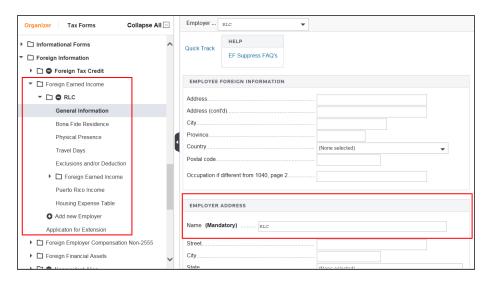


Figure 8

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

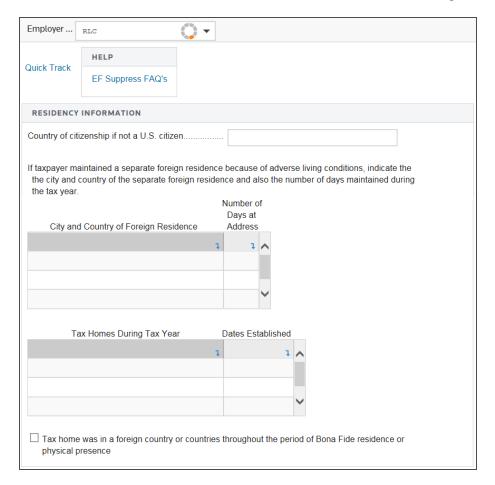


Figure 9

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.

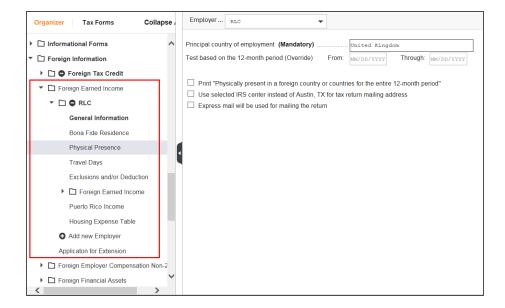


Figure 10

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.

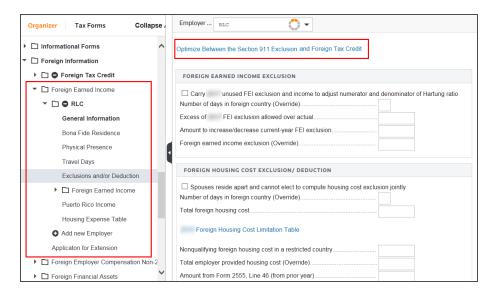


Figure 11

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

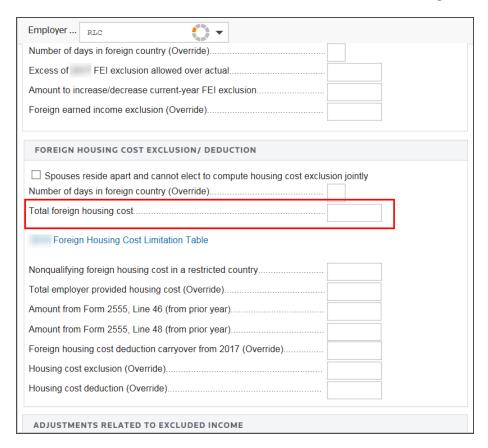


Figure 12

Select Add new Allocation Period to add an allocation period.

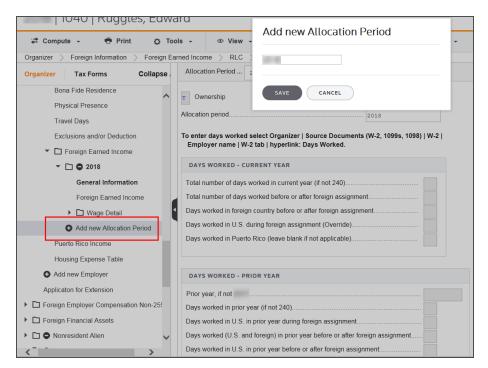


Figure 13

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.

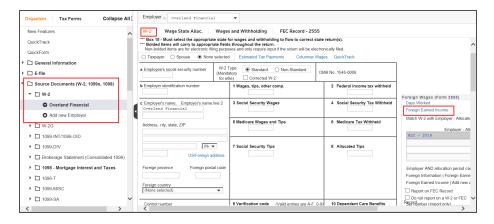


Figure 14

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.

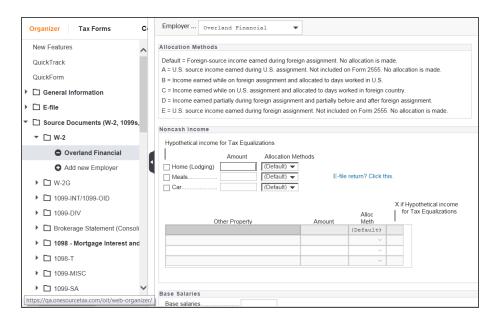


Figure 15

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.

