



AMERICAN CITIZENS ABROAD
EDUCATE, ADVOCATE AND INFORM

April 26, 2016

American Citizens Abroad, Inc. (ACA) submission for the House Ways and Means Committee call for comments on the recent hearing held on tax reform.

ACA is pleased to see that the House Ways & Means Committee is holding hearings on tax reform and encouraging the presentation of a wide range of new revenue source proposals.

The hearing held on March 22, 2016 to examine Cash-Flow and Consumption-Based Tax Reforms presented compelling proposals for a major shift in tax policy; moving away from an income-based approach to taxation and shifting to alternate methods of tax revenue generation through cash-flow and consumption taxes.

The hearings held on April 13th examined the Jump Start America Act, the Tax Code Termination Act, and reviewed the 2014 Camp tax reform proposal; investigating the economic efficiency, potential for economic growth, fairness and ease of administration of these proposals.

In the discussion of all these proposed tax reforms, the issue of how new tax proposals would affect the community of international taxpayers was not addressed. ACA believes that it is critical that all tax reform proposals address how these proposals will be applied to and/or will affect the community of 8 million plus international, overseas American taxpayers.

See: <http://travel.state.gov/content/dam/travel/CA%20by%20the%20Numbers-%20May%202015.pdf>

Some of the proposals presented to date, by definition (i.e. consumption based taxation), would appear to alleviate the tax filing burden and double imposition on Americans living and working overseas and, would greatly advance the ability of Americans to compete on an equal footing in a global environment. However, none of the proposals directly address how such modeling would apply to Americans living and working overseas.

ACA so far has not studied the idea of tax reform based on alternate revenue sources such as consumption-based taxation and value added taxes. ACA's proposal for residence-based taxation (RBT) rests on the assumption of reforming taxation based on the income tax model.

ACA supports tax reform modeling that simplifies the tax code, empowers individuals to compete on an equal footing in a global economy, reduces the burden of compliance, paperwork and duplicate reporting. However, these proposals must also insure that the tax code eliminates instances of double taxation and removes the burdens that the current citizenship-based taxation code imposes on Americans who are working overseas.

ACA continues to advocate for a territorial or residence-based taxation system. ACA's RBT proposal ensures that Americans overseas will be put on competitive equal footing with both their compatriots stateside and with foreign nationals overseas, in order to advance the economic competitiveness of the United States.

ACA's RBT proposal guarantees that the tax code is fair, allows for mobility in an ever more global work and social environment, and helps to advance US economic interests through facilitating access to new markets for American products and, allowing Americans and American companies to partner in new businesses and new technologies.

Americans overseas are living and working in a new global world economy but are operating with an old world taxation structure, both from a business and personal perspective. If the United States wants to set free the powerhouse of economic development that Americans working globally can provide, which will create jobs and opportunity for workers in the United States, then the tax committees must consider territorial or residence-based taxation as the model for income tax reform.

For a link to ACA's full proposals for RBT please see:

https://www.americansabroad.org/media/files/files/9960ba5d/ACA_RBT_proposal_for_submission_to_Senate_Finance_April_2015.pdf

Summary of ACA's Residence-based taxation proposal

Individual and corporate tax reform is at the top of the agenda of Congress, on both domestic and international levels. ACA looks forward to contributing to this debate to advance three key objectives:

- Fairness – to eliminate double taxation and costly double reporting

- burdens.
- Mobility – the exercise of the fundamental right to choose one’s place of residence, whether for professional, family, educational or other reasons should be as frictionless as possible.
 - Advancing U.S. Economic Competitiveness – to empower overseas citizens to paly their natural and historic role as vectors of export promotion and job creation in the United States.

To this end, ACA produced and circulated a detailed discussion document in political and academic circles as a constructive step in the process. This proposal, which was referenced in a 2013 Senate Finance Committee Report comprised the following elements:

Replacement of the present system of taxation of overseas Americans usually referred to as Citizenship-Based Taxation (CBT), by a system of Residence-Based Taxation (RBT): Americans overseas would be taxed by the U.S. on U.S.-source income.

- Treatment of bona fide Non-Resident Americans in a manner analogous to that of Non-Resident Aliens (NRAs). The system is in place and has proven its workability, and include provision for:
 1. withholding taxes at source on unearned income – dividends, interest, royalties, etc.;
 2. 1040NR taxation of earned income “effectively connected” with the United States;
 3. taxation of rental income and capital gains on U.S. situs real estate.
- Anti-abuse provisions would prevent RBT from being used as a loophole to avoid U.S. taxes.
- Residents of designated tax haven countries, overseas military personnel, U.S. diplomatic corps and Puerto Rico residents with U.S. income would continue to be taxed as U.S. residents. A departure tax based on mark-to-market valuation of unrealized capital gains at the time of departure may be a condition imposed by Congress. ACA has argued against it, on the grounds that it would work against, the objectives of fairness, mobility and national economic interest. But if a departure tax is included in legislation, ACA’s position is that:
 1. a “grandfather” clause shielding overseas Americans meeting certain residency minima from the departure tax would be an essential element of the legislation;
 2. high asset exclusion thresholds for Americans leaving the U.S. and measures to help holders of illiquid assets meet the tax obligations are needed to maintain international mobility of Americans.

In light of our analysis of IRS statistics, ACA is of the considered opinion that, the switch from CBT to RBT would be revenue neutral. Under CBT, the U.S. currently recognized the first right of taxation of the country of residence, and hence, due to crediting of foreign taxes, collects no tax from the vast majority of Americans abroad.

Tax revenue from Americans abroad accounts for less than 0.2% of the total U.S. budget. Under RBT, the U.S. would be able to claw back, mostly through withholding taxes on financial assets and taxes on U.S. effectively connected income, revenues which today remain with foreign governments under CBT.