



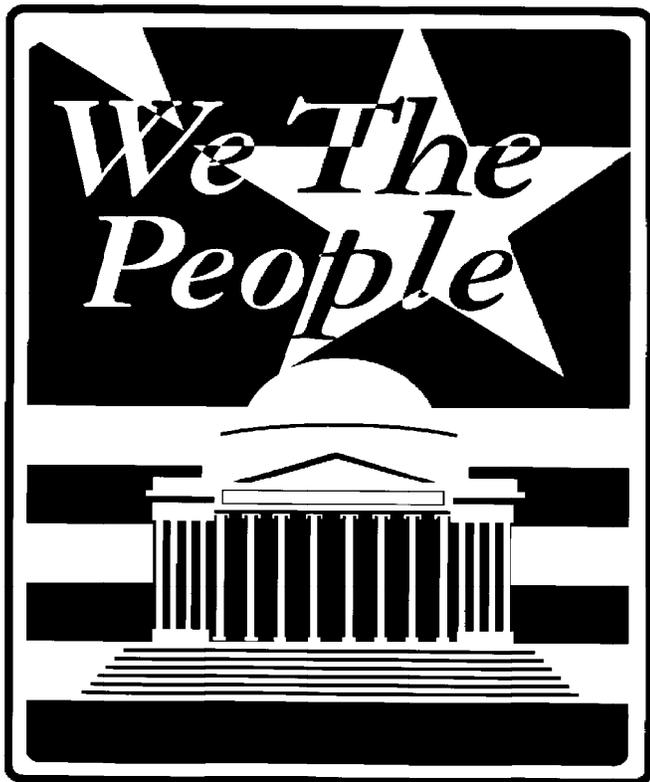
Department
of the
Treasury

Internal
Revenue
Service

Publication 516
Cat. No. 15020M

Tax Information for U.S. Government Civilian Employees Stationed Abroad

For use in preparing
1994 Returns



Introduction

This publication is designed to help U.S. Government civilian employees who are stationed abroad prepare their federal income tax returns. It discusses many of the allowances, reimbursements, and business expenses that U.S. Government employees, including members of the Foreign Service, are likely to receive or incur.

Foreign earned income exclusion. If you are a U.S. citizen working for the U.S. Government, you are liable for federal income taxes on the pay you receive from the Government, even though you are stationed abroad. You do not qualify, on that income, for the exclusion of foreign earned income or the exclusion or deduction of foreign housing.

Assigned to a foreign government. If you are a U.S. Government employee paid by a U.S. agency that assigned you to a foreign government to perform specific services, for which the agency is reimbursed by the foreign government, your pay is from the U.S. Government and does not qualify for the exclusions or the deduction.

Other employment. If you are a U.S. citizen employed overseas by the U.S. Government, you may qualify for the exclusions or the deduction if you also receive income from a private employer or are self-employed and meet either the bona fide residence test or the physical presence test. Your spouse who is a U.S. citizen or resident alien may also qualify if he or she earns income in a foreign country that is paid by a private employer or is from self-employment. Amounts paid by the United States or its agencies to you if you are not their employee may also qualify for the exclusions or the deduction.

Employees of post exchanges, etc. Earnings you receive as a U.S. citizen who is an employee of an Armed Forces post exchange, officers' and enlisted personnel club, Embassy commissary, and similar instrumentality of the U.S. Government, whether paid from appropriated or nonappropriated funds, are amounts paid by the U.S. These amounts are included in your gross income. They are not eligible for the exclusions or the deduction.

For more information on the foreign earned income exclusion, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Foreign tax credit. If you have paid or accrued foreign income tax and are subject to U.S. tax on foreign source income, you may be able to take a foreign tax credit. See Publication 514, *Foreign Tax Credit for Individuals*.

If you are a U.S. citizen in a U.S. possession, you should get Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*. The publication covers the special rules that apply to these taxpayers.

Terrorist or military action. U.S. income taxes are forgiven for U.S. Government civilian

employees who die as a result of wounds or injuries sustained outside the United States in a terrorist or military action directed against the United States or its allies. The taxes are forgiven for the deceased employee's tax years beginning with the year immediately before the year of injury and ending with the year of death.

If the deceased government employee and the employee's spouse filed a joint return, only the decedent's part of the joint tax liability is forgiven.

For additional details, see Publication 559, *Survivors, Executors, and Administrators*.

