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Federal foreign income exclusion

Taxpayers who earn income in a foreign country may qualify for the federal foreign earned income exclusion. If taxpayers qualify for the exclusion and do not include the foreign earned income on their federal return, this income will not be taxed by Minnesota.

Minnesota residents who earn income in a foreign country may treat that income as nonresident income as long as they meet **both** of the following conditions:

1. Their tax home is in a foreign country and they were either:
   - a bona fide resident of a foreign country for an entire tax year. or
   - were physically present in a foreign country for at least 330 full days during any 12-month period.
2. If they owned homesteaded property in Minnesota, they notified the county to revoke homestead status within three months of moving out of the country and the property remained nonhomesteaded during their absence.

Taxpayers who qualify for the federal foreign income exclusion:

- Must use the nonresidency rules to determine whether income received must be assigned to Minnesota. For example, interest received while the taxpayer was overseas is not taxed by Minnesota because the person is considered a nonresident.
- Are only required to file a Minnesota return if they have Minnesota sources of income that exceed the part-year/nonresident filing requirement level for the tax year.

Example

Jeannie was assigned to work in Germany from January 2005 through June 2007. When she left the country, Jeannie surrendered the lease on her St. Paul apartment and homesteaded no property in Minnesota. She returned to the United States for fewer than 35 days each year, and earned no income from Minnesota while she was here. Jeannie is considered a nonresident for the entire year and is not required to file a Minnesota return for tax years 2005 and 2006. For 2007 she will file as a part-year resident, paying tax to Minnesota on all taxable sources of income beginning July 1, 2007 (assuming she returns to Minnesota to reside).

Had Jeannie worked and lived abroad from June of 2006 through June of 2007 (13 months) she would file each year's Minnesota return as a part-year resident, assigning all income to Minnesota for the periods of January through May 2006, and from July through December 2007.

If her assignment had only been expected to last one year, the assignment would have been considered temporary, and her "tax home" would not have been outside the United States. She would not have qualified as a nonresident.

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