

TAX INFORMATION
U.S. Citizens Living Abroad
2011 Tax Year

Missions and overseas workers who are U.S. citizens or permanent residents **MUST** file an income tax return even though a majority of their income will not be subject to income tax. These workers are subject to the same U.S. income tax laws as those living in the U.S. with some allowances for their foreign residence. These allowances include a filing deadline of June 15th rather than April 17th (unless you are physically present in the U.S. on April 17th) and the \$92,900 foreign earned income exclusion. Be aware, however, that filing a late return will generally result in the loss of the foreign earned income exclusion. **Consequently, it is very important for missionaries to file a timely return inclusive of extensions!** (extensions are available by filing Form 4868 however new arrivals may need to file Form 2350 instead, see “New Arrivals” at end of letter) We provide this general information to assist missionaries living abroad. **This is not a substitute for instructions given by the IRS.** The IRS website may be of assistance to you. Its address is www.irs.gov.

OVERVIEW

In preparation of these instructions the following assumptions have been made:

1. All returns are submitted to the IRS by the mission office rather than by the individual missionary.
2. The missionary, therefore, lists the mission address as his stated address.
3. The missionary family is considered to have one income with the husband, the sole earner. If both spouses receive compensation then both must file Form 2555.
4. The mission has issued W-2 forms for tax withheld for non-ordained religious missionary workers and ordained ministers.
5. The missionary has decided not to elect out of the social security system.

These instructions will cover the following forms:

1. **1040 – Long Form**
2. **2555 – Foreign earned income exclusion**
3. **Schedule SE – Self-employment tax**

These instructions may not complete a form without interruption. These interruptions will guide you to another form that will be necessary to complete before proceeding with the form that was originally interrupted.

START FORM 1040, PAGE 1

Name: In case of couples, both husband and wife

Address: U.S. Mission address

Social Security Number: Both husband's and wife's

Check Campaign Fund

Lines 1-5: Check appropriate box

Line 6: If you list dependents you must list their social security numbers. Otherwise the IRS will disallow the Child Care Credit and exemption. Total on Line 6D.

Line 7. All W-2 wages, including mission personal support. In addition to W-2 items, you should combine on this line amounts received by you or paid on your behalf from work funds which were not included in your W-2. Confirm that these items were not included in your W-2 wages. The following are some items to be included: personal outfit, education of children, vacation travel (if paid by mission), personal miles on mission-owned car, etc.

Line 8. Interest. Use schedule B, if interest income is over \$1,500.

Line 9. Dividend income. Use schedule B, if ordinary dividend income is over \$1,500.

Lines 10-19 Other income to be identified on other required forms. Forms, which you may require, should be secured from the mission, or local supply if available.

Line 20 (a-b). Use only if receiving Social Security Benefits.

STOP **GO TO FORM 2555**, before completing Form 1040 Line 21 - Other Income.

You qualify to use this form if the following two conditions are present:

1. You are a U.S. citizen who is a bona fide resident or is physically present in a foreign country.

*Bona fide resident means:

- a. Must have intentions to remain overseas for an indefinite stay and give evidence by work or action.
- b. Must reside in that country for an uninterrupted period, which includes an **entire tax year (January 1 - December 31)**. Temporary vacations and business trips are allowed.

*Physical presence test means:

- a. If during a period of twelve consecutive months you are physically present in a foreign country 330 full days. The 330 qualifying days do not have to be consecutive.

*The two tests above can be waived if you must leave a foreign country because of war, civil unrest, or similar adverse conditions in the country. You must be able to show that you would have met the minimum time requirement if it had not been for the adverse conditions.

2. Your tax home must be in a foreign country throughout the above two periods (the period of bona fide residence or physical presence, whichever applies). You meet the tax home test if your tax home is considered your regular or principal place of business or employment in a foreign country.

FORM 2555 EZ is available for 2011. If you have elected to be exempt from social security, you may be able to use this short form. However, these instructions will not cover this form.

TOP PORTION - 2555

Name: As it appears on Form W-2 and Form 1040

Social Security Number: Couples use husband's number only when applying all income to his account.

