

# 1040 DOE CASE STUDY FACTS (CASDOM)

In 2024, John Doe's employer transferred him from Texas to the company's London office. John and Mary Doe and their two children moved to London.

John Doe received various allowances and non-cash benefits while on foreign assignment. He also ran a consulting business, with all income earned in London.

During 2024, John Doe made one trip to the US on business.

The Does received interest income from the United Kingdom and from the US. They paid British taxes.

Mary Doe was not employed.

## TARGETED AREAS

- Foreign income, Schedule C
- Foreign income interest
- Physical presence test
- Foreign earned income
- Foreign tax credit

## RETURN INFORMATION

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# RETURN INFORMATION

Some data is already entered for you. Use the [Data Entry \(page 9\)](#) section for instructions and hints on entering any data you are unsure how to enter. You should verify all the information when it has changed or is missing based on the information in these facts.

## TAXPAYER INFORMATION

|  | TAXPAYER   | SPOUSE             |
|--|--|--------------------|
| NAME   | <i>John M. Doe</i>                               | <i>Mary K. Doe</i> |
| ADDRESS  | <i>76 Coombe Road<br/>London, England KT27AH</i> |                    |
| SSN  | <i>777-77-7777</i>                               | <i>888-88-8888</i> |
| DOB  | <i>01/01/1964</i>                                | <i>03/01/1967</i>  |
| EMPLOYMENT   | <i>Field Representative</i>                      | <i>Homemaker</i>   |
| PRESIDENTIAL ELECTION CAMPAIGN FUND?   | <i>No</i>  |                    |
| FILING STATUS  | <i>Married, Filing jointly</i>                   |                    |
| FOREIGN COUNTRY, INTEREST IN OR SIGNATURE AUTHORITY OVER A FINANCIAL ACCOUNT | <i>United Kingdom</i>                            |                    |

## DEPENDENT INFORMATION

| NAME                  | SSN                | DATE OF BIRTH     |
|-----------------------|--------------------|-------------------|
| <i>Kent Doe (Son)</i> | <i>555-22-7654</i> | <i>10/01/2019</i> |
| <i>Mark Doe (Son)</i> | <i>555-33-1234</i> | <i>12/02/2011</i> |

## SAVINGS ACCOUNTS, BONDS, AND OTHER INTEREST

|                     |          |
|---------------------|----------|
| INTEREST INCOME, US | \$10,000 |
| FOREIGN             | \$5,000  |

## PROFIT OR LOSS FROM BUSINESS

|  |  |
|--|--|
| BUSINESS NAME  | <i>Doe Consulting</i>                            |
| BUSINESS ADDRESS   | <i>76 Coombe Road<br/>London, England KT27AH</i> |
| PRINCIPAL BUSINESS   | <i>Consultant</i>                                |
| BUSINESS CODE  | <i>541600</i>                                    |
| ACCOUNTING METHOD  | <i>Cash</i>                                      |
| INVENTORY VALUATION  | <i>Cost</i>                                      |
| ALLOCABLE TO SECTION 911 INCOME<br>100% FOREIGN EARNED INCOME<br>CONSULTING FEES | <i>\$75,000</i>                                  |
| MISCELLANEOUS EXPENSES   | <i>\$25,000<br/><i>subject to scaledown</i></i>  |

## FOREIGN RESIDENCE - GENERAL INFORMATION

The Does will be residing/maintaining a tax home outside the US on April 15, 2024, and an automatic extension is desired.



Leading zeroes on the activity number will not display on the screen.

|                  |   |
|------------------|---|
| SET NUMBER       | 1   |
| EMPLOYER         | <i>RLC, a US company</i>                      |
| EMPLOYER ADDRESS | <i>US, Texas;<br/>Foreign, United Kingdom</i> |

## PHYSICAL PRESENCE TEST INFORMATION

Principal country of employment during 2024 was the United Kingdom.

### TRAVEL DAYS

| DESTINATION    | ARRIVAL DATE | DEPARTURE DATE                                     |
|----------------|--------------|--|
| UNITED KINGDOM | * 01/01/2024 | 08/31/2024   |
| UNITED STATES  | 08/31/2024   | 09/15/2024<br><i>10 Business Days worked in US</i> |
| UNITED KINGDOM | 09/15/2024   | <i>No departure date, presence continues.</i>      |

\* Physical presence began.

