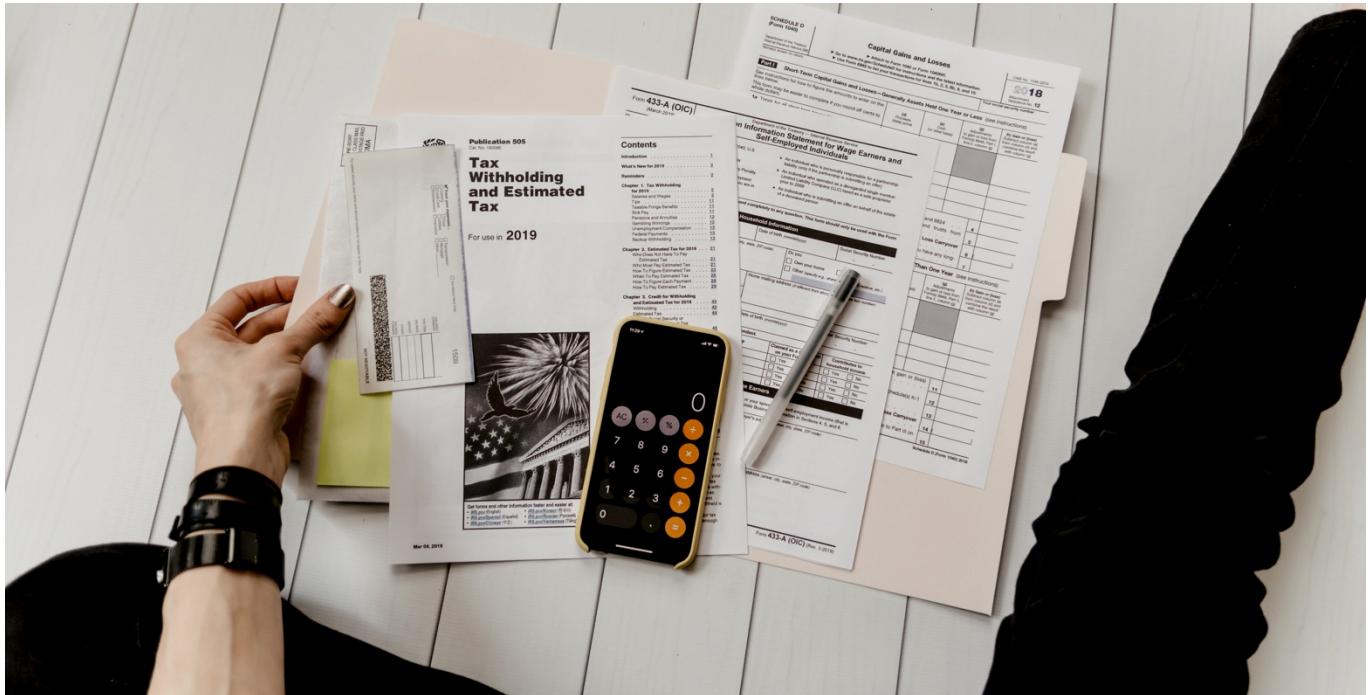


Finding Last-Minute Tax Savings on Your 2021 US Tax Return

March 29, 2022

4 min read



It is already the end of March, which means you have likely received all your tax documents and maybe even started the preparation of your 2021 US tax return. If you are worried about an unexpected tax bill, there are a few last-minute strategies you may be able to take advantage of. This is written primarily for Americans outside of the US.

1. Make a 2021 [Traditional IRA Contribution](#)

Even though it's 2022, the deadline to make your 2021 Traditional IRA contribution is April 18th, 2022. That leaves you with a few more weeks to make your contribution. You can contribute up to **\$6000** or **\$7000** if you are 50 or older. If filing jointly, you or your partner will need earned income to qualify for the contribution. Many US expats are surprised to learn they are eligible to make a deductible contribution. If you do not have access to a qualified US retirement plan, you are not subject to the same income thresholds as your US-based counterparts.

IMPORTANT! Be sure to report the contribution on your 2021 tax return.



2. Self-Employed 2021 Retirement Contribution

Self-employed individuals, stateside or abroad, have the most generous retirement savings opportunities - a [Solo 401\(k\)](#) allows you to contribute up to **\$58,000** between employee and employer contributions, this increases to **\$64,500** if you are 50 or older. The 'employer' contribution deadline is the deadline for filing your tax return, including extensions. The plan must have been in place before December 31st, 2021.

If you missed the Solo 401(k) set-up deadline, you could still consider the Simplified Employee Pension IRA ([SEP IRA](#)). The maximum contribution is the lesser of 25% of adjusted net earnings or **\$58,000** for 2021. A new SEP IRA can be established as late as your tax return deadline, including extensions.

IMPORTANT! Be sure to report the contribution on your 2021 tax return.

3. Double-Check Your Filing Status: Married Filing Separately (MFS) v Head of Household (HOH)

Many US expats qualify for the [Head of Household](#) filing status if they are married to a Non-Resident Alien who does not file a US tax return and resides outside of the US. The US person must support a dependent to claim this status. The advantage of filing as Head of Household is higher income brackets and a larger standard deduction. The result can be significant tax savings.

4. Optimize the Foreign [Earned Income Exclusion](#) v [Foreign Tax Credit](#)

Utilizing the Foreign Earned Income Exclusion (FEIE) or Foreign Tax Credit (FTC) is a US expat's most powerful tax-saving strategy. The IRS does not allow you to utilize the same exclusion or credit on the same income, so optimizing your return each year is essential. For 2021, the Foreign Earned Income Exclusion was \$108,700; Americans abroad can also combine the figure with an additional housing exclusion based on their foreign residence.

The FEIE exclusion only applies to earned income, whereas the FTC can be used for earned and unearned income. Depending on your earned income, investment/passive income, the foreign country's tax rates, and your future plan, it's important to consider which option is optimal for your unique situation. Once you switch from the FEIE to the FTC, it's important to understand you cannot switch back for five years.

As an American abroad, you have an automatic filing extension to **June 15th**. This is an extension to file, not an extension to pay. If you think you may have a US tax liability due, be sure to make a payment before April 18th, 2022, to avoid or limit interest. The IRS allows you to make [payments online](#).



If you have questions on these tax savings strategies, be sure to work with your US accountant and/or your Certified Financial Planner™. These are strategies for 2021, don't forget to think about your 2022 planning!