Desert Shield/Desert Storm participants. If you were a civilian who served in the Persian Gulf area combat zone providing support services for the U.S. Armed Forces, you can get certain "deadline extensions." Although the effective date for the combat zone designation is January 17, 1991, for "deadline extensions" the area designated as a combat zone is effective August 2, 1990.

Deadline extensions provide additional time for filing tax returns, paying taxes, buying a replacement residence to delay paying tax on the gain from the sale of your old residence, and certain other tax matters. For details about deadline extensions, combat zones, and related matters, see Publication 945, *Tax Information for Those Affected by Operation Desert Storm*.

Loss on conversion of U.S. dollars into foreign currency. The conversion of U.S. dollars into foreign currency at an official rate of exchange that is not as favorable as the free market rate does **not** result in a deductible loss.

Useful Items

You may want to see:

Publication

- 54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 463** Travel, Entertainment, and Gift Expenses
- 508** Educational Expenses
- 521** Moving Expenses
- 523** Selling Your Home
- 526** Charitable Contributions
- 917** Business Use of a Car

Form (and Instructions)

- Schedule A** (Form 1040) Itemized Deductions
- 2106** Employee Business Expenses
- 2106-EZ** Unreimbursed Employee Business Expenses
- 3903** Moving Expenses
- 3903-F** Foreign Moving Expenses
- 4868** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

- TD F 90-22.1** Report of Foreign Bank and Financial Accounts

Ordering publications and forms. To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

Telephone help for hearing impaired persons. If you have access to TDD equipment, you can call 1-800-829-4059 with your tax questions or to order forms and publications. See your tax package for the hours of operation.

Tax-Free Allowances

U.S. Government civilian employees may receive tax-free allowances, subject to certain conditions and limits, under the following laws:

- 1) **Title I, chapter 9 of the Foreign Service Act of 1980,**
- 2) **Section 4 of the Central Intelligence Agency Act of 1949,** as amended,
- 3) **Title II of the Overseas Differentials and Allowances Act** (subchapter III of chapter 59 of Title 5 of the United States Code), or
- 4) **Subsection (e) or (f) of the first section of the Administrative Expenses Act of 1946,** as amended, or **section 22 of that Act** (chapter 57 of Title 5 of the United States Code).

Your employer should not have included these tax-free allowances on your Form W-2, *Wage and Tax Statement*. Generally, the allowances cover expenses such as:

- Temporary quarters,
- Certain repairs to a home,
- Separate maintenance for dependents,
- Education of dependents in special situations,
- Travel, moving, and storage,
- Motor vehicle shipment, and
- Transportation for medical treatment.

For foreign service employees, allowances received for representation are also tax free under the above provisions.

American Institute in Taiwan. If you are an employee of the American Institute in Taiwan, allowances you receive are exempt from U.S. tax up to the amount that equals tax-exempt allowances received by civilian employees of the U.S. Government.

Cost-of-living allowances. If you are stationed in Alaska, Hawaii, or elsewhere outside of the 48 continental states and the District of Columbia, your gross income does not include

cost-of-living allowances (other than amounts received under Title II of the Overseas Differentials and Allowances Act) granted by regulations approved by the President of the United States. Cost-of-living allowances are not included on your Form W-2.

Federal court employees. Do not include in income cost-of-living allowances paid to you as a federal court employee.

Republic of Panama. Employees of the Panama Canal Commission and civilian employees of the Department of Defense stationed in Panama can exclude from their income certain allowances that are comparable to the allowances (listed as items 1 through 4, above) that can be excluded by employees of the State Department stationed in Panama. The overseas tropical differential paid to civilian employees is taxable.

Taxable Allowances

Post differentials, danger pay, and special incentive differentials, which are provided as financial incentives for employment under adverse conditions, such as severe climate, **are taxable. Your employer must include these incentives in your income.** If your agency does not include the amounts received as financial incentives in your wage and tax statement (Form W-2), you must report the total received during the year on line 21, Form 1040.

Other Allowances

Other allowances you receive may or may not have to be included in your income.

Allowances or reimbursements you receive to cover travel and transportation expenses. See *How to Report*, later, for a discussion on whether a reimbursement or allowance arrangement is included in your income.