Part I - General Information

1. **Foreign Address:** As requested.
2. **Your Occupation:** Minister serving as missionary or member of a religious missionary order or lay missionary.
3. **Your Employer:** Name of mission.
4. (a-b) U.S. address and field headquarters address.
5. **Employer is:** Check "Other/U.S. Charitable Organization."
6. (a-d) As applicable.
7. As applicable.
8. (a-b) As applicable.
9. Your tax home is generally the foreign country where you are residing. The dates established should cover a full 12-month calendar year or 330 days in the foreign country.

Part II - 2555 -BONA FIDE RESIDENCE

10. Bona fide residence began on the date of your arrival abroad for your first term (provided you have not at any time exceeded a normal furlough and lost your residence status). If you did lose your status, use your next arrival date. Date ended: "Does not apply" or "Has not ended" (unless you are in the U.S. and do not plan to return overseas).
11. Check appropriate box.
12. (a-b) Check appropriate box and explain.
13. (a) Check "No."
(b) Check appropriate box.
14. (a-d) In the box write "does not apply" if you were not in the U.S. for any part of 2011. List dates of arrival and departure and any income earned while in the U.S.
15. (a-e) Complete as requested.

Part III - 2555 - PHYSICAL PRESENCE TEST

Fill out lines 16-18 as instructed. If you do not qualify for the bona fide residence and, at the time of filing your 2011 tax return, you do not qualify for the physical presence test, consider filing an extension until you meet the 330 day requirement for the physical presence test (see "new arrivals" at end of letter).

Part IV - 2555

19. Total salaries or personal support received from mission (shown on W-2, if received) less any amount covered by Form 2555 Part II, line 14(d), or Part III, line 18(f), (i.e. actual salary earned overseas).
- 20-22(e). Complete if applicable.
- 22(f). This line should be used to report amounts received or paid for from work funds for personal expenses that have not been included in your W-2. These include amounts received on the field only. The following are some of the items included (if not reported elsewhere): personal outfit, education of your children (scholarship, travel for schooling), vacation travel or other personal expenses.
- 22(g). Total from 22(a-f).
23. Complete if applicable.
24. Calculate as indicated.
25. If applicable. Enter here the total value of meals and lodging provided by your employer. The meals and lodging must be provided for your employer's convenience and on your employer's premises.
26. Calculate as indicated. Carry to Form 2555 Part V, Line 27.

Part V - 2555

27. Enter amount from Line 26.

Part VI - 2555

Generally not applicable to missionaries. Those needing to use may consult Publication 54, "Tax Guide for U.S. Citizens and Resident Aliens Abroad." You can find this publication on the IRS website.

Part VII - 2555

37. Pre-printed.
38. Be sure the number of days in 2011 are consistent with Form 2555 Part II, Line 10 or Part III, Line 16.
- 39-41. Complete as indicated.

42. Enter the smaller of line 40 or 41.

Part VIII – 2555

43. Calculate as indicated.

STOP GO TO SCHEDULE SE, before completing Line 44, Part VIII.

Schedule SE

If you are an ordained minister and have not elected out of social security, you must pay self-employment tax on all your net earnings for 2011. However, if you have elected out of social security, Schedule SE is not necessary.

Section A--Short Schedule SE

Line 1. (a-b) Leave blank, unless applicable.

Line 2. Just below line 2 write in "Income as Minister"-- Enter total of income, housing, honoraria, etc.

Line 3. Enter amount from line 2.

Line 4. Calculate as indicated.

Line 5. Calculate as indicated.

Line 6. Calculate and follow instruction.

The amount calculated on line 5, self-employment tax, will be used in three different places. These places will be mentioned here but will be mentioned again when necessary. The three places are as follows:

1. Form 1040, Line 27: enter the amount calculated on Schedule SE, Line 6.
2. Form 1040, Line 56: enter the amount from Schedule SE, Line 5.
3. Form 2555, Line 44: enter the amount calculated on Schedule SE, Line 6.

STOP GO BACK TO FORM 2555, Part VIII Line 44.

