

IRS TAX TIP 2004-36

FOREIGN INCOME

With more and more United States citizens earning money from foreign sources, the IRS reminds people 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 income, such as wages and tips, and unearned income, such as interest, dividends, capital gains, pensions, rents and 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 2003 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 www.irs.gov or by calling toll free 1-800-TAX-FORM (1-800-829-3676).

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