Lodging furnished to a principal representative of the United States. Lodging (including utilities) furnished as an official residence to you as principal representative in a foreign country is tax free. However, amounts paid or deducted from your salary to cover Government payment of your usual household expenses (which you must bear) are taxable (and are not deductible).

Peace Corps. If you are a Peace Corps volunteer or volunteer leader, some allowances you receive are taxable and others are not.

Taxable allowances must be included on your Form W-2 and reported on your return as though they were wages. These include:

- 1) Cash allowances received during training,
- 2) Allowances paid to your spouse and minor children while you are training in the United States,

- 3) The part of living allowances designated by the Director of the Peace Corps as “basic compensation.”
- 4) The part of living allowances for personal items such as domestic help, laundry and clothing maintenance, entertainment and recreation, transportation, and other miscellaneous expenses,
- 5) Leave allowances, and
- 6) Readjustment allowances or “termination payments.” These are considered received by you when credited to your account.

Example. Gary Carpenter, a Peace Corps volunteer, gets up to \$175 a month during his period of service, to be paid to him in a lump sum at the end of his tour of duty. Although the allowance is not available to him until the end of his service, Gary must include it in his income on a monthly basis as it is credited to his account.

Nontaxable allowances generally include travel and living allowances, whether paid by the U.S. Government or the foreign country in which you are stationed. The part of living allowances for housing, utilities, food, clothing, and household supplies is not taxable and will not be included on your Form W-2.

Other Items of Taxable Income

Republic of Panama. Income earned by any citizen or resident of the United States is not exempt from U.S. taxation by any section of the Panama Canal Treaty. However, certain allowances can be excluded. See *Tax-Free Allowances*, earlier.

Reemployment after serving with an international organization. Amounts received by a federal employee according to section 3582(b) of Title 5, United States Code, are taxable. This applies to federal employees who are reemployed by a federal agency after serving with an international organization.

These amounts are equal to the difference between the pay, allowances, post differential, and other monetary benefits paid by the international organization and the pay and other benefits that would have been paid by the federal agency had the employee been **detailed** to the international agency. The amount paid upon reemployment does not qualify as a tax-exempt allowance discussed earlier under *Tax-Free Allowances*.

Sale of personal property. If you have a profit from the sale abroad of your personal property (such as an automobile or a home appliance) whether directly or through a favorable exchange rate in converting the proceeds to U.S. dollars, the excess of the amount received in U.S. dollars over the cost or other basis of the property is a capital gain. Capital gains are reported on Schedule D

(Form 1040), *Capital Gains and Losses*. However, losses from sales of your personal property, whether directly or through an unfavorable exchange rate, are not deductible.

Sale of your home. The gain on the sale of your main home (within or outside the United States) is generally not taxed at the time of sale if you buy or build and live in another home within 2 years before or 2 years after the sale. The cost of the new home must be equal to or more than the adjusted sales price of the old home.

Suspension of replacement period. The 2-year replacement period after the sale of your old home is suspended while your tax home (the place where you live and work) is outside the United States. However, the replacement period, plus the period of suspension, cannot last for more than 4 years after you sell your home.

For more information see Publication 523.

Deductible Expenses—Travel and Transportation

Two deductions that may be of special interest to you are discussed here: those for travel expenses and transportation expenses.

Unreimbursed employee business expenses are deductible only as miscellaneous itemized deductions.

Miscellaneous itemized deductions are subject to a 2% floor (with certain exceptions that generally do not apply to expenses discussed in this publication). You can deduct the part of these expenses that is more than 2% of your adjusted gross income.

Travel Expenses

Subject to certain limits, you can deduct the reasonable and necessary unreimbursed expenses of travel, meals, and lodging **while away from home** in connection with the performance of your official duties. These expenses also include such items as baggage charges, local transportation costs (such as taxi fares), reasonable tips, and reasonable cleaning and laundry fees.

Your home for tax purposes is your regular post of duty regardless of where you maintain your family home. This term is not limited to the embassy, consulate, or duty station, but includes the entire city or general area in which your principal place of employment is located.

You are away from home if you have to be away from the general area of your tax home for a period substantially longer than an ordinary day’s work, and to meet the demands of your work while away from home you need to get sleep or rest. However, this rest requirement is not satisfied by merely napping in your car. You do not have to be away from your tax home for an entire 24-hour day or from dusk to dawn as long as your relief from duty is long enough to get necessary sleep or rest.

