

# Living Abroad? Expat Taxpayers Face Special Challenges

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For frequent traveler Rebekah Voss, [tax time](#) poses a particular set of challenges. Voss publishes The Happy Passport, a travel inspiration website for women, and has spent a significant amount of time in Vietnam, Thailand and other exotic locales. She's found that the complicated world of U.S. tax law only becomes more complicated when it applies to citizens living overseas.

Before even beginning her tax return, however, Voss found that the standard method of gathering receipts to track expenses simply wasn't realistic for her situation.



"In a lot of places in Asia, cash is king. You can't pay with a credit card; your only option is to pay with cash. You're not given a receipt, or you're given a handwritten receipt, if you're able to get one," Voss says.

Because she was [traveling abroad](#) with a single backpack, Voss says, "It became really important for me to keep track of what I was spending, but also get rid of the paper clutter as soon as possible."

Voss isn't the only traveler who's been weighed down by receipts, tickets and hotel check-in forms in the anticipation of future tax needs, and been stymied by the difficulty in managing them.

## Unique Document Management Challenges

Unfortunately, the various methods for tracking expenses and income that many Americans employ are usually irrelevant to individuals earning income in multiple currencies, whose receipts are in foreign languages, and whose financial institutions may not provide records.



"The biggest part of an expat being able to file their taxes painlessly is document management," says Roland Sabates, director of operations for H&R Block's expat tax services division. "You may not just have a W-2 or 1099, but depending on the country where you're living, you may have a variety of tax paperwork that needs to be collected and organized."

While there are several [receipt and document storage platforms](#), Voss swears by Shoeboxed. Sabates strongly advises sending all confidential tax information through a secure server rather than across email. "In this day and age, sending W-2s via email is one step above [mailing your Social Security number on a postcard](#)," he says.

## Additional Reporting Requirements

In addition to income and expenses, expats face additional reporting requirements, including reporting any foreign bank accounts, plus non-U.S. mutual funds, pensions and investments. Securing this documentation can be tricky, as foreign institutions may operate on a non-calendar tax year (June to June, for instance), not regularly provide tax statements and/or have tax issues that don't play well with U.S. regulations.

"It's very common to think I have this pension with my non-U.S. employer, and it's going to function the same way as if I had a 401(k) in the U.S. in terms of tax deferral, and unfortunately, it's not true," Sabates says. "Another big issue we point out for clients is that non-U.S. mutual funds have very strict tax implications, where the cost of compliance alone can undermine your investment goals."

Expats who have the equivalent of \$10,000 in foreign bank accounts, at any point during the calendar year, must report it on a tax return via form FinCEN 114, which is filed to the U.S. Department of the Treasury. "Somebody who has a small pension and a little bit of savings, it doesn't take too much to get over that threshold," Sabates says.

But [Americans living abroad](#) also have exemptions not available to those living at home. One is the foreign earned income exclusion, which for the 2014 tax year allows expats to exclude up to \$99,200 of income from working, if they're in a country other than the U.S. for at least 330 days.



U.S. taxpayers with foreign sources of income may also be subject to income tax in their host country. Fortunately, in the U.S., the foreign tax credit provides a dollar-per-dollar credit for any foreign tax paid on that income.

## Planning Ahead

Future expats (temporary or otherwise) would be well-served to have a plan in place before heading abroad. Things to consider: how they will collect, manage and store receipts; [which financial management software they will use](#); speaking with a tax advisor specializing in their particular region and profession; choosing a bank that will provide them with the U.S. compliant documentation.

In many cases, a multinational bank with a large U.S. presence, or credit unions specializing in expats, will have services accessible overseas and still be able to meet U.S. reporting requirements.

American expats aren't required to file their return until June 15, rather than the standard April 15 deadline those in the U.S. must follow. Sabates recommends that expats in countries with a non-calendar tax year consider taking an automatic extension until Oct. 15 to ensure they'll be able to gather the necessary paperwork from their in-country institutions.

## Forgetting to File and Filing Correctly

The IRS offers an online dashboard dedicated to U.S. taxpayers living abroad, and recognizes that people who have been living abroad might not have filed, or correctly filed, their tax return. Two years ago, it instituted new filing procedures to help expats get compliant on past years' returns.

Voss says she diligently prepares her return each year, but given the complexities of expat filing requirements, she hires an accountant as her "safety net."

"The tax rules change depending on where you are and what you're doing," she says. "I provide him with my receipts and my deductions, which I calculate myself. He looks them over, and is my safety net in double-checking that I've got everything right."



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