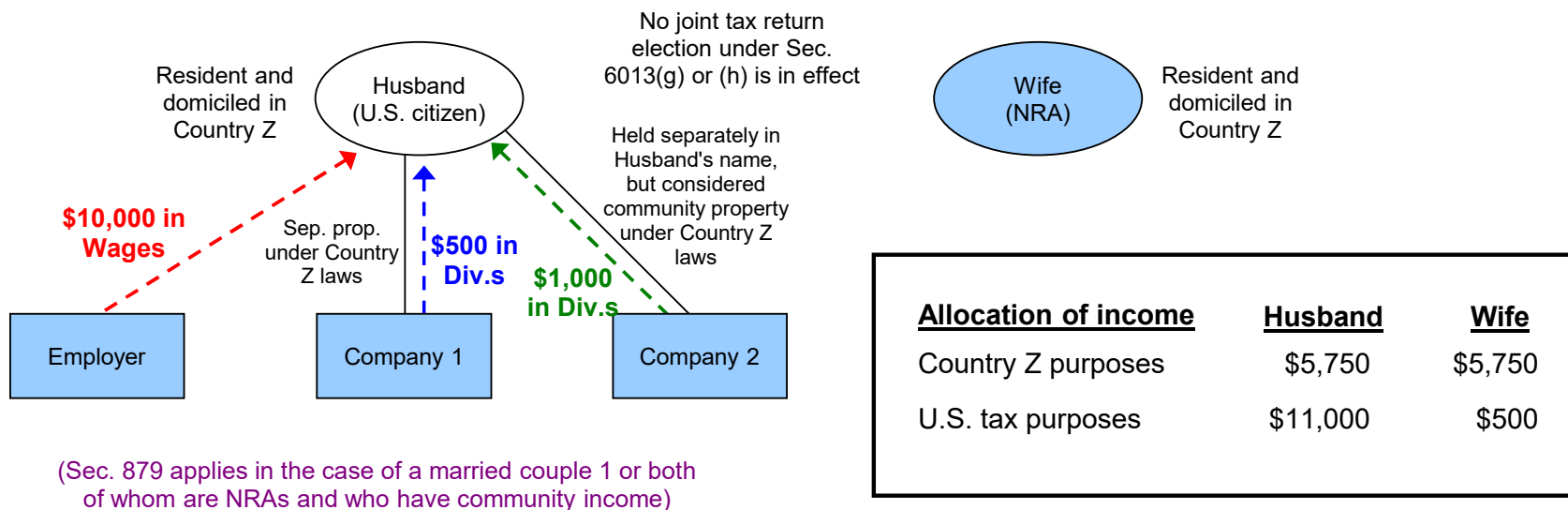


**Reg. 1.879-1(a)(7),
Example 3**

**Community Income - Wages,
Sep. Prop. Div.s & Comm. Prop. Div.s**

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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 in Company 1 which under the community property laws of country Z is considered to be the separate property of H. H also received \$1,000 in dividends on stock in Company 2 held separately in his name. Under the community property laws of country Z the stock in Company 2 is considered to be community property. 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. Under the community property laws of country Z, H and W are both considered to have realized income of \$5,750 during 1977. Under the rules of Reg. 1.879-1(a)(2) and (5) \$10,500 of the income (wages and Company 1 dividends) derived during 1977 is treated, for U.S. income tax purposes, as the income of H, and under the rule of Reg. 1.879-1(a)(6), \$1,000 of the dividend income from Company 2 is treated, for U.S. income tax purposes, as \$500 of income for each spouse.