U.S. Citizens Living Abroad Face U.S. Taxes on Foreign Homes, reports the Enrolled Agents and tax advisers Bambridge Accountants.

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Many countries around the world, when you sell your main home there is no tax to pay in that country.

For example, in the U.K. you can make an unlimited gain on your principal residence and you can claim full relief against any capital gains tax due in the U.K. using the private residence relief.

U.S. expats are still required to complete a U.S. tax return each year, declaring worldwide income back to the U.S. While most foreign income will not create a U.S. tax liability, any income which is not taxed in the foreign country, or taxed at a lower rate than the U.S. will potentially cause problems.

Sale of your home

When Americans are completing their U.S. tax return, for those living abroad, the sale of their only or main residence would need to be included on the U.S. tax return. If, as is the case in the U.K., there is no tax paid in that foreign country then there is no foreign tax to use to credit against any U.S. taxes.

Section 121 Exclusion

The U.S. does provide an allowance to be used against your main home, including homes outside the U.S.

You can exclude up to $250,000 of gain if you are filing as single or married filing separately, or $500,000 of gain if you are filing as married filing jointly.

To qualify for the exclusion, you will need to meet the ownership test and use test. You must have owned and used the property as your main home for at least 2 of the last 5 years prior to sale.

There are limits on claiming the exclusion if you have previously claimed in the last 2 years.

Tax in the United States

If the gain from the sale of the property does not qualify for relief or exceeds the $250,000 or $500,000, then the excess gain will be taxed as a long term capital gain (as long as the property has been held for more than 1 year).

The top rate of tax for a long term capital gain is 20%. The rate is based on total taxable income for the year and the filing status.

Depending on total income for the year, there may also be a separate tax for 3.8%, the Net Investment Income Tax (NIIT).

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