If your assignment or job away from your tax home is **temporary**, your tax home does not change. You are considered to be away from home for the whole period, and your travel expenses are deductible.

If you expect your employment away from home in a single location to last, and it does last, for 1 year or less, it is temporary unless facts and circumstances indicate otherwise. If you expect it to last for more than 1 year or you do not expect it to last for 1 year or less, it is indefinite. If you expect it to last for 1 year or less, but at some later date you expect it to last longer than 1 year, it is temporary in the absence of facts and circumstances indicating otherwise until your expectation changes.

Limit on meals and entertainment. You can only deduct 50% of the cost of your unreimbursed business-related meals and entertainment. The limit does not apply to expenses reimbursed under a U.S. Government expense allowance arrangement.

Not all travel expenses are deductible. If your trip was mainly personal, you cannot deduct your travel expenses to and from the destination. This applies even if you engage in business activities while there. However, expenses while at your destination that are directly related to your business are deductible.

If your trip was entirely for business, all of your unreimbursed travel expenses are generally deductible. However, if you spend some of your time on nonbusiness activities, part of your expenses may not be deductible. See Publication 463.

Travel expenses of your spouse, dependents, domestic servants, or other individuals who go with you on a trip ordinarily are not deductible.

Home leave. The Foreign Service Act requires U.S. citizens who are members of the foreign service to take a leave of absence after completing 3 years of continuous service abroad. This period is called **home leave** and can be used to take care of certain personal matters such as medical and dental checkups, buying a new wardrobe, and visiting relatives.

The amounts paid for travel, meals, and lodging while on home leave are deductible as travel or business expenses subject to the limits discussed earlier. You must be able to verify these amounts in order to claim them. Amounts paid on behalf of your family while on home leave are personal living expenses and are not deductible.

Transportation Expenses

Transportation expenses include the cost of transportation by air, rail, bus, or taxi, and the cost of driving and maintaining your car. They do not include the cost of meals and lodging or other expenses for travel while you are away from home. You can deduct allowable transportation expenses that are directly related to your official duties. You must complete Parts II and III of Form 2106-EZ or Part II of Form 2106 to take a deduction for auto expenses.

If you use your car for both personal and business purposes, you must divide your expenses between business and personal use. You figure deductible car expenses using the business percentage of depreciation, gasoline, repairs and similar expenses. To determine the business percentage, divide the business miles driven by the total miles the car was driven for the year.

Standard mileage rate. For 1994, you may use the standard mileage rate of 29 cents a mile for all business miles. You may use this rate instead of actual operating costs.

You cannot use the standard mileage rate if you depreciated your car in the past by any method other than the straight-line method or if you claimed additional first year depreciation or the section 179 deduction. You also must own the car, must not use it for hire (such as a taxi), and must not operate a fleet of cars, using two or more cars at the same time. Also, if you use an Accelerated Cost Recovery System, you cannot use the standard mileage rate in a later year.

For more information on the business use of cars see Publication 917.

New Form 2106-EZ, Unreimbursed Employee Business Expenses. You may be able to use the 1994 Form 2106-EZ, instead of the more complex Form 2106, for reporting unreimbursed employee business expenses. You can use it if you:

- Are an employee deducting expenses attributable to your job,
- If you are claiming vehicle expense, you own your own vehicle, and used or will use the standard mileage rate for the year you first placed the vehicle in service and for 1994, and
- Do not get reimbursed by your employer for any expenses. (Amounts your employer included in box 1 of your Form W-2 are not considered reimbursements.)

Expenses for commuting between your home and your regular business location are not deductible. If you have one or more regular business locations, but must work at a temporary location, you can deduct the costs of commuting to that temporary place of work. The temporary work must be irregular or short term (generally, a matter of days or weeks). However, if you work at two or more different places in the same day, you can deduct your expenses of getting from one place of work to the other.

Recordkeeping Rules

You must keep adequate and detailed records of all your business expenses if you claim a deduction for business expenses that are greater than reimbursements you receive.

Travel. You must keep records and supporting evidence to prove the following elements

about deductions for traveling expenses (including meals and lodging while away from home):

- 1) The amount of each separate expense for travel away from home, such as the cost of your transportation or lodging. But the daily cost of your breakfast, lunch, dinner, and other incidental expenses may be totaled if they are listed in reasonable categories, such as meals, gasoline and oil, and taxi fares,
- 2) The dates of your departure and return for each trip away from home, and the number of days spent on business away from home,
- 3) The destination or locality of your travel, described by name of city, town, or similar designation, and
- 4) The business reason for your travel or the business benefit gained or expected to be gained from your travel.

