

# This job has the world's worst tax return

By Sophia Yan [@sophia\\_yan](#) July 2, 2014: 11:29 AM ET



ILLUSTRATION: DANA LIPNICKAS/CNNMONEY; SHUTTERSTOCK

HONG KONG (CNNMoney)

Think filing your tax return is a pain? You've got nothing on American pilots who live abroad.

As they crisscross the globe, IRS rules require expat American pilots to record exactly how long they're flying over the U.S., foreign countries and international waters. Once they land, the pilots have to track exactly when they're working, and when they're off the clock.

Here's why: If they ever face an **IRS audit**, the pilots will have to prove -- using flight plans or other documents -- exactly how much money they've earned in each jurisdiction, on land or in the air.

For this small slice of the American population, following the IRS rules to the letter means a **tax headache** that lasts 365 days a year.

"It's insane," said a Hong Kong-based airline pilot, who asked to remain anonymous over fears he would lose his job. "On every flight, I have to log the time I'm over foreign countries, and the time I'm over international waters and the U.S."

In fact, anyone who works abroad on a **plane** or a ship -- flight attendant, merchant mariner or cruise ship dancer -- can be required to produce those records.

"The IRS wants to see how much of the pilot's time was spent over international waters and in the U.S.," said Sue Folkringa, an accountant at **Wolcott & Associates**, a firm that specializes in aviation taxes. "Typically, the pilot will have to go through their flight records -- not a welcome task."

Unlike most countries, the U.S. requires its citizens living abroad to file and pay taxes each year. Since **expats already pay local taxes**, the IRS grants an exemption on the first \$97,600 earned in a foreign country.

But here's the catch -- the U.S. government says money made working in or over international waters doesn't count as foreign income.

Take the example of an American expat pilot who flies a 13-hour direct route from Hong Kong to Los Angeles.

Money made during the three flying hours over Asia qualifies as foreign income, but payment earned during the remaining 10 hours over the Pacific Ocean does not. This means the pilot is liable for U.S. tax on about 77% of earnings during that flight.

"Every flight I go on, 12 months a year, I have to sit there and take notes," the Hong Kong-based pilot said. "It just doesn't make sense."

The pilot said he pays an accountant \$1,300 a year to prepare his 60-page tax return, because the laws are just too complex.

Folkringa said that while it's up to the pilots to keep records, many don't know they have to until they're targeted by an IRS audit.

The regulations are so obscure that some tax professionals don't even know they exist. Even for specialists, there are plenty of gray areas.

Accountants, for example, say that the U.S. definition of "international waters" is far too vague -- and even contradictory.

Lack of clarity leads some accountants to conclude that international waters begin three miles off the coast, while others say the boundary starts 200 miles offshore. The pilots, meanwhile, are expected to keep track of every entry and exit with pinpoint accuracy.

The **IRS did not respond** to a request for comment, but the agency website does have some tips. One guide encourages individuals to obtain flight or ship plans in order "to plot the geographical points and determine the actual planned time spent flying over foreign countries."

"Who has that kind of calculation capability at their fingertips?" asked Folkringa.

Vincenzo Villamena, managing partner of **Online Taxman**, recalled one particularly difficult IRS audit -- his client was working on a Maersk cargo ship hijacked in 2009 by Somali pirates.

Needless to say, the kidnapping made it hard to prove when the sailor was in international waters. (The incident was later turned into a movie called *Captain Phillips*, starring Tom Hanks).

"It was like, 'Come on, don't you have any sympathy?'" Villamena said. "He was working, and then he wasn't working -- he was kidnapped."

First Published: July 1, 2014: 10:54 PM ET