



## **PROFESSIONAL JUDGMENT**

### **TOPIC: Foreign Income**

#### **IM STANDARD TREATMENT**

The standard IM treats income earned in a foreign country in the same way as income earned in the United States. Income excluded from U.S. income taxation (Foreign Income Exclusion) is treated as untaxed income. If an IRS form filer leaves "U.S. taxes paid" blank, a federal income tax is computed and used in the need analysis calculation. For non-IRS form filers, the reported taxes paid value is always used, even if it is zero. The state tax allowance is calculated only for income reported on an IRS form; otherwise, the state taxes are collected in the federal taxes paid question. FICA is computed for IRS form filers based on "income earned from work."

#### **FM STANDARD TREATMENT**

FM treats foreign income in the same manner as IM; however, the foreign income exclusion is not collected as an untaxed income source and a state tax allowance is always calculated

#### **WHY PROFESSIONAL JUDGMENT MIGHT BE APPROPRIATE**

Income earned by a U.S. citizen in another country that qualifies for the Foreign Income Exclusion and is reported on a U.S. IRS tax form is treated as untaxed income in the IM. The IM does assess a family's contribution relative to the economy in which they live, but the federal taxes paid may not capture the taxes paid against that income in the country in which the income was earned.

For FM, it should be noted that a foreign government may not have an income tax, thereby allowing the student (and parents) to apply as a non-tax filer and potentially shelter existing assets via the "automatic zero" or "simple needs" FM methodologies.

#### **HOW IM COULD BE ADJUSTED**

The aid administrator may want to consider the following adjustments:

- If the family is required to pay income tax to another country, use the total actual tax paid as "U.S. tax paid."
- If the family paid other than income taxes to another country, add together all taxes paid, subtract all computed FICA, state and local allowances that do not apply, and use the difference as "U.S. tax paid." Prorate if the family lived in the U.S. part of the time, or if one wage earner lived abroad and the other worked in the U.S.

- If the family incurred non-discretionary additional costs as a result of living abroad, determine what those expenses are and further increase the U.S. tax paid to allow a reasonable amount of these expenses.

## **HOW FM COULD BE ADJUSTED**

An FM adjustment could be made in the same way as IM. Additionally, the tax filing status could be changed to allow the methodology to include assets in determining the family's ability to pay.

## **HOW COLLEGE BOARD SERVICES SUPPORT PJ**

### **CSS/Financial Aid PROFILE**

PROFILE question PI-220 collects the amount of foreign income exclusion the parents reported on IRS Form 2555 or 2555-EZ.

Families will report additional information in Section ES. This is a good place to look for information about special family circumstances that affect the family's ability to pay for college, including cost of living differences.

Institutions may select Supplemental Question 128, which asks for the value of assets held in a country outside the U.S.

## **DOCUMENTATION**

All changes should be documented.

The aid administrator may want to collect:

- Copies of foreign tax returns and other tax information. These may need to be official translations with currency exchange rates.
- Documentation of liquid and non-liquid assets and their impact on family financial strength.
- Explanation of current laws pertaining to the transfer of funds outside the country of origin.