Records for substantiation of your travel expenses should be kept in an account book, diary, statement of expense, or similar record. They should be supported by other records, such as receipts or canceled checks, in sufficient detail to establish the elements for these expenses. You do not need to duplicate information in an account book or diary that is shown on a receipt as long as your records and receipts complement each other in an orderly manner.

Your records must be timely. Record the expense in your account book or other record at or near the time you incur the expense. Entries made later, when there is a lack of accurate recall, will not comply with these rules.

Each expense should be recorded separately in your records. However, some items may be totaled in reasonable categories. You can make one daily entry for categories, such as cab fares, telephone calls, meals while away from home, gas and oil, and other incidental costs of travel. Tips may be grouped either with the cost of the service rendered to you or recorded separately.

Documentary evidence generally is required to support all expenses for lodging while traveling away from home. It is also required for any other expense of \$25 or more, except transportation charges if the evidence is not readily available. Documentary evidence is a receipt, paid bill, or similar proof sufficient to support an expense. Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential business character of the expense.

An example of a document that is not adequate evidence is a canceled check made out to an individual if it is not combined with other evidence to show that the check was used for a business purpose.

Confidential information relating to an element of a deductible expense, such as the place, business purpose, or business relationship, need not be put in your account book, diary, or other record. However, the information has to be recorded elsewhere at or near the time of the expense and be available to fully prove that element of the expense.

How to Report

The following discussions explain how to report your allowable employee business expenses and how to report your reimbursement or allowance for employee business expenses.

Generally, your reimbursement is not included with your wages in box 1 of your Form W-2. Any amounts your employer includes in box 1 of Form W-2 are not considered reimbursement. If your expenses are not more than the reimbursement, you do not need to show them on your return. However, if your actual expenses were more than your reimbursement, complete Form 2106 and deduct your expenses on Schedule A (Form 1040) subject to the 2% of adjusted-gross-income floor. You must include all of your expenses and reimbursements on Form 2106. If you do not receive any reimbursement, you may be able to use Form 2106-EZ.

If you do not account to your employer for a travel advance, or if you do not return any excess advance, within a reasonable period of time, the advance (or excess) will be included in box 1 of your Form W-2. You must complete Form 2106 or 2106-EZ to deduct your expenses. Follow the instructions for those forms to determine what expenses and reimbursements must be included. For more information, see Publication 463.

Unclaimed Reimbursement

If you could claim reimbursement from your employer but do not, you cannot deduct the expenses to which that reimbursement applies.

Other Deductible Expenses

In addition to the deductible business travel and transportation expenses, you are entitled to deduct certain other expenses.

Moving Expenses

Beginning in 1994, moving expenses are deductible **only** on Form 1040. (Moving expenses incurred before 1994 are deductible on Schedule A (Form 1040).) You must meet the distance and time requirements discussed later. Form 3903-F is used to compute allowable deductions for foreign moves. Form 3903 is used for all other moves. After you figure your allowable moving expenses on Form 3903-F (or Form 3903), carry the total over to line 24 of Form 1040.

If you changed job locations or started a new job, you can deduct the reasonable expenses of moving yourself, your family, and your household goods and personal effects to your new home.

Special rules apply if your move is to a new job location outside the United States. See *Foreign moves*, later in this discussion.

If you are a U.S. Government employee, you cannot deduct any expenses for which you receive a tax-free allowance.

You may be able to deduct moving expenses if you meet the following requirements.

Distance. Your new job location must be at least 50 miles farther from your former home than your old main job location was. If you did not have an old job location, your new job location must be at least 50 miles from your former home.

Time. If you are an employee, you must work full time for at least 39 weeks during the 12 months after you arrive in the general area of your new job location.

Closely related to the start of work. The move must be connected, both in time and in place, with the start of work at the new location. In general, you must have incurred your moving expenses within one year from the time you first report to your new job or business.

A move generally is not considered reasonably related in place to the start of work if the distance from your new home to the new job location is more than the distance from your former home to the new job location. A move that does not meet this requirement may qualify if you can show, for example, that you must live at the new location as a condition of employment, or you will spend less time or money commuting from the new home to the new job.

