

KEY SERVICE INSIGHTS

INDIVIDUAL TAX NEWSLETTER

U.S. TAXATION OF U.S. CITIZENS AND U.S. TAX RESIDENTS RESIDING OVERSEAS MITIGATION OF DOUBLE TAXATION

U.S. citizens and U.S. tax residents (“**U.S. Persons**”) are taxed in the United States on their worldwide income no matter where in the world they reside. The U.S. taxes based on citizenship, which is different than almost all other countries in the world that tax based on residence. These U.S. Persons are subject to tax in two jurisdictions and therefore it is important for them to avoid double taxation.

There are two methods that a U.S. Person living abroad can use to reduce their U.S. tax liability. The two methods are the Foreign Earned Income Exclusion (“**FEIE**”) and the Foreign Tax Credit (“**FTC**”). Even if one of these methods were to eliminate the U.S. Person’s U.S. tax liability, the U.S. Person is still required to file their U.S. tax return if their income exceeds the filing thresholds for the tax year.

For tax year 2023, the FEIE amount is \$120,000. It is important to note that the FEIE can only be claimed against foreign earned income such as wages and not passive types of income like interest, pension income (not passive, but FEIE cannot offset pension income), and dividends.

The FTC allows the U.S. Person a credit for taxes paid in the foreign country on income sourced to that country against their U.S. tax liability applicable to the foreign source income. The FTC can substantially reduce a U.S. Person’s tax bill. It is important to note that the FTC cannot be claimed for foreign taxes paid on income excluded by the FEIE.



Too often we see tax professionals blindly use the FEIE without thought and depending on the circumstances this actually increases the U.S. Persons U.S. tax as compared to only relying on the FTC to reduce or eliminate U.S. tax. It is important for the tax professional to fully understand the implications of claiming the FEIE and the FTC to receive the optimal tax result for U.S. Persons residing outside the U.S.

Praestans has significant experience preparing tax returns for U.S. persons residing outside the U.S. including how to handle the complicated informational filings and altered tax regimes for foreign assets. We have the experience to determine which methods to utilize to mitigate double taxation in order to reduce or eliminate U.S. taxation. The tax professionals at Praestans have legal, tax, and accounting backgrounds that are necessary for the successful preparation of these tax filings.

Praestans Global Advisors is neither a law firm nor a CPA firm.



Strategic Business Planning that is collaborative, integrated, and bespoke.