## FOREIGN EARNED INCOME EXCLUSION

|                            |          |
|----------------------------|----------|
| TOTAL FOREIGN HOUSING COST | \$37,700 |
|----------------------------|----------|

## FOREIGN EARNED INCOME COMPENSATION

 Wages are foreign source during the foreign assignment.

| ALLOCATION PERIOD  |  | 2024              |
|--|--|-------------------|
| <b>NON-CASH REMUNERATION EARNED WHILE ON FOREIGN ASSIGNMENT AND ALLOCATED TO DAYS WORKED IN THE US</b>     | Home   | <b>\$18,000</b>   |
|  | Car  | <b>\$5,000</b>    |
| <b>ALLOWANCES/REIMBURSEMENTS EARNED WHILE ON FOREIGN ASSIGNMENT AND ALLOCATED TO DAYS WORKED IN THE US</b> | Cost of living and overseas differential       | <b>\$15,904</b>   |
|  | Education                                      | <b>\$12,000</b>   |
|  | Other foreign earned income - Tax Equalization | <b>\$29,500</b>   |
| <b>RLC</b>   | Base Salary                                    | <b>\$200,000</b>  |
|  | Federal W/H                                    | <b>\$55,000</b>   |
|  | Social Security wages                          | <b>\$147,000</b>  |
|  | Social Security W/H                            | <b>\$9,114.00</b> |
|  | Medicare wages                                 | <b>\$200,000</b>  |
|  | Medicare W/H                                   | <b>\$2,900</b>    |

## DEDUCTIBLE TAXES

Adjust the denominator used in the allocation ratio to total foreign assignment earned income (both US and foreign sources) including current, prior and future year amounts less applicable foreign deductions.

Increase the numerator of the allocation ratio by **\$3,000**.

|  |                 |
|--|-----------------|
| <b>REAL ESTATE TAXES (US PROPERTY)</b> | <b>\$20,000</b> |
|--|-----------------|

|  |                       |
|--|-----------------------|
| PERSONAL PROPERTY TAXES (US PROPERTY)          | \$1,400               |
| FOREIGN TAX CREDIT - OPTIONS ACCOUNTING METHOD | <i>Paid</i>           |
| COUNTRY OF RESIDENCE (IF NOT USA)              | <i>United Kingdom</i> |

## FOREIGN TAX CREDIT - TAX PAID OR ACCRUED

Allocate foreign taxes to exclude income based on taxpayer's ratio.

|   |  |
|---|--|
| INCOME TYPE   | <i>Passive Income, United Kingdom</i>                    |
| DATE TAX PAID DURING 2024                           | <i>12/31/2024</i>  |
| GROSS INCOME FROM FOREIGN SOURCED INCOME (INTEREST) | <i>\$5,000</i>   |
| TAX ON INTEREST IN DOLLARS                          | <i>\$590</i>   |
| INCOME TYPE   | <i>General Limitation Income (Other), United Kingdom</i> |
| TAX PAID IN POUNDS                                  | <i>£5,600</i>  |
| CONVERSION RATE                                     | <i>.60</i>   |
| DATE TAX PAID DURING 2024                           | <i>12/31/2024</i>  |

## FILING INSTRUCTIONS

**Austin-International** is the IRS Service Center.

# DATA ENTRY

This page is used to provide help when you are not sure where to enter data. You do not need this page if you know where all the information belongs.

Forms are accessed from the **Forms List** window at the left of the screen. Make sure **Organizer** is selected.

## GENERAL INFORMATION

1. Review the entered data and input remaining amounts through the Organizer.
2. Click the Organizer tab to display a list of all the data entry forms.

## FOREIGN FINANCIAL ACCOUNT

To report the foreign country where the Does have a bank account:

1. Select **General Information > Return and Print Options**.
2. Click the **Tax Form Options** tab at the top of the Forms window.
3. Scroll down to the **Schedule B-Interest and Dividends** box.
4. Enter **United Kingdom** as the name of the foreign country.

## INTEREST INCOME

1. Select **Quick Track > 1099-INT Interest**.

OR

Select **Income > Interest Income > 1099-INT**.

2. Enter **U.S. interest income of \$10,000**, and **Foreign interest income of \$5,000**.

## SCHEDULE C

### Income

1. Select **Quick Track > Business Income**.

OR

Select **Income > Business Income > Doe Consulting > Business Information**.

2. Be sure that the **Taxpayer** radio button is selected in the **Ownership** box.
3. Verify the business code and name.
4. Select the **Sch C Miscellaneous Info** tab and scroll down to the **Section 911 income** box.
5. Select **Automatic Allocation**.
6. Enter **1.00** in the **Foreign earned income** field (1.00 = 100%).