FORM 2555

Line 44. Enter here the amount calculated on Schedule SE, Line 6. In addition, any other amounts that are used as an adjustment to income that are related to the income being excluded. Prorate according to percentage on Part VII Line 39 and attach computation. Some of the most common adjustments are:

1. an IRA deduction
2. self-employed health insurance deduction
3. Keogh, SEP retirement deductions and simple plans

4. penalty on early withdrawal of savings
5. moving expenses
6. medical/health savings account

Line 45. Calculate. Carry amount to Form 1040, Line 21. Write "Form 2555" on Line 21 and place the number in parentheses (.). This is your foreign earned income exclusion. You will subtract this amount from your income to arrive at total income on Form 1040, Line 22. If you had unused housing allowance at the end of 2011, you must add this amount to the foreign earned income exclusion on Line 21.

Part IX - 2555

Lines 46-50. Not covered and generally not applicable to missionaries.

STOP GO BACK TO FORM 1040, LINE 21

Line 21. Fill out as discussed above per the instructions for Form 2555, Line 45.

Line 22. Total lines 7-21. (Remember line 21 may be a **NEGATIVE** number.)

Line 23-25. As applicable.

Line 26. As applicable. Attach Form 3903.

Line 27. As discussed before, place the amount calculated on Schedule SE, Line 6.

Lines 28-35. As applicable.

Line 36. Enter total of 23-35.

Line 37. Enter calculated amount. **This is your Adjusted Gross Income (AGI).**

Line 38. From line 37.

Line 39(a-b). Complete if applicable.

Line 40. Select standard or itemized deductions as appropriate.
(See instructions for Form 1040 and submit schedule A.)

Line 41. As indicated.

Line 42. As indicated.

Line 43. As indicated. **Taxable income.**

Line 44. Use appropriate Tax Tables to find your tax and enter it on this line, if any. Check your calculation twice.

Line 45. If applicable.

Line 46. As instructed.

Lines 47-53. If applicable.

Line 54. Total of lines 47-53.

Line 55. Subtract line 54 from line 46.

Line 56. Amount from Schedule SE, line 5.

Lines 57-60. If applicable.

Line 61. Total lines 55-60. **This is your total tax.**

Line 62. Enter amount withheld as reported on Form W-2.

Line 63. Enter 2011 Estimated Payments and any refund that you had applied to 2011 Return.

Lines 64-71. If applicable.

Line 72. Total lines 62-71.

Lines 73-75. As instructed.

Line 76. Indicate any balance due if line 61 exceeds line 72. Send check in that amount. Write your social security number and "Form 1040, 2011" on the check made payable to the "United States Treasury." Do not make check payable to "IRS".

Line 77. If applicable. See instructions for Form 2210. If Form 2210 is not completed due to its complexity, the IRS will bill you for penalties and interest.

FILING TIPS

Avoid the following common mistakes:

1. Make sure the proper standard deduction is used. If you are 65 or older, be sure to take the additional deduction.
2. Review your social security numbers. Be sure they are correct.
3. Check and recheck all computations (additions, subtractions, etc.) especially when figuring your total income, Federal income tax withheld and the refund or amount owed.
4. Attach your W-2. Place all forms in proper order using the sequence number at the top right hand corner. Do not attach Form 2555 to the front of Form 1040 as in the prior

years. Instead, attach it in the order of the "Attachment Sequence No." shown in the upper right corner of the Form.

5. Be sure husband and wife sign and date Form 1040 and enter occupations.

MISCELLANEOUS

Foreign Bank Accounts

"Report of Foreign Bank and Financial Accounts" should be filed for all missionaries who have a financial interest in or signature authority over a financial account (such as a savings or checking account) overseas that exceeds \$10,000 in aggregate value at any time during the calendar year. Form TD F 90-22.1 is used for this purpose. This form must be filed separately from Form 1040 and is due June 30th.

Send to:

Department of the Treasury
P. O. Box 32621
Detroit, MI 48232-0621

New Arrivals

If you arrived in a foreign country after January 1, 2011, you do not yet qualify for the bona fide residence test but you may qualify for the physical presence test. However, if you do not qualify for the physical presence test by June 15, 2012 you should file Extension Request Form 2350 by the due date of your tax return. (This will usually be June 15, 2012 because of the extra 2 months given certain taxpayers out of the country). Make sure to request an extension for 30 days after the date that you expect to qualify for the physical presence test. Be sure to file the Form 2350 early so that if it is not approved you can still file your tax returns on time. This is an extension of time to file, **not an extension to pay the tax**. If any tax is owed it must be remitted with the Form 2350.

Steve Moore
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Missio Nexus
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