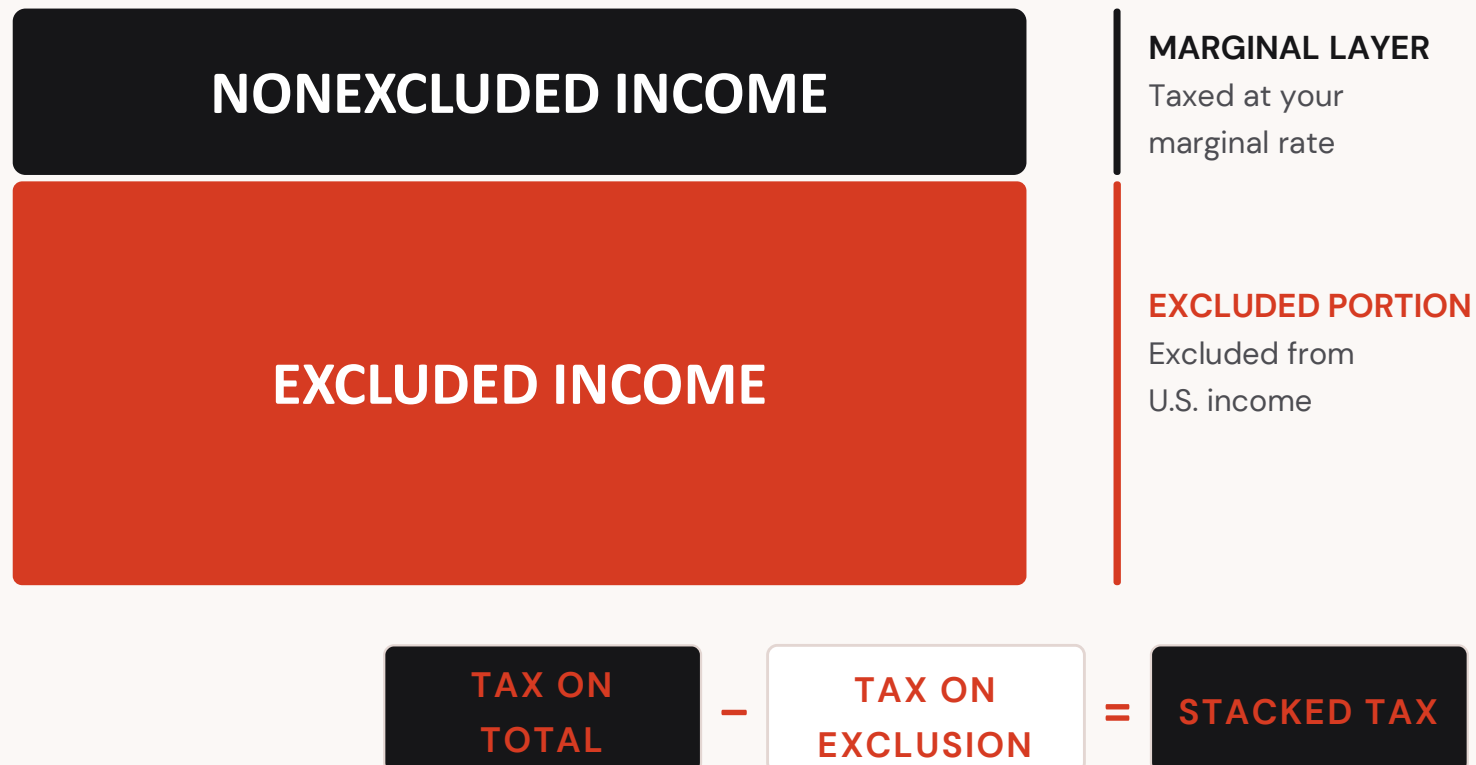


STACKING RULE

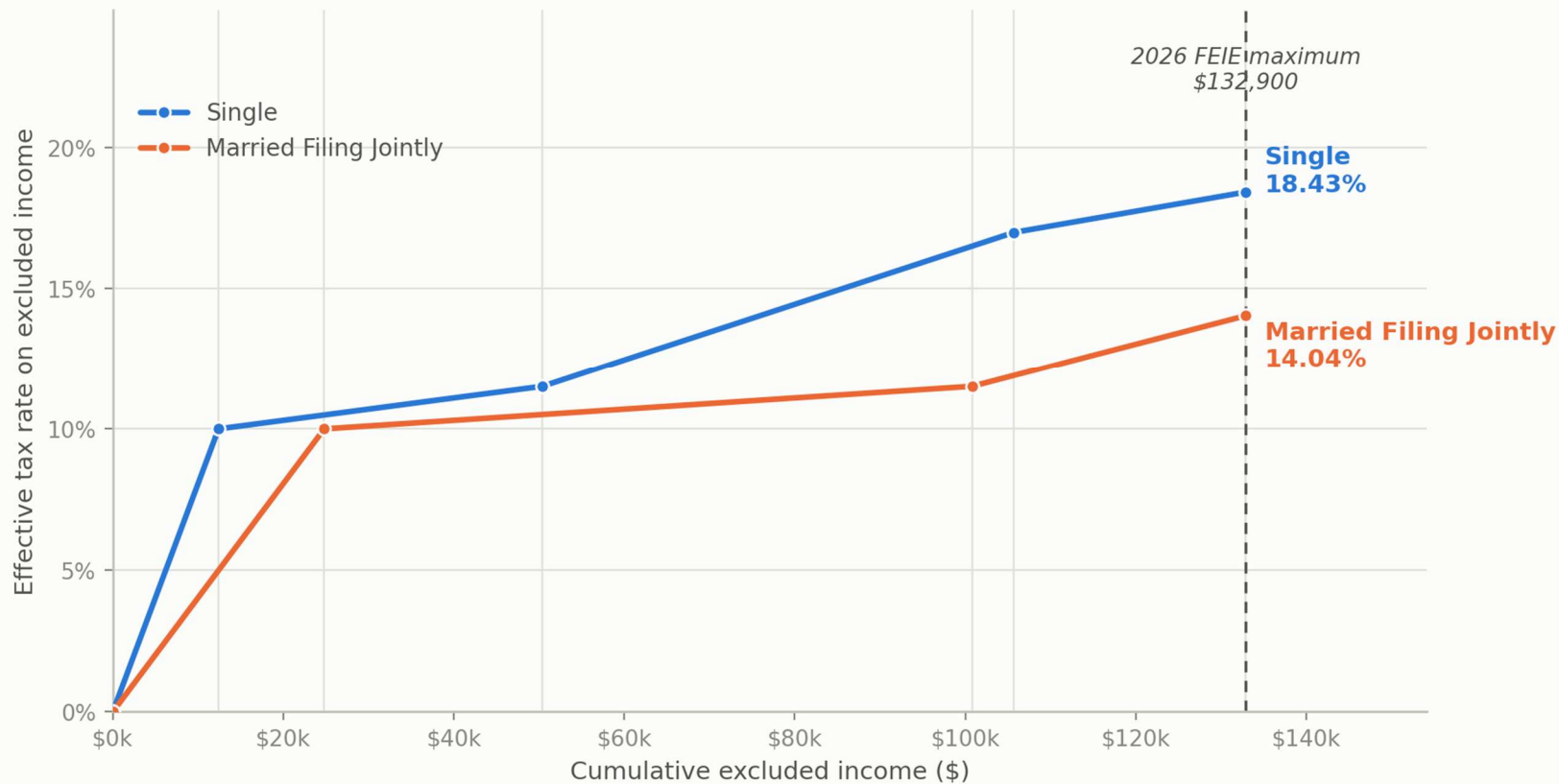
The Foreign Earned Income Exclusion (FEIE) excludes income up to the annual limit, \$132,900 for 2026.
Any additional income is taxed on top of the excluded amount.



Effective Tax Rate on Income Excluded

For tax year 2026, the IRS foreign earned income exclusion maximum is \$132,900 (up from \$130,000 for 2025). Under the Foreign Earned Income Tax Worksheet (Form 2555), excluded income is not simply removed from the return. The “stacking rule” requires that tax on the excluded amount be computed using the regular rate schedule as if that income were the bottom slice of taxable income, then subtracted from the tax on total income. The chart shows the effective rate on income excluded for Single and Married Filing Jointly taxpayers.

Effective Tax Rate on the 2026 Foreign Earned Income Exclusion Maximum



If you pay foreign tax at a higher rate, it may be more advantageous for you to claim the foreign tax credit as the unused credit may be carried back one year and forward ten years.

FOREIGN TAX CREDIT CARRYOVERS

A TIMELINE GUIDE

GENERAL CATEGORY INCOME



PASSIVE CATEGORY INCOME