### Receipts and Expenses

1. Click the **Sch C Inc/Exp** tab at the top of the Forms window.
2. Select the **Total gross receipts or sales** field.
3. Enter consulting fees of **\$75,000**.
4. Click **Previous**.
5. Scroll down to **Other Expenses**.
6. Select the **Other Expenses** field.
7. Enter the description **Expenses Subject to Scale down** and **\$25,000**.

## FORM 2555



Since Mary Doe did not have income, you only need to file one Form 2555.

1. Select **Foreign Information > Foreign Earned Income**.
2. Add a new employer: **RLC**.
3. Enter **1** for the set number.
4. Verify that **TAXPAYER** is selected.
5. Go to the **Employee Information** box.
6. Enter **London** as the foreign address.
7. Go to the **Employer Information** box.
8. Enter **2395 Midway Road, Carrollton, TX 75006** in the **U.S. Address** field.
9. Check **U.S. Company** in the **Employer** box to designate RLC as a US company.
10. Scroll down to the **Print Options** box.
11. Check the **PRINT AUTOMATIC EXTENSION** statement.

## PHYSICAL PRESENCE TEST INFORMATION

1. Under **RLC**, select **Physical Presence**.
2. Enter **United Kingdom** as the **Principal country of employment**.
3. Under **RLC**, select **Travel Days**.
4. On the first line, select **United Kingdom**.
5. Enter the first set of dates.
6. On the second line, select **United States**.
7. Verify that **United States** populates in the country field.
8. Enter the second set of dates.
9. Enter **10** for the business days in US.
10. On the third line, select **United Kingdom**.
11. Enter the third set of dates.

12. Enter **X** to print *Continues*.



Do not enter the date departed; this will indicate that John Doe remains in the United Kingdom.

13. The Tax Application will compute the §911 exclusion amount according to your specifications.

## EXCLUSIONS AND/OR DEDUCTIONS

1. Under **RLC**, select **Exclusion and/or Deduction**.
2. Scroll down to the **Foreign Housing Cost Exclusion/Deduction** box.
3. Enter foreign housing costs in the **Total Foreign Housing Cost** data entry field.

## FOREIGN EARNED COMPENSATION

1. Select **Foreign Information > Foreign Earned Income > RLC > Foreign Earned Income > Add new Allocation Period**.
2. Enter **2024**.
3. Click **OK**.

## WAGE INFORMATION

1. Select **Source Documents (W-2, 1099s, 1098) > (W-2)**.
2. Enter **RLC**.
3. Click **OK**.
4. Enter the value in the right column of the **Employer Allocation Period** grid in the **Match W-2 with Employer Allocation Period** field.
5. Select the hyperlink for **Foreign Earned Income**.

6. Enter Base salaries.



Since John Doe's wages are foreign source during foreign assignment, do not change the Allocation Method.

7. Select the back button to return to the **W-2** tab.
8. Enter the information from John Doe's -2 from RLC, his employer.

## NONCASH REMUNERATION INFORMATION

### Allocation of Income to US

1. Select the hyperlink for **Foreign Earned Income**.
2. In the **Noncash Income** box, select **Income earned while on foreign assignment and allocated to days worked in U.S.** as the allocation method for **Home (lodging)** and **Car**.
3. Enter **\$18,000** for **Home (lodging)** and **\$5,000** for **Car**.
4. Scroll down to the **Allowances or Reimbursements** box.
5. Select **Income earned while on foreign assignment and allocated to days worked in U.S.** as the allocation method for **Cost of living and overseas differential** and **Education**.
6. Enter **\$15,904** for the **Cost of living and overseas differential**.
7. Enter **\$12,000** for **Education**.

### Tax Equalization

1. Scroll all the way down to the **Other Foreign Earned Income** box.
2. Select **Foreign Source During Foreign Assignment (Default)** as the allocation method.
3. Enter **Tax Equalization** as the description, and **\$29,500** as the amount.

## DEDUCTIBLE TAXES

1. Select **Itemized Deductions > Taxes and Interest**.
2. Select **Taxes - Other**.
3. Under **Real Estate taxes paid**, enter **\$20,000** for **Real Estate Taxes Paid (US property)**.
4. Under **Personal Property Tax**, enter **\$1,400** for **Personal property taxes (US property)**.

## FORM 1116 - FOREIGN TAX CREDIT



This area contains topics that apply to Forms 1116 in the return such as information related to a specific income type and country and special treaty options.

