

House Bill to Create Residency-Based Taxation in the Works

by Jad Chamseddine

A House Ways and Means Committee Republican intends to reintroduce legislation this spring exempting U.S. nationals living abroad from being taxed on their foreign-source income.

Rep. George Holding, R-N.C., is working with the Joint Committee on Taxation and the House legislative counsel to revive the bill, which would exclude all individual foreign-source income from U.S. taxation, but not U.S.-source income, according to Matt Stross, his legal counsel.

“We are hoping to piggyback on the foreign earned income exclusion,” Stross said during a March 14 webcast organized by the American Citizens Abroad Global Foundation. Under section 911, U.S. taxpayers living abroad could exclude up to \$104,100 in income from U.S. taxation as of 2018.

The sale of real property, personal property, stocks, and dividends would still be taxed by the United States, Stross said. “Basically anything that is a U.S. asset that you would sell would still remain subject to tax by the United States,” Stross said. Holding’s planned bill would preserve some requirements, such as the period of residency abroad.

An earlier version of the measure, the Tax Fairness for Americans Abroad Act, was introduced in December 2018 but failed to gain traction.

Dotting the I’s

Stross said Holding’s staff is working with JCT and the House legislative counsel to better define “some of the trickier issues” involved, such as how to define personal property and how to tax any gain related to foreign property before the taxpayer qualifies as a foreign-based resident under the exclusion rules.

They also want to ensure that the measure has bipartisan appeal, and hope to get a hearing by the full Ways and Means Committee or a subcommittee, Stross said.

Lastly, the JCT wants to prevent any type of abuse of the system, Stross noted.

Craig Thompson, an independent tax preparer in Zurich who participated in the

webcast, said he anticipates some questions on the proposal, such as whether failing to file a foreign bank and financial account report would disqualify someone from receiving the exclusion for not being fully compliant with the requirements. He also raised other issues, such as what qualifies as U.S.-source income and whether a U.S. citizen who receives income for workdays spent in the United States would be required to file a return with the IRS.

Jonathan Lachowitz of White Lighthouse Investment Management said the bill would ensure that many Americans living abroad wouldn’t have to spend money for return preparation, because they wouldn’t owe anything.

Lachowitz also said it would make it easier for multinational corporations to hire American workers. “It is more expensive to hire U.S. citizens by about 40 percent,” he said. ■