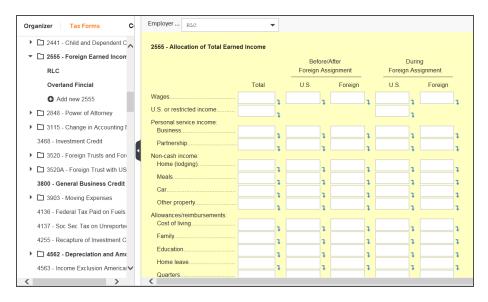


Figure 16

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.

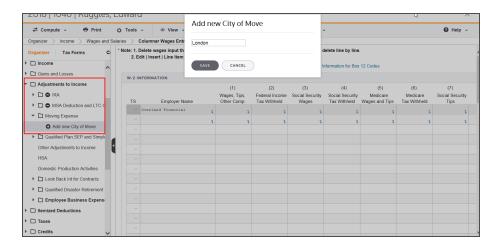


Figure 17

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

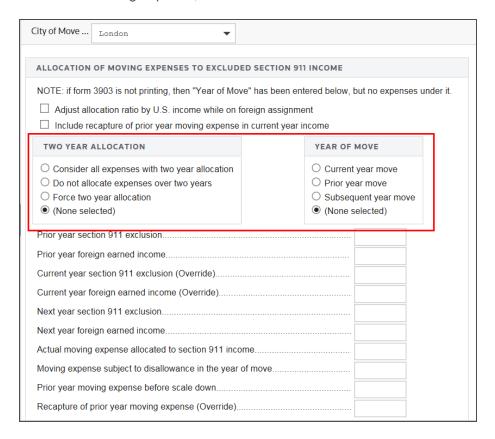


Figure 18

Form 3903: Foreign Moving Expenses

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

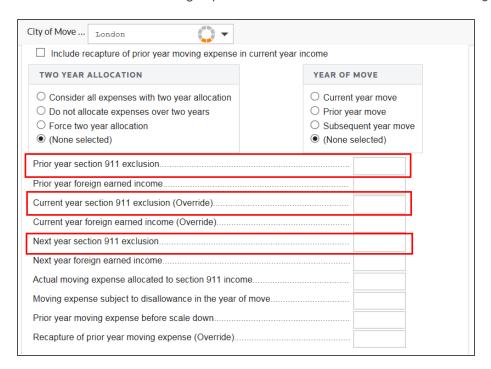


Figure 19

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**.

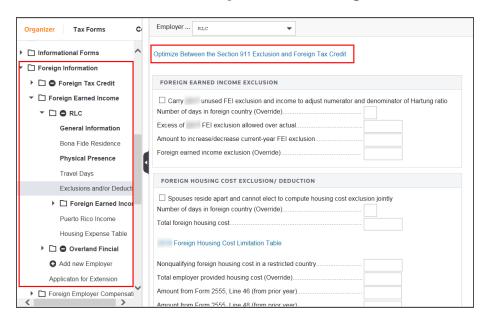
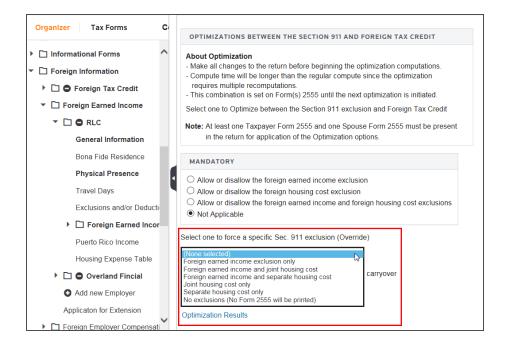


Figure 20

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



Foreign Optimization

Figure 21



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

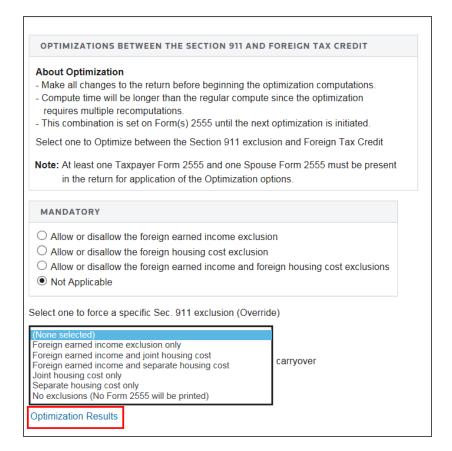


Figure 22

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

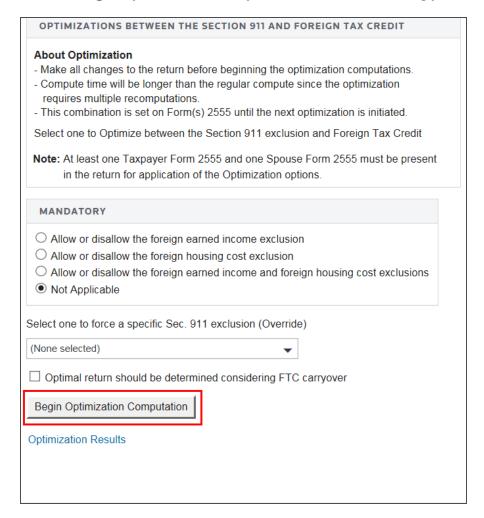


Figure 23

Foreign Optimization

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



Figure 24

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