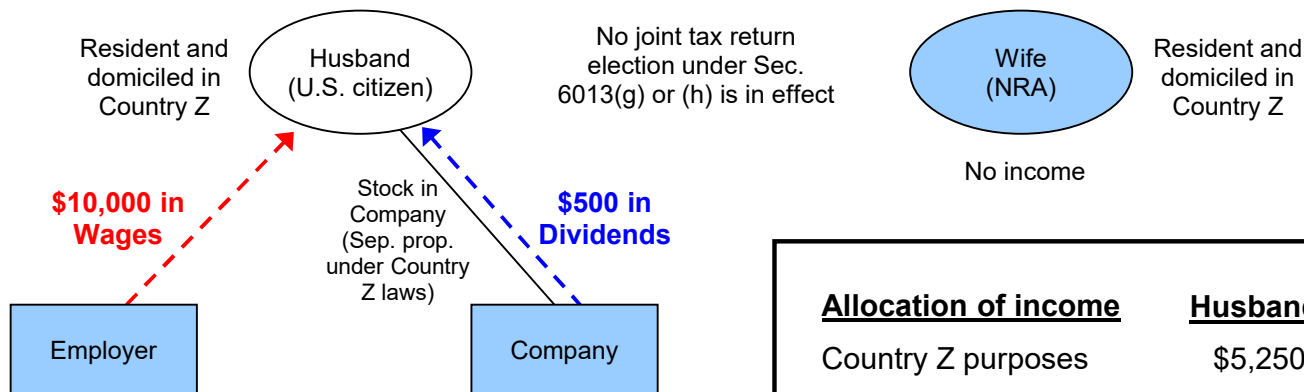


**Reg. 1.879-1(a)(7),
Example 1**

**Community Income - Wages
and Separate Property Dividends**

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<u>Allocation of income</u>	<u>Husband</u>	<u>Wife</u>
Country Z purposes	\$5,250	\$5,250
U.S. tax purposes	\$10,500	\$0

(Sec. 879 applies in the case of a married couple 1 or both of whom are NRAs and who have community income)

H, a U.S. citizen, and W, a nonresident alien individual, each of whose taxable years is the calendar year, were married throughout 1977. H and W were residents of, and domiciled in, foreign country Z during the entire taxable year. No election under section 6013(g) or (h) is in effect for 1977. During 1977, H earned \$10,000 from the performance of personal services as an employee. H also received \$500 in dividend income from stock which under the community property laws of country Z is considered to be the separate property of H. W had no separate income for 1977. Under the community property laws of country Z all income earned by either spouse is considered to be community income, and one-half of this income is considered to belong to the other spouse. In addition, the laws of country Z provide that all income derived from property held separately by either spouse is to be treated as community income and treated as belonging one-half to each spouse. Thus, under the community property laws of country Z, H and W are both considered to have realized income of \$5,250 during 1977, even though Z's laws recognize the stock as the separate property of H. Under the rules of Reg. 1.879-1(a)(2) and (5) all of the income of \$10,500 derived during 1977 is treated, for U.S. income tax purposes, as the income of H.

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