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contractors supporting the U.S. Armed Forces in designated combat zones, may now qualify for the foreign earned income exclusion.

The Bipartisan Budget Act of 2018, enacted in February, changed the tax home requirement for eligible taxpayers, enabling them to claim the foreign earned income exclusion even if their “abode” is in the United States. The new law applies for tax year 2018 and subsequent years.

This means that these taxpayers, if eligible, will be able to claim the foreign earned income exclusion on their income tax return for 2018 when they file. Under the exclusion, taxpayers can choose to exclude their foreign earned income from gross income, up to a certain dollar amount. For tax year 2018, that dollar amount limit is \$103,900.

The foreign earned income exclusion is not automatic. Eligible taxpayers must file a U.S. income tax return each year with either a [Form 2555](#) or [Form 2555-EZ](#) attached. These forms, instructions and [Publication 54](#), Tax Guide for U.S. Citizens and Resident Aliens Abroad, will be revised later this year to reflect this clarification.

Foreign earned income is the income a taxpayer receives for performing personal services in a foreign country or countries during a period in which he or she meets both of the following requirements:

- His or her tax home is in a foreign country, and
- He or she meets either the bona fide residence test or the physical presence test.

Full details on these tests can be found in Publication 54.

Under prior law, many otherwise eligible taxpayers who lived and worked in designated combat zones failed to qualify because they had an abode in the United

States. The new law makes it clear that contractors or employees of contractors

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employees or members of the military. But service members in combat zones continue to qualify for the combat pay exclusion. See [Publication 3](#) for details.

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