1. Select **Foreign Information > Foreign Tax Credit > Foreign Tax Credit Options**.
2. Enter **United Kingdom** as the **Country of residence (if not USA)**.
3. Scroll down to the **Code To Allocate Foreign Taxes To Exclude Section 911 Income** box.
4. Select **Foreign Assignment (both US and Foreign) income earned in the current prior and future year** from the **Taxpayer** radio button.
5. Go to the **Adjust/Override Allocation Ratio** box.
6. Enter the adjustment in the **Increase/decrease numerator of allocation ratio** data entry field.
7. Make sure your adjustment is in the **Taxpayer** column.

## Passive Income

1. Select **Foreign Information > Foreign Tax Credit > Add New Foreign Country**.
2. Enter **United Kingdom**.
3. Click **OK**.
4. Select **United Kingdom** as the **Country Name**.
5. Verify that the **Taxpayer** radio button is selected.
6. Select **Passive Income** from the **Foreign Income Type** list box.

7. Enter **12/31/2024** for the date foreign tax was paid or accrued.
8. Enter **\$5,000** in the **Interest** data entry field.



You can enter decimal amounts for the Foreign Source Income numbers that are not overrides to allocate a percentage of the foreign source income from Form 2555.

9. Select the **Taxes Paid/Accrued** tab.
10. Enter **T** in the left column to allocate taxes based on the taxpayer's ratio.
11. Enter **590** in the **Interest** data entry field.
12. Do not make any selections or entries in the **Conversion Rate** box.

## Other Wages

1. Select **Add New Foreign Country**.
2. Enter **United Kingdom**.
3. Click **OK**. You should now have two **United Kingdom** folders under **Foreign Tax Credit**.
4. Select **United Kingdom** as the country name.
5. Verify that the **TAXPAYER** radio button is selected.
6. Select **General category income** as the **Foreign Income Type**.
7. Enter **12/31/2024** as the date the foreign tax was paid or accrued.
8. Select the **Taxes Paid/Accrued** tab.
9. Enter **T** in the left column to allocate taxes based on the taxpayer's ratio.
10. Enter **\$5,600** for tax paid in the **Wages/Other** field.



Since the tax paid is given in pounds (.6 British pounds to one (1) US dollar), it needs to be converted.

11. Enter **X** in the **Use Conversion Rate as a Divisor** column.

12. Enter **.60** as the conversion rate.
13. Leave the US dollar amount field blank.

## IRS SERVICE CENTER

1. Select **Letters and Filing Instructions > General Options**.
2. Verify that the IRS Service Center is ***Austin-International***.
3. Confirm that the **IRS Service Center (Override)** is selected to ***Automatic Generation***.

# REVIEWING THE RETURN

## Compute Before Review

1. Before reviewing the return, make sure your return is completely computed.
2. Select **Compute > Full Recompute** from the menu bar.

## Review

The complete return can be viewed on screen and any changes made before printing. Use Tax Forms to review the return. During your review, access supporting workpapers by selecting any field with blue arrows to the right of the field, and then check for diagnostics and overrides.

The review process consists of:

- Reviewing diagnostics and overrides
- Reviewing through Tax Forms
- Reviewing work papers
- Entering corrections and changes
- Reviewing through Print Preview.

## Print Preview

1. Access Print Preview to see the return as it will print.
2. View all statements by selecting **Print** on the menu bar.

## Diagnostics and Overrides

### DIAGNOSTICS

1. To review the diagnostics, select **View > Diagnostics**.
2. A screen displays a list of the diagnostics by type: *Severe*, *Informational*, or *E-file*.
3. To go to the screen where the diagnostic originates, select a diagnostic from the list.

### OVERIDES

1. Viewing and accessing overrides works like the review of diagnostics explained above. Select the override to go to the screen where you entered the override.
2. Verify your overrides and clear any unnecessary overrides by clicking the overridden amount and selecting **Clear Override** from the right-click menu.



If you have entered data only through the Organizer screens, no overrides should exist.

## Comparison Screens

Once you have completed this case study, you can compare your entries with the master return completed using the same data. To compare the return you prepared to the master, select **Help > Case Study Comparisons** inside the return.

Differences between the amount in your return and the amount in the master return are noted in the **Difference** column. If you entered the data correctly, there should be no amounts in the **Difference** column.

If you have differences, begin by selecting **Compute > Full Recompute**.

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Last Updated: August 21, 2024