Deductible moving expenses. Included are the reasonable costs of:

- 1) Moving household goods and personal effects (including packing, crating, in-transit storage, and insurance) of both you and members of your household, and
- 2) Transportation and lodging for yourself and members of your household for one trip from your former home to your new home (including costs of getting passports).

Meals. Meals are not moving expenses for this purpose.

Expenses must be reasonable. You can deduct only those expenses that are reasonable for the circumstances of your move. For example, the costs of traveling from your former home to your new one should be by the shortest, most direct route available by conventional transportation.

A member of your household includes anyone who has both your former and new home as his or her home. It does not include a tenant or employee unless you can claim that person as a dependent.

Retirees. You can deduct the costs of moving to the United States when you retire if both your former main job location and former home were outside the United States and its possessions. You do not have to meet the *Time* requirement mentioned earlier. However, you must meet the other requirements.

Survivors. You can deduct moving expenses for a move to the United States if you are the

spouse or dependent of a person whose main job location at the time of death was outside the United States and its possessions. The move must begin within 6 months after the decedent's death. It must be from the decedent's former home outside the United States. That home must also have been your home. You do not have to be a full-time employee or to be self-employed at the new location. However, you must meet the other requirements previously discussed.

Foreign moves. If you move to a new job location outside the United States and its possessions, the rules discussed before under *Deductible moving expenses*, apply, except that they are changed as follows.

The costs of moving household goods include the reasonable expenses of moving household goods and personal effects to and from storage. Also included are expenses of storing the goods and effects for part or all of the period that your new job location abroad continues to be your main job location.

Reimbursements. Except for certain tax-free allowances received by U.S. Government employees, you must include all reimbursements of, or payments for, nondeductible moving expenses in gross income for the year paid. If your employer paid for any nondeductible moving expenses, you must report that amount as income on line 7, Form 1040. Your employer should include the amount paid in box 1, *Wages, tips, other compensation*, on your Form W-2, *Wage and Tax Statement*. A separate Form W-2 may be provided.

Additional information. For additional information about moving expenses, see Publication 521.

Publication 521, Form 3903-F, and Form 3903 are available at U.S. Embassies and consular offices, or by writing to the appropriate Distribution Center listed in your tax forms package.

Other Itemized Deductions

You may be able to deduct as miscellaneous itemized deductions other expenses that are connected with your employment. Miscellaneous itemized deductions generally are subject to a 2% floor. You can deduct only that part of your miscellaneous deductions that is more than 2% of your adjusted gross income.

Membership dues in professional societies relating to your business or profession are deductible.

Subscriptions to professional publications relating to your business or profession are deductible.

Educational expenses. Generally, educational expenses are considered to be personal expenses and are not deductible. However, under some circumstances, educational expenses of civilian employees of the government are deductible business expenses.

You may deduct expenses for education that maintains or improves skills required in your present position, or meets the express requirements of your agency to keep your present position, salary, or status.

You cannot deduct the expenses for education to meet minimum educational requirements for qualification in employment. Nor can you deduct the expenses for education that is a part of a program of study leading to qualifying you for a new position. This is true even if the education is required by your agency, or it maintains or improves skills required in your work.

Expenses for travel as a form of education are **not** deductible.

See Publication 508 for more information.

Foreign service representation and official residence expenses. As an employee of a U.S. Government agency overseas, you can deduct representation expenses and, as a principal representative, you can deduct official residence expenses. To be deductible, your expenses must be more than amounts you received under appropriate legislation as representation allowances or official residence expenses, provided:

- 1) These excess expenses are supported by a certificate from the Secretary of State attesting that they were incurred for the benefit of the United States, and
- 2) These expenses would be reimbursable under appropriate legislation if the agency had sufficient funds for these reimbursements.

You should request the certificate from the certifying officer at the post where you claim the expenses. The request must be made in accordance with 4 FAM 824. In addition, the expenses must be of the types authorized by chapters 300 and 400 of Standardized Regulations (Government Civilian, Foreign Area).

These regulations state what are and what are not allowable representation expenses and official residence expenses. Among the items not allowable are the amounts a principal representative must pay personally to cover the usual expenses incident to the operation and maintenance of the official residence. These regulations are available at U.S. Embassies and consular offices.

