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FOR IMMEDIATE RELEASE  
ALL HANDS – THEATER WIDE

**Expat Tax Alert – Important Tax Issues**      **October 2008**

**2008 FOREIGN EARNED INCOME EXCLUSION** – Qualifying Expats can exclude up to **\$87,600** in Foreign Earned Income (FEI). No adverse changes to the tax treatment of Expats are expected. However, in light of the current political and economic uncertainty one can never tell. That is why we have created the Expat Political Action Committee (EPAC) to protect, promote and preserve US Expat rights in Washington, DC. More on EPAC in future tax alerts.

**ECONOMIC STIMULUS PAYMENT** – To receive the stimulus payment by the end of the year you must file by 10/15/08. If you have not filed by 10/15/08, don't panic, taxpayers who do not receive economic stimulus payment in 2008 can still qualify in 2009.

**IRS CRACKS DOWN ON LATE FILING EXPATS** – To receive the FEI exclusion, the IRS requires that you file within 1 year from the original due date of the return (determined without regard to any extensions). The IRS has recently issued guidance to begin enforcing this long overlooked tax rule. If you have not filed your Expat tax returns for 2006 and earlier years, please contact us ASAP to discuss your options. **Worse case scenario - if you owe taxes the IRS can disallow your FEI exclusion, even if you have earned it, thus making 100% of all of your earnings taxable without any benefit of the FEI exclusion.** Working in a combat zone does not guarantee Expats any relief from the IRS.

**PER DIEM – TAXABLE TO EXPATS** – The taxability of per diem is determined whether or not an assignment is considered Temporary or Indefinite. Per diem received on contracts lasting 12 months or less (Temporary) are typically tax free. Per diem received on contracts lasting 12 months or more (Indefinite) are typically NOT tax free. Per diem is always taxable at your IRS defined Tax Home. Typically, the first 365 of an assignment has tax free per diem and per diem then becomes taxable on day 366. Keep in mind not all companies pay per diem and not all companies treat per diem the same.

**EOC R&R IN THE US** – End of contract (EOC) R&R's in the US count against your 35 days allowed in the US for the Physical Presence Test (PPT), if they fall in the twelve month period you are using to calculate the PPT.

- The **Rule of Thumb** is that you **MUST have 330 full days in a foreign country every twelve months**. So this gives you in essence 35 days to be in the US, possessions or territories. You can pick the twelve-month period that benefits you the most; it does not always have to be a calendar year or contract to contract period (although those are the most common test periods).
- Full day defined - starts at midnight and runs 24 hours.
- There are NO WAIVERS or SPECIAL PRO-RATIONS for Expats who do not meet the minimum 330 day rule.
- There are NO COMBAT ZONE SPECIAL treatment.

Palazzo & Company, PLLC is a firm of Certified Public Accountants and Professional Advisors serving Expats in over 25 foreign countries.

**Expat Tax Alert – Informational Purposes Only!**