

**Retiree Corner:**  
**Income Tax Advice for Retirees in Korea**

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I had a retiree visit my office for assistance in filing his 2007 tax return. To ensure I was aware of his complete tax situation, I asked him to provide me with his 2006 tax return. When I saw it, I was amazed to see his deduction. He had listed his military retired pay on IRS Form 2555, claiming it as 'foreign-earned income.' This retiree's problem is that his military retired pay is not foreign-earned income. It's a pension payment paid by the U.S. government. The only income that can be claimed on the Form 2555 is pay from a civilian employer. Employees of the U.S. government may not use the Form 2555.

There's another situation that retirees may not be aware of and that involves Social Security being paid to a Korean wife. If the wife is a Korean citizen, and if her husband is a non-SOFA retiree, then she is a non-resident alien. This applies if she has a green card but has not been back to the U.S. in more than a year, or if she doesn't have a green card. As a non-resident alien her Social Security is taxed at about 25%. It is automatically withheld from her Social Security benefits and is non-refundable. If the retiree files a joint return and claims any part of the wife's withheld tax for refund, they could be liable in later IRS reviews to repay the withheld tax with interest and penalty.

The correct way to complete the joint return is to calculate the total amount of tax owed and any refund due. If the refund includes any part of the tax on the wife's Social Security, then the difference must be included as additional tax. This might be done by entering it on Form 1040, line 58. Just be sure the total tax being paid is at least equal to her withheld tax to avoid later problems.