Certificates must be signed by authorized certifying officers to be valid. Certificates signed by other State Department officials or employees are **not** valid.

If the excess expenses are not supported by a certificate from the Secretary of State, you can still deduct them on Schedule A (Form 1040) if they are ordinary and necessary in performing your official duties.

To be deductible, excess expenses for travel, entertainment, and gifts, including those certified by the Secretary of State, must comply with the rules for recordkeeping and accounting to your employer.

If your representation or official residence expenses are incurred and paid in one tax year and you are reimbursed in a later tax year, the reimbursement received will not be included

on your return in the year the expenses are claimed.

If you itemize deductions, report on Schedule A (Form 1040) the deductible representation or official residence expenses you pay during the year that are more than the reimbursement received during that year. This is so even though the reimbursement may be for a different tax year. However, you must report all expenses and reimbursements on Form 2106. These unreimbursed expenses are subject to the 2% floor discussed previously.

Impairment-related work expenses. If you are handicapped, you can deduct attendant-care services at your place of work and other expenses in connection with work that are necessary for you to be able to work. Attendant care includes a reader for a blind person and a helper for a person with physical disability. These expenses are reported on Form 2106 and carried to Schedule A (Form 1040). They are not subject to the 2% of adjusted-gross-income floor on miscellaneous deductions.

Contributions. Contributions to qualified organizations created or organized within the United States, or its possessions, or under their laws, can be deducted. Contributions you make directly to foreign charities (except for certain Canadian and Mexican organizations), churches, and governments or their political subdivisions are not deductible. For more information see Publication 526.

Foreign taxes. You can deduct a foreign country's real property tax on Schedule A (Form 1040) if you itemize your deductions. You are also allowed either an itemized deduction or a foreign tax credit for foreign income taxes.

Foreign taxes that are not deductible include personal property, sales, and gasoline taxes. If these taxes are incurred and paid in performing your official duties, they may be deductible as business expenses as described earlier under *Deductible Expenses — Travel and Transportation*. For more information about foreign income tax deductions and credits, see Publication 514, *Foreign Tax Credit for Individuals*.

Limit on deductions. If you receive a tax-free housing allowance, your itemized deductions for real estate taxes and home mortgage interest are limited. You must reduce each deduction otherwise allowable to the extent the expenses are allocable to the tax-free allowance.

Required statement. If you receive a tax-free housing allowance and have real estate tax or home mortgage interest expenses, attach a statement to your tax return. The statement must contain all of the following information:

- 1) A list of each class of taxable income by class plus the amount,
- 2) A list of each item of tax-free housing allowance income plus the amount,
- 3) A list of each item of otherwise deductible expense plus the amount,

- 4) An explanation of how you figured the nondeductible part of your otherwise allowable expenses, and
- 5) A statement that the other expenses on your tax return are not allocable to tax-free income.

Exception. If you receive a tax-free housing allowance and you are a member of:

- Any branch of the Armed Forces,
- The National Oceanic and Atmospheric Administration, or
- The Public Health Service,

you are exempt from this rule. This means you can deduct all the real estate tax and home mortgage interest expenses you are otherwise entitled to deduct.

Example. Adam is an I.R.S. employee working overseas who receives a \$6,300 tax-free housing and utility allowance. During the year, Adam used the allowance, with other funds, to provide a home for himself. His expenses for this home totaled \$8,400 and consisted of principal (\$500), insurance (\$400), real estate taxes (\$1,400), home mortgage interest (\$4,000), and utility costs (\$2,100). Adam did not incur any other expenses related to providing a home for himself.

Adam must limit his deductions for home mortgage interest and real estate taxes. The following is a reasonable way to limit the deductions. The \$4,000 home mortgage interest deduction otherwise allowable is decreased by \$3,000. This is figured by multiplying \$4,000 by a fraction. Its numerator is \$6,300 (the total housing and utility allowance) and its denominator is \$8,400 (the total of all payments to which the housing and utility allowance applies). Therefore, the interest deduction is \$1,000 (\$4,000 – \$3,000). The \$1,400 real estate tax deduction otherwise allowable is decreased by \$1,050. It is figured by multiplying \$1,400 (the deduction otherwise allowable) by the same fraction as used above. The allowable itemized deduction for real estate taxes is \$350 (\$1,400 – \$1,050).

