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73 DTR G-1**Tax Reform****Americans Living Abroad Flood Tax Reform Panel With Call for Residence-Based Taxes**

By Marc Heller

As the House Ways and Means Committee wrapped up a public comment period on tax reform April 15, a single group stood out among the dozens of letters the committee posted to its website: American Citizens Abroad.

American Citizens Abroad, an organization representing Americans working and living in foreign countries, is responsible for the majority of more than 80 comments submitted to the committee's working group on international taxes, thanks to a letter-writing campaign the group organized to push for changes in the way Americans living abroad pay their income taxes.

ACA is pushing for a residence-based tax system that would free Americans abroad from paperwork requirements under the Foreign Account Tax Compliance Act and the Report of Foreign Bank and Financial Accounts (FBAR), and abandon the citizenship-based system currently in place.

Change Could Boost Tax Revenue

Replacing the system would ease what ACA considers burdensome filing requirements and could generate \$33 billion more in tax revenue for the federal government over a decade through tax withholding on U.S. source income and other features, the group said in a proposal submitted to the Ways and Means Committee.

"We've had positive discussions with both the Ways and Means and Finance committees," Marylouise Serrato, ACA's executive director, told BNA.

The group itself wrote three letters to the Ways and Means working group on international taxes, but dozens more came from Americans living abroad who submitted modified versions of a form letter ACA posted on its website; in many cases, commenters noted how the tax system affects them personally.

About 7 million Americans live and work abroad, ACA said. Serrato said as many as 1 million of those are in Canada.

Most Don't Owe, But Must File U.S. Return

In most cases, Serrato said, Americans living and working in other countries do not owe taxes to the United States because credits for foreign taxes paid and the foreign income exclusion cancel out any U.S. tax liability. About 82 percent of Americans who live abroad and file a Form 1040, U.S. Individual Income Tax Return, do not owe taxes to IRS, the group said; in most cases, foreign countries' tax rates are higher than those of the United States.

But Americans working abroad still must file a U.S. income tax return.

ACA estimated that Americans abroad contribute about \$6.3 billion annually to the U.S. Treasury in taxes but noted that other estimates range from \$3 billion to \$4 billion.

Because filing taxes is complicated for Americans living in other countries—with currency conversions and other idiosyncrasies adding wrinkles to the process—most Americans hire tax professionals who

are knowledgeable in both nations' tax systems, which is expensive and, in some places, hard to find, the group said.

In addition, Americans working abroad are subject to FATCA and FBAR and face penalties for noncompliance.

Americans Face Obstacles to Bank Accounts

Those requirements, aimed at Americans who evade taxes through the use of foreign accounts, discourage foreign banks from doing business with ordinary Americans living and working in their countries, Serrato said.

"If you're an American, they just don't want you. They don't want your business," she said.

Under the ACA proposal, Americans in foreign countries would be taxed on the same basis as nonresident aliens. They would not be subject to U.S. taxation on foreign source income. Nonresident Americans with U.S. source investment income, Social Security income, pension income, rents, and royalties would be subject to U.S. withholding tax.

Nonresident Americans would no longer be subject to FBAR and FATCA, the group said.

Serrato said ACA has been working on the issue for 18 months, including pressing a congressional Americans Abroad caucus chaired by Reps. Carolyn Maloney (D-N.Y.) and Joe Wilson (R-S.C.).

Issue May Face Uphill Fight

While Serrato said meetings with congressional staff have been positive, one analyst told BNA the issue may have a long way to go.

The group's position may make sense, said Eric Toder, an analyst with the nonpartisan Tax Policy Center, given that the changes would bring the United States more into line with other countries' systems.

But despite their outspokenness, Toder said, Americans abroad are a relatively small number of people, and the majority end up not owing U.S. taxes—not a recipe for close attention by lawmakers dealing with broader challenges in comprehensive tax reform.

One letter writer, Elizabeth Williams, who lives in Australia but said she votes in Connecticut, told the committee she filled out 41 pages of paperwork for an uncomplicated tax return and had to repeatedly revise her taxes because of an accountant's poor advice about superannuation in prior years' returns.

"Between the rather frequent penalty of \$10,000+ fines for getting something wrong and the (expensive) complexity of being caught between the tax laws of the US and Australia, I feel like I am being persecuted for marrying an Australian and choosing to move to his country," Williams wrote. I have found that the US tax treatment of expats to be in contrast to everything I thought America stood for. Most of us who are living abroad are just normal citizens, trying to live our lives, and I wish the American tax system recognized this."

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