



Tax Reform in 2015: Impact on Overseas Americans

Individual and corporate tax reform is at the top of the agenda of the 114th 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 play their natural and historic role as vectors of export promotion and job creation in the U.S.

To this end, ACA produced and circulated a detailed discussion document¹ in political and academic circles as a constructive step in the process. This proposal, which was referenced in the recent 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, has proven its workability, and includes provisions for:
 - withholding taxes at source on unearned income– dividends, interest, royalties, etc.
 - 1040NR taxation of earned income “effectively connected” with the United States
 - 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:

- a “grandfather” clause shielding overseas Americans meeting certain residency minima from the departure tax would be an essential element of the legislation;
- 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 recognizes 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.

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¹ Residence-Based Taxation: A Necessary and Urgent Reform, March 2013 is available at:
<https://americansabroad.org/files/6513/6370/3681/finalsubrbtmarch2013.pdf>