When to File

If you file on the calendar-year basis, the due date for filing your return is April 15 following the close of your tax year. When the due date falls on a Saturday, Sunday, or legal holiday, you may file on the next business day. However, if you are living outside the United States and Puerto Rico, and your (or your spouse's, if you file a joint return) main place of business or post of duty is outside the United States and Puerto Rico on the due date, you are automatically granted an extension of time to file your return and pay any tax due until June 15, 1995. You must pay interest on any unpaid tax from the due date (April 17, 1995) until paid.

Your return is considered filed on time if it is postmarked on or before midnight of the due date for filing the return (including any extensions).

Statement required. If you take advantage of the 2-month extension of the due date, you must attach a statement to your return explaining how you qualified for the extension.

Automatic 4-month extension of time to file. You can get an automatic 4-month extension of time to file from the regular due date for your return (April 17 for calendar-year taxpayers) by filing Form 4868. You must file Form 4868 by the due date for your income tax return.

If you qualify for the automatic extension until June 15 because your tax home and your post of duty are outside the United States and Puerto Rico, the 4-month extension runs concurrently with the 2-month extension. You must file Form 4868 by the due date for your return as extended by the 2-month extension. Thus, if you file Form 4868 by June 15, 1995, you have until Tuesday, August 15, 1995, to file your return.

You should pay the properly estimated tax when you file Form 4868. However, you can get the 4-month extension without paying the tax, provided you properly estimated the tax liability. If you do not pay the tax due, you may be charged a late-payment penalty. Interest on the unpaid tax liability will run from the original due date of the return. The late-payment penalty will not apply if, through withholding, etc., you paid at least 90% of your actual tax liability by the original due date of your income tax return.

Foreign Bank Accounts

You must file Form TD F 90–22.1, if at any time during the year you had an interest in, or signature or other authority over, a bank account, securities account, or other financial account in a foreign country. This applies if the combined assets in the account(s) were more than \$10,000. Do not include accounts in a U.S. military banking facility operated by a U.S. financial institution.

File the completed form with the IRS Data Center, P.O. Box 32621, Detroit, MI 48232, by June 30 of the following year.

Form TD F 90–22.1 is available from Internal Revenue offices and at most U.S. Embassies and consular offices.

Tax Forms and Publications

During the filing period, you can get the necessary federal income tax forms and publications from U.S. Embassies and consulates.

You can also call your nearest U.S. Embassy or consulate, or the IRS office numbers listed below to find out when and where assistance will be available. Taxpayer assistance is also available at most of the cities listed. These IRS telephone numbers include the country and city codes required if you are outside the local dialing area. The Nassau and Ottawa numbers include the U.S. area codes.

Bonn, Germany	(49)	(228)	339-2119
Caracas, Venezuela	(58)	(2)	285-4641
London, England	(44)	(71)	408-8076
Mexico City, Mexico	(52)	(5)	211-0042 Ext. 3557
Nassau, Bahamas		(800)	829-1040
Ottawa, Canada		(613)	563-1834
Paris, France	(33)	(1)	4296-1202
Riyadh, Saudi Arabia	(966)	(1)	488-3800 Ext. 1210
Rome, Italy	(39)	(6)	4674-2560
S'ao Paulo, Brazil	(55)	(11)	881-6511 Ext. 287
Singapore	(65)		338-0251 Ext. 247
Sydney, Australia	(61)	(2)	373-9194
Tokyo, Japan	(81)	(3)	3224-5466

Internal Revenue Service
Assistant Commissioner (International)
Attn: CP:IN:C:TPS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

If you need help and cannot get it from these sources, write to the Internal Revenue office where you will file your return.

If you need a form or publication, you may also write to the appropriate Distribution Center listed in your tax forms package. Within the United States, you may call 1-800-TAX-FORM (1-800-829-3676) to get forms or publications.

If you have a question about a return you filed, write to the Internal Revenue Service Center where you filed your return.

If you need information on a subject that is not covered in this publication, check our other free publications. For assistance within the United States, call the Internal Revenue Service office listed in the telephone directory. If you are located outside the United States, write to the Internal Revenue Service, Assistant Commissioner (International), Attn: CP:IN:C:TPS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024.

The IRS has combined special forms and instructions as well as publications in Publication 776, *Overseas Filers of Form 1040 (Supplemental Package)*, for U.S. citizens and residents living abroad. You can get the package and additional assistance by writing to:

