

**A REQUEST FOR A NEW GAO STUDY
ON**

**“THE IMPACT ON TRADE, EMPLOYMENT, AND THE U.S. ECONOMY
OF THE TAXATION OF U.S. CITIZENS
LIVING AND WORKING ABROAD”**

Introduction: In 1978, the GAO was asked by Congress to carry out a study of *“The Impact on Trade of Changes in Taxation of U.S. Citizens Employed Abroad”*. The report, which was issued on February 21, 1978, focused on recent changes in the taxation of Americans abroad, enacted in 1976, and estimates of how these changes would affect the U.S. economy and efforts to export U.S. products and services.

The testimony of Elmer Staats, Comptroller General of the United States, at a hearing before the Senate Finance Committee on May 8, 1978, began with a brief overview of the unique situation of U.S. citizens trying to compete in world markets. Mr. Staats said:

“The United States has taxed the overseas income of its [non-resident] citizens [...] since 1913. It is the only industrialized trading nation of the world to do so.”

The GAO survey that Mr. Staats presented involved the participation of 145 U.S. corporations, and 167 individuals working overseas. They reported that with the implementation of these 1976 changes:

- 45% of the individual taxpayers expected to return home on or before the end of their present tour because of the tax change.
- The estimated loss of jobs overseas would be 5,000 in 1978, increasing to 27,000 in 1981.
- There would be an adverse effect on GNP of up to \$270 million in 1978, increasing to \$790 million in 1981.
- There would be an adverse effect on exports of \$140 million in 1978, increasing to \$320 million in 1981.
- There was concern about a “ripple effect” on sub-contractors or suppliers, should a primary company lose a contract due to higher costs incurred in tax reimbursement to U.S. employees, or should Americans be replaced by other nationals who might choose to deal with their own countries’ firms rather than with U.S. firms.

A year later, the President’s Export Council created a special *“Task Force to Study the Tax Treatment of Americans Working Overseas”*. Their report of December 10, 1979, confirmed the predictions of the GAO study and concluded as follows:

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“Despite the enactment of the Foreign Earned Income Act of 1978 (which sought to remedy the problems created by the 1976 Act), Americans are still being taxed out of competition in overseas markets. The result is a sharp loss in the United States’ share of overseas business volume in vital economic sectors. The current situation contributed to our negative balance of payments, a loss of U.S. jobs to our competitors, and the decline in U.S. presence and prestige abroad.”

The Task Force Recommendations included the following:

“Americans working overseas are essential to a viable export program. An increase in the number of Americans assigned abroad can increase our exports, reduce the negative balance of payments, enhance our country’s image, and raise employment in the U.S.”

“Recognizing that it is in the best interest of our nation to encourage Americans to work overseas, the Task Force recommends the adoption of tax policies that are comparable to those of major competing industrial nations, none of which now tax citizens who meet overseas residency tests.”

“Work should begin immediately to encourage enactment of a new tax law to put Americans working overseas on the same tax footing as citizens from competing industrial countries.”

Then in 1981, the GAO produced another study (ID-81-29) titled **“American Employment Abroad Discouraged by U.S. Income Tax Laws”**. The report noted:

“The competitiveness of U.S. exports in the world market has become a major national concern because of the deficit in the U.S. balance of trade that developed in the 1970s and its implications for real income and employment in the United States. This problem has the focus of major initiatives to improve Government export promotion programs and to identify and correct Government disincentives to exports.”

“To adequately promote and service U.S. products and operations in foreign countries, U.S. companies employ a large force of U.S. citizens abroad. There is widespread concern that tax provisions contained in the Foreign Earned Income Act of 1978 are proving a disincentive to employment of U.S. citizens abroad, and, therefore, adversely affecting exports.”

“A GAO survey of a group of major U.S. companies having substantial operations abroad revealed that U.S. taxes were an important factor in reducing the number of Americans employed overseas.”

The Years Since 1981: Since 1981, the taxation of U.S. citizens living and working abroad has undergone many subsequent changes, but still remains in effect and is still unique in the industrial world. The result has been as predicted by the GAO and the President’s Export



Council. The United States has not had a trade surplus since 1976, and **the cumulative trade deficit since it went permanently negative in 1976 is now over \$7 trillion.**

A Request for a New GAO Study in 2009: We request that the Congress ask the GAO to prepare a new study to look at the positive and negative implications on trade and the health of the U.S. economy of continuing to tax U.S. citizens living and working abroad. U.S. citizens living and working abroad, and the major organizations that represent them, should be invited to play an active role in such a study.

Obviously, a number of things have changed in the world economy over the last 28 years. New markets have emerged and significant tax policy changes have been implemented in a number of countries. In light of those developments, it would be useful for the GAO to expand its 1981 study in several regards:

1. The reality of current U.S. tax law for Americans overseas and its impact on the competitiveness of U.S. citizens and U.S. companies remains a central issue. Since 1981, globalization has revolutionized graduate curricula all over the world. Americans now find themselves competing with educated, multilingual candidates from all over the world for key posts overseas. The focus of the GAO analysis should be broadened to reflect the current competitive job market in foreign countries, particularly in major growing markets such as Asia, the Gulf and Latin America. It would also be useful for the GAO to analyze the potential impacts of Americans working abroad on the U.S. economy in terms of increased exports and other benefits.
2. The Department of Treasury has attempted to analyze the housing costs faced by Americans overseas in key foreign countries. It would be useful for the GAO to evaluate how closely those Treasury estimates track housing costs based on comparison with other data. Again, the analysis should include countries that have become increasingly important in foreign commerce since 1981.
3. It would be essential for the GAO to include a current analysis that compares the treatment of Americans working overseas with the way in which other major developed countries such as Australia, Japan, Germany and Canada tax their citizens working overseas.
4. In addition to the impact on employees of large corporations, it would be helpful for the GAO to analyze the implications of U.S. tax treatment for Americans employed overseas by small and medium-sized businesses, schools, and non-profit institutions as well as for Americans employed on local contracts without tax equalization assistance.

This review could be important in shaping the U.S. debate on tax reform and maintaining America's competitiveness abroad. As it was in 1981, this new GAO analysis could be an important source of reliable, non-partisan information and we hope the GAO will invest the needed resources to conclude a thorough investigation/examination of these issues in 2009.

April 2009



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OAW 2009
Participating organizations

Overseas Americans Week (OAW): For several years now, **AARO**, **ACA** and **FAWCO** have come together for a week in Washington D.C. to present our issues to Congress and the Administration. Thanks to this concentrated effort, overseas Americans have gained new visibility in Washington. OAW and its participating organizations were instrumental in the founding of the recently created Americans Abroad Caucus.

(www.overseasamericansweek.com)

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AARO (Association of Americans Resident Overseas), founded in 1973 and headquartered in Paris, is an international, non-partisan advocacy group working on behalf of Americans living overseas on a broad range of issues. AARO represents Americans abroad through its advocacy efforts in Washington and keeps its members informed about U.S. laws and regulations affecting them.

(www.aaro.org)

ACA (American Citizens Abroad), founded in 1978, is a non-profit, non-partisan association with membership worldwide, based in Geneva, Switzerland, whose mission is to defend the rights of Americans living overseas. ACA works to address issues facing private sector overseas Americans such as voting, citizenship, taxation, social security, Medicare and representation in Washington.

(www.americansabroad.org)

FAWCO (Federation of American Women's Clubs Overseas Inc.) is the oldest and largest organization serving private sector Americans abroad. Founded in 1931, FAWCO is a non-partisan, not-for-profit U.S. corporation that serves as an umbrella network linking over 75 independent American and international volunteer organizations in 39 countries worldwide. A recognized Non-Governmental Organization (NGO) since 1995, FAWCO was granted special consultative status to the Economic and Social Council of the UN in 1997.

(www.fawco.org)

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