

Income From Foreign Sources

I

Many United States citizens earn money from foreign sources. These taxpayers must remember that they must report all such income on their tax return, unless it is exempt under federal law.

U.S. citizens are taxed on their worldwide income. This applies whether a person lives inside or outside the United States. The foreign income rule also applies regardless of whether or not the person receives a Form W-2, Wage and Tax Statement, or a Form 1099 (information return).

Foreign source income includes earned and unearned income, such as:

- **Wages and tips**
- **Interest**
- **Dividends**
- **Capital Gains**
- **Pensions**
- **Rents**
- **Royalties**

An important point to remember is that citizens living outside the U.S. may be able to exclude up to \$80,000 of their 2005 foreign source income if they meet certain requirements. However, the exclusion does not apply to payments made by the U.S. government to its civilian or military employees living outside the U.S.

For more information, check out IRS Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad. It's available on the IRS Web site at IRS.gov or by calling 1-800-TAX-FORM (